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edgar.bny@bowne.com gregory.barone@us.ngrid.com kellie.howell@us.ngrid.com

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SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549 **FORM 20-F**

(Mark One)	
	REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES
	EXCHANGE ACT OF 1934
	OR
\square	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
	OF 1934
	For the fiscal year ended 31 March 2008
	OR
	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
	ACT OF 1934
	OR
	SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
	EXCHANGE ACT OF 1934
	Date of event requiring this shell company report
	For the transition period from to

NATIONAL GRID PLC

Commission file number: 001-14958

(Exact name of Registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

1-3 Strand, London WC2N 5EH, England (Address of principal executive offices)

Helen Mahy 011 44 20 7004 3000 Facsimile No. 011 44 20 7004 3004 **Company Secretary and General Counsel** National Grid, plc 1-3 Strand London WC2N 5EH England

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class

Ordinary Shares of 1117/43 pence each American Depositary Shares, each representing five Ordinary Shares of 1117/43 pence each 6.625% Guaranteed Notes due 2018 6.30% Guaranteed Notes due 2016 Preferred Stock (\$100 par value-cumulative): 3.90% Series 3.60% Series

Name of each exchange on which registered

The New York Stock Exchange* The New York Stock Exchange

The New York Stock Exchange The New York Stock Exchange

The New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Securities Exchange Act of 1934: None.

The number of outstanding shares of each of the issuer's classes of capital or common stock as of March 31, 2008 was

Ordinary Shares of 1117/43 pence each

2.581.913.516

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes 🗹 No 🗖

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes □

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes \square No \square

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP \square International Financial Reporting Standards as issued by the International Accounting Standards Board \boxtimes

Non-accelerated filer □

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant

Not for trading, but only in connection with the registration of American Depositary Shares representing Ordinary Shares pursuant to the requirements of the Securities and Exchange Commission.

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[**A/E**]

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has electe	d to follow. Item 17 □	Item 18 □
If this is a Act). Yes □		by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange

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As used in this Annual Report, unless the context requires otherwise,

"National Grid", the "Company", "we", "us" or "our" refers to National Grid plc and its subsidiaries.

Cautionary Statement

This Annual Report on Form 20-F contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as "anticipates", "expects", "intends", "plans", "believes", "seeks", "estimates", "may", "will", "continue", "project" and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as delays in obtaining or adverse conditions contained in regulatory approvals and contractual consents, unseasonable weather affecting demand for electricity and gas; competition and industry restructuring; changes in economic conditions; currency fluctuations; changes in interest and tax rates; changes in energy market prices; changes in historical weather patterns; changes in laws, regulations or regulatory policies; developments in legal or public policy doctrines; the impact of changes to accounting standards; and technological developments. Other factors that could cause actual results to differ materially from those described in this report include: the ability to integrate the businesses relating to announced acquisitions with our existing business to realise the expected synergies from such integration; the availability of new acquisition opportunities and the timing and success of future acquisition opportunities; the timing and success or other impact of the sales of our non-core businesses; the failure for any reason to achieve reductions in costs or to achieve operational efficiencies; the failure to retain key management; the behaviour of UK electricity market participants on system balancing; the timing of amendments in prices to shippers in the UK gas market; the performance of our pension schemes and the regulatory treatment of pension costs; and any adverse consequences arising from outages on or otherwise affecting energy networks, including gas pipelines, which we own or operate. For a more detailed description of these assumptions, risks and uncertainties, together with any other risk factors, please see Items 3 and 5 of this report (and in particular "Risk factors" under Item 3). Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Except as required by law, we do not undertake any obligation to revise these forward-looking statements to reflect events or circumstances after the date of this report. The effects of these factors are difficult to predict. New factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

The inclusion of our website address in this annual report does not, and is not intended to, incorporate the contents of our website into this report and such information does not constitute part of this annual report.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

The selected financial data set out below are derived, in part, from the Company's consolidated financial statements. The selected data should be read in conjunction with the financial statements and with the Operating and Financial Review and Prospects in Item 5. The consolidated financial statements of the Company are prepared in accordance with accounting policies that are in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRS as issued by the International Accounting Standards Board. We did not publish financial data in accordance with IFRS in 2004, because at the time our financial statements were required to be presented in conformity with UK Generally Accepted Accounting Principles. For this reason, we have not provided selected financial data for 2004.

Selected financial data

Amounts in accordance with IFRS1:

			Year Ended 31 March		
		2008	2007	2006	2005
Revenue	£m	11,423	8,695	8,868	7,174
Total operating profit	£m	2,964	2,513	2,374	2,113
Profit for the year from continuing operations	£m	1,581	1,310	1,183	1,106
Profit for the year	£m	3,199	1,396	3,850	1,424
Basic earnings per share from continuing operations	pence	60.5	48.1	41.6	35.9
Diluted earnings per share from continuing operations	pence	60.1	47.8	41.4	35.7
Basic earnings per share	pence	122.5	51.3	135.6	46.2
Diluted earnings per share	pence	121.8	50.9	135.0	46.0
Number of shares — basic	millions	2,609	2,719	2,837	3,082
Number of shares — diluted	millions	2,624	2,737	2,851	3,096
Total assets	£m	37,822	28,389	25,924	27,560
Net assets	£m	5,380	4,136	3,493	2,121
Total parent company shareholders' equity	£m	5,362	4,125	3,482	2,111
Dividends per ordinary share: paid during the year	pence	29.5	26.8	25.4	20.4
Dividends per ordinary share: approved or proposed during the					
year	pence	33.0	28.7	26.1	23.7
Dividends per ordinary share: paid during the year	US\$.593	0.513	0.455	0.381
Dividends per ordinary share: approved or proposed during the					
year	US\$.663	0.549	0.467	0.443

¹ Since the implementation of IFRS by the Company, there have been no significant changes in accounting standards, interpretations or policies that have had a material financial impact on the selected financial data other

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than the adoption of accounting standards IAS 32 and IAS 39 on 1 April 2005, subsequent to which derivative financial instruments have been recorded at the fair value and remeasurements in those fair values have been recorded in the income statement to the extent that hedge accounting was not effective or has not been applied. Prior to 31 March 2005, derivative financial instruments were not recorded as assets or liabilities in the balance sheet and changes in the fair values of those instruments were not recognised in the income statement.

The selected financial data incorporates businesses acquired in the period from the date of their acquisitions, principally KeySpan Corporation acquired in August 2007, our Rhode Island gas distribution operations acquired in August 2006 and UK wireless operations acquired in August 2004.

The selected financial data for continuing operations excludes businesses discontinued during the periods presented, principally our former UK and US wireless operations and our former electricity interconnector business in Australia, disposed of in April and August 2007 and four gas distribution networks in the UK disposed of in June 2005. Also excluded from continuing operations are discontinued operations acquired with KeySpan Corporation, principally the Ravenswood generation station.

Exchange rates

The following table sets forth the history of the exchange rates of one pound sterling to US dollars for the periods indicated and as at 15 June 2008.

as at 15 June 2008:

	<u>High</u>	Low
June 2008*	1.9758*	1.9467*
May 2008	1.9818	1.9451
April 2008	1.9994	1.9627
March 2008	2.0311	1.9823
February 2008	1.9923	1.9405
January 2008	1.9895	1.9515
December 2007	2.0658	1.9774

	Average
2007/08	2.01
2006/07	1.91
2005/06	1.78
2004/05	1.85
2003/04	1.70
2002/03	1.55

For the period to 13 June 2008.

Risk factors

The information set forth under the heading "Risk factors" on pages 95 to 97 of the Company's Annual Report and Accounts 2007/08 contained in Exhibit 15.1 is incorporated herein by reference.

Item 4. Information on the Company

National Grid plc was incorporated on 11 July 2000. The Company is registered in England and Wales, with its registered office at 1-3 Strand, London WC2N 5EH (telephone +44 20 7004 3000). The Company's agent in the United States is Lawrence J. Reilly, Executive Vice President and General Counsel, National Grid USA, 25 Research Drive, Westborough, MA 01582.

^{**} The average for each period is calculated by using the average of the exchange rates on the last day of each month during the period.

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The information set forth under the headings "Operating and Financial Review" on pages 14 to 73, "Note 37 Subsidiary undertakings, joint ventures and associates" on page 172, and "Definitions and glossary of terms" on pages 186 to 188 of the Company's Annual Report and Accounts 2007/08 contained in Exhibit 15.1 is incorporated herein by reference.

Property, plant and equipment

United Kingdom

Our corporate centre operates principally from offices at 1-3 Strand, London. These offices, of approximately 25,000 square feet, are held on a 15-year lease from 24 June 2002. At present, environmental issues are not preventing the businesses from utilising any material operating assets in the course of their business.

UK electricity and gas transmission. We own the freehold of the majority of all sites associated with our UK electricity and gas transmission business in England and Wales. The remainder are held on long-term leaseholds, including all the transmission offtake sites in the service areas of the UK gas distribution networks sold on 1 June 2005. In Scotland, we own the majority of our gas transmission sites outright through a disposition purchase. The remainder are owned through a feudal disposition where purchase was subject to various rights retained by the previous owner, for example mineral or forestry rights. In addition, we have three principal commercial lettings, at St Fergus to Royal Dutch Shell and Exxon Mobil, and at Theddlethorpe (in England) to ConocoPhillips. The electricity transmission business does not own any sites in Scotland.

Our gas transmission network comprises approximately 4,600 miles (approx 7,400 kilometers) of high pressure transmission pipelines. Agreements with landowners or occupiers are only required for those pipes that cross private land. These agreements largely comprise perpetual easements in England and Wales and deeds of servitude in Scotland. Any land issues impacting on normal agricultural activity local to pipelines and their associated easement or servitude are covered by national agreements with the National Farmers Union, the Country Land and Business Association of England and Wales and the Scottish Landowners Association.

Our electricity transmission systems consists of overhead transmission lines and underground cable of approximately 4,900 miles (approx. 7,200 kilometers of overhead transmission lines and 675 kilometers of underground cable). Agreements with landowners or occupiers are required for the overhead lines and underground cables, which make up our electricity network in England and Wales. The majority of agreements are in the form of terminable wayleaves. The remainder are in the form of perpetual easements under which rights have been granted in perpetuity in return for a lump sum payment. The sites at which we have electricity substations are split between freehold and leasehold. Of the leasehold sites, the large majority are substations located on the premises of generators and are held on long-term leases for nominal rental payments. Of the remaining sites, most are held as ground rents (market price payable for land only) from the respective landlords, who include electricity distribution companies.

We also own the freehold of our control centre in Berkshire and we have major offices in Leeds (freehold) and Warwick, which the Company sold and leased back during fiscal year 2007. The Warwick offices, of approximately 235,884 square feet, are now held on a 20-year lease from 2 February 2007 with a one-time tenant only break option (i.e. Company lease termination right) exercisable during the 15th anniversary of the lease.

UK gas distribution. Our UK gas distribution system consists of approximately 82,000 miles (approx. 132,000 kilometers) of distribution pipelines. Agreements with landowners or occupiers are only required for those pipes that cross private land. These agreements largely comprise perpetual easements. Any land issues impacting on normal agricultural activity local to pipelines and their associated easement are covered by national agreements with the National Farmers Union and the Country Land and Business Association of England and Wales.

We own the freeholds of the substantial majority of the operational sites where there are larger operational plant and gas storage facilities used in our UK gas distribution business. The vast majority of office buildings, depots and stores used by UK gas distribution are leased from another company within National Grid.

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United States

We either own in fee (i.e. freehold) or lease the office buildings that comprise our principal US business premises located in New York and New England. We own in fee the office buildings located in Westborough and Northborough, Massachusetts and Syracuse, Albany, Buffalo and Hicksville New York. We lease approximately 335,000 square feet of office space in Brooklyn, New York, at a building known as MetroTech, held on a twenty year lease through 28 February 2025. We are currently negotiating to reduce our lease at MetroTech by approximately 80,000 square feet. In addition to our principal US offices, we lease other offices and building space in various locations in New York and New England and office equipment, vehicles and power operated equipment necessary to meet our current and expected business requirements and operational needs.

In addition to the US property described above, with respect to our US electric distribution, transmission and gas distribution businesses located in northeastern US (more fully described below), we either own property in fee or in the case of certain rights of way, hold necessary property rights pursuant to municipal consents, easements or longterm leases. Other than the New York downstate property acquired as part of the acquisition of KeySpan Corporation, substantially all of our US properties and franchises (including, our US electric distribution, transmission and gas distribution systems owned and operated by our US operations) are subject to the liens of various mortgage indentures and deeds of trust under which mortgage bonds have been issued. At present, environmental issues are not preventing our US businesses from utilising any material operating assets in the course of their business. We continually examine our real property and other property for contribution and relevance to our US businesses and when such properties are no longer productive or suitable, they are disposed of as promptly as possible. In the case of leased office space, we anticipate no significant difficulty in leasing alternative space at reasonable rates in the event of the expiration, cancellation or termination of a lease.

US electricity transmission. Our US electricity transmission systems consist of approximately 8,600 miles (approx. 13,800 kilometers) of transmission and sub-transmission lines located within right-of-way corridors that traverse both public and private property. Statutory authority, legislative charters and municipal franchise grants generally provide the National Grid USA companies with the rights required to locate transmission and subtransmission facilities within and across public ways. Right-of-way corridors that cross privately owned land have generally been acquired in fee or pursuant to grants of perpetual easements. Transmission and sub-transmission substation facilities are principally located on properties that are owned in fee.

US electricity and gas distribution. Our US electricity and gas distribution systems consist of approximately 72,000 circuit miles (approx. 116,000 kilometers) of electric distribution lines located on rights-of-way in New England and New York, and approximately 36,000 miles (approx. 58,000 kilometers) of gas distribution pipelines located on rights-of-way in New York, New York City, Long Island, Massachusetts, New Hampshire and Rhode Island. Statutory authority, legislative charters and municipal franchise grants generally provide our US operations with the rights required to locate distribution facilities within and across public ways. Right-of-way corridors that cross privately owned land have principally been acquired in fee or pursuant to grants of perpetual easements. Electric distribution substations and gas distribution regulator stations are principally located on properties owned in fee pursuant to grants of perpetual easements or pursuant to legislative charters and municipal franchise grants.

Item 4A. Unresolved Staff Comments

There are no unresolved staff comments required to be reported under this Item 4A.

Item 5. Operating and Financial Review and Prospects

The information set forth under the headings "Operating and Financial Review" on pages 14 to 85 and "Research and development" on page 98 of the Company's Annual Report and Accounts 2007/08 contained in Exhibit 15.1 is incorporated herein by reference.

Item 6. Directors, Senior Management and Employees

The information set forth under the headings "Board of Directors" on pages 12 and 13, "Directors' Remuneration Report" on pages 100 to 110, "Note 5 Pensions and other post-retirement benefits" on pages

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132 to 133 and <u>"Note 31 Actuarial information on pensions and other post-retirement benefits"</u> on pages 156 to 158, <u>"Corporate Governance"</u> on pages 88 to 97, <u>"Employees"</u> on page 99 <u>"Operating Costs 3(b) Number of Employees"</u> on page 129 and <u>"Note 25 Share capital"</u> on pages 149 to 150 of the Company's Annual Report and Accounts 2007/08 contained in Exhibit 15.1 is incorporated herein by reference.

We negotiate with recognised unions. It is our policy to maintain well-developed communications and consultation programmes and there have been no material disruptions to our operations from labour disputes during the past five years. National Grid believes that it can conduct its relationship with trade unions and employees in a satisfactory manner.

Item 7. Major Shareholders and Related Party Transactions

Major shareholders

As at 13 June 2008, we had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

	Ordinary Shares	Share Capital*
Legal and General Investment Management Ltd	145,542,289	5.82
Fidelity International Limited	82,805,863	3.06

This number is calculated in relation to the issued share capital at the time the holding was disclosed.

No further notifications had been received. As at 13 June 2008, 91,813,398 shares are held in treasury. Treasury shares do not receive dividends and do not have voting rights

All ordinary shares have the same voting rights.

Approximately 14.7% of National Grid's ordinary shares, including ADSs, are held beneficially by persons in the US, and there are 3,523 US holders on the ordinary share register and approximately 20,300 registered holders of

The information set forth under the heading "Note 30 Related party transactions" on page 155 of the Company's Annual Report and Accounts 2007/08 contained in Exhibit 15.1 is incorporated herein by reference.

Item 8. Financial Information

The information set forth under the headings "Accounting policies" on pages 114 to 120, "Adoption of new accounting standards" on page 121, "Consolidated balance sheet" on page 123, "Consolidated income statement" on page 122, "Consolidated statement of recognised income and expense" on page 124, "Consolidated cash flow statement" on page 125, "Notes to the consolidated financial statements-analysis of items in the primary statements" on pages 126 to 152, "Notes to the consolidated financial statements — supplementary information" on pages 153 to 178, "Legal and related matters" on page 23 and "Shareholder returns" on page 43 of the Company's Annual Report and Accounts 2007/08 contained in Exhibit 15.1 is incorporated herein by reference.

Item 9. The Offer and Listing

Price history

The following table sets forth the highest and lowest market prices for our ordinary shares and ADSs for the periods indicated. As described in "Note 25 Share capital b shares" on page 149, the Company's ordinary shares were consolidated to reflect the £2 billion return of cash to shareholders by way of a B share scheme. Shareholders received 43 new ordinary shares for every 49 existing ordinary shares, which resulted in the existing 3,091,247,761

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issued ordinary shares of 10 pence each being replaced by a total of 2,712,727,627 new ordinary shares of 1117/43

	Ordinary Share (Pence)		ADS (\$)	
	High	Low	High	Low
2007/08	863.00	686.00	86.58	69.22
2006/07	797.50	552.00	78.81	48.83
2005/06	613.50	489.25	53.45	44.48
2004/05	549.50	421.25	52.06	37.59
2003/04	438.00	374.75	41.45	30.19
2007/08 Q4	863.00	691.50	85.48	69.22
Q3	790.50	686.00	80.23	69.85
Q2	845.50	761.50	86.58	78.40
Q1	816.50	719.50	80.75	71.46
2006/07 Q4	797.50	717.00	78.81	69.55
Q3	749.50	664.50	74.00	63.10
Q2	672.00	587.00	63.24	53.32
Q1	615.00	552.00	57.34	48.83
June 2008*	748.50	696.00	73.27	67.91
May 2008	749.50	704.00	74.89	68.77
April 2008	730.00	695.50	73.46	68.95
March 2008	734.50	691.50	74.61	69.22
February 2008	790.50	733.50	77.89	72.60
January 2008	863.00	748.00	85.48	74.95
December 2007	845.50	811.00	86.58	82.65

^{*} For the period to 13 June 2008.

Markets

Our equity securities are listed on the Official List of the London Stock Exchange (ordinary shares) and on the New York Stock Exchange (ADSs).

Item 10. Additional Information

Memorandum and Articles of Association

The following description is a summary of the material terms of our Memorandum and Articles of Association (the 'Articles'). The following description is a summary only and is qualified in its entirety by reference to the Articles, which are provided as an exhibit to this report.

We adopted new "Plain English" articles at our Annual General Meeting on 25 July 2005.

National Grid is incorporated under the name National Grid plc and is registered in England and Wales with registered number 4031152. The Company's objects are set forth in the fourth clause of its Articles and cover a wide range of activities, including the following:

- · carrying on the business of a holding company;
- employing the funds of the Company to develop and expand its business; and

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· carrying on any other activity supplemental to the foregoing or capable of enhancing the Company's profitability.

The Articles grant National Grid a broad range of corporate powers to effect these objectives.

Directors

Under the Articles, a Director must disclose any personal interest in a contract and may not vote in respect of that contract, subject to certain limited exceptions.

The compensation awarded to the Executive Directors is decided by the Remuneration Committee, which consists entirely of Non-executive Directors. The fees of the Non-executive Directors are determined by the Executive Directors with the guidance of the Chairman and after taking appropriate external advice.

The Directors are empowered to exercise all the powers of National Grid to borrow money, subject to the limitation that the aggregate principal amount outstanding of all borrowings shall not exceed £30 billion.

There is no specific requirement for a director to retire when he/she reaches the age of 70. However, upon appointment or reappointment, the age of a person aged 70 or over must be declared in the notice convening the relevant shareholder meeting.

A Director is not required to hold shares of National Grid in order to qualify as a Director.

Rights, Preferences and Restrictions

National Grid may not pay any dividend otherwise than out of profits available for distribution under the Companies Act and the other applicable provisions of English law. In addition, as a public company, National Grid may make a distribution only if and to the extent that, at the time of the distribution, the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves (as defined in the Companies Act). Subject to the foregoing, National Grid may, by ordinary resolution, declare dividends in accordance with the respective rights of the shareholders but not exceeding the amount recommended by the Board of Directors. The Board of Directors may pay interim dividends if the Board of Directors considers that National Grid's financial position justifies the payment.

Except insofar as the rights attaching to any share otherwise provide, all dividends will be apportioned and paid proportionately to the amounts paid up (otherwise than in advance of calls) on the shares.

All dividends or other sums payable unclaimed for one year after having been declared may be invested or otherwise made use of by the Board of Directors for the benefit of National Grid until claimed. Any dividend or interest unclaimed for 12 years from the date when it was declared or became due for payment may be forfeited and revert to National Grid.

Subject to any rights or restrictions attached to any shares and to any other provisions of the Articles, at any general meeting on a show of hands every shareholder who is present in person will have one vote and on a poll every shareholder will have one vote for every share which he holds. On a poll, shareholders may cast votes either personally or by proxy and a proxy need not be a shareholder. Under the Articles all resolutions must be decided on a poll, other than those of a procedural nature.

Directors must stand for reappointment at the first Annual General Meeting following their appointment to the Board. Each Director must retire at least every three years but will be eligible for re-election.

In a winding-up, a liquidator may, with the sanction of a special resolution of National Grid and any other sanction required by applicable provisions of English law, (a) divide among the shareholders the whole or any part of National Grid's assets (whether the assets are of the same kind or not) and may for this purpose value any assets and determine how the division should be carried out as between different shareholders or different classes of shareholders or otherwise as the resolution may provide, or (b) vest the whole or any part of the assets in trustees upon such trusts for the benefit of the shareholders as the liquidator, with the sanction of a special resolution, determines, but in neither case will a shareholder be compelled to accept assets upon which there is a liability.

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Variation of Rights

Subject to applicable provisions of English law and the rights attached to any specific class of shares, the rights attached to any class of shares of National Grid may be varied with the written consent of the holders of three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class.

General Meetings

Annual General Meetings must be convened upon advance written notice of 21 clear days. An Extraordinary General Meeting must be convened upon advance written notice of 21 clear days for the passing of a special resolution and 14 clear days for any other resolution. The notice must specify the nature of the business to be transacted. The notice must also specify the place, the day and the time of the meeting.

Rights of Non-Residents

There are no restrictions under National Grid's Articles that would limit the rights of persons not resident in the UK, as such, to vote ordinary shares.

Disclosure of Interests

A shareholder may lose the right to vote his shares if he or any other person appearing to be interested in those shares fails to comply within a prescribed period of time with a request by National Grid under the Companies Act to give the required information with respect to past or present ownership or interests in those shares. In the case of holders of more than 0.25% in nominal amount of any class of the share capital of National Grid, in addition to disenfranchisement, the sanctions that may be applied by National Grid include withholding of the right to receive payment of dividends and other monies payable on shares, and restrictions on transfers of the shares.

For purposes of the notification obligation, the interest of a person in shares means any kind of interest in shares including interests in any shares (a) in which a spouse, or child or stepchild under the age of 18 is interested, (b) in which a corporate body is interested and either (i) that corporate body or its directors generally act in accordance with that person's directions or instructions or (ii) that person controls one-third or more of the voting power of that corporate body or (c) in which another party is interested and the person and that other party are parties to a 'concert party' agreement. A concert party agreement is one which provides for one or more parties to acquire interests in shares of a particular company and imposes obligations or restrictions on any one of the parties as to the use, retention or disposal of such interests acquired under the agreement, and any interest in the company's shares is in fact acquired by any of the parties under the agreement. Some of the interests (eg those held by certain investment fund managers) may be disregarded for the purposes of calculating the 3% threshold, but the obligations of disclosure will still apply where those interests exceed 10% or more of any class of the company's relevant share capital and to increases or decreases of 1% or more thereafter.

In addition, the Companies Act provides that a public company may send a written notice to a person whom the company knows or has reasonable cause to believe to be, or to have been at any time during the three years immediately preceding the date on which the notice is issued, interested in shares constituting the company's 'relevant share capital'. The notice may require that person to state whether he has an interest in the shares, and in case that person holds or had held an interest in those shares, to give additional information relating to that interest and any other interest in the shares of which that person is aware.

Where a company serves notice under the provisions described above on a person who is or was interested in shares of the company and that person fails to give the company any information required by the notice within the time specified in the notice, the company may apply to an English court for an order directing that the shares in question be subject to restrictions prohibiting, among other things, any transfer of those shares, the taking up of rights in respect of those shares and, other than in a liquidation, payments in respect of those shares.

A person who fails to fulfil the obligations imposed by those provisions of the Companies Act described above is subject to criminal penalties.

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Material contracts

As described in Item 6, each of our Executive Directors has a Service Agreement and each Non-executive Director has a Letter of Appointment.

Apart from these, no contract (other than contracts entered into in the ordinary course of business) has been entered into by us within the two years immediately preceding the date of this report which is, or may be, material; or which contains any provision under which any member of National Grid has any obligation or entitlement which is material to us at the date of this report.

Exchange controls

There are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange control restrictions, or that affect the remittance of dividends, interest or other payments to non-UK resident holders of ordinary shares except as otherwise set out in 'Taxation' below and except in respect of the governments of and/or certain citizens, residents or bodies of certain countries (described in applicable Bank of England Notices or European Union Council Regulations in force as at the date of this document).

Taxation

The following summary describes the principal United States ("US") federal income and United Kingdom ("UK") tax consequences for a beneficial owner of ADSs or ordinary shares who is:

- a citizen or resident of the US,
- a corporation or other entity taxable as a corporation, created or organised under the laws of the US or any state thereof, or
- a trust or an estate the income of which is subject to US federal income tax without regard to its source and that holds such shares or ADSs as capital assets.

The summary is not a complete analysis or listing of all the possible tax consequences of ownership, of ADSs or ordinary shares. It does not discuss special tax rules that may be applicable to certain classes of investors including traders, collective investment schemes, banks, insurance companies, securities dealers, investors with a 'functional currency' other than the US dollar and any corporation which directly or indirectly controls 10% or more of the voting share capital of National Grid.

Each investor is urged to consult his or her own tax advisor regarding the tax consequences of the purchase, ownership and disposition of ADSs or ordinary shares under the laws of the US, the UK and their constituent jurisdictions.

The US and the UK signed a convention (the 'Income Tax Convention') for the avoidance of double taxation with respect to income and capital gains on 24 July 2001. The Income Tax Convention entered into force following the exchange of instruments of ratification on 31 March 2003 and was effective for withholding taxes beginning 1 May 2003. This summary describes the rules of taxation under the Income Tax Convention.

The statements regarding US federal tax laws set out below are based on:

- the US Internal Revenue Code of 1986, as amended (the "Code") and regulations issued thereunder, all of which are subject to change, possibly with retroactive effect, and in part on
- the representations of The Bank of New York as depositary (the 'Depositary').

These statements assume that each obligation provided for in or otherwise contemplated by the deposit agreement entered into by and among National Grid Transco plc (now National Grid plc), the Depositary and the registered holders of ADRs pursuant to which ADRs have been issued dated as of 21 November 1995 and amended and restated as of 31 January 2002 and any related agreement will be performed in accordance with its terms. Beneficial owners of ADSs who are residents or citizens of the United States will be treated as the owners of the underlying ordinary shares for the purposes of the Code.

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For the purposes of this discussion, the term 'US Holder' refers to a beneficial owner of ADSs or ordinary shares who is a resident of the United States for US federal income tax purposes and, as to the description under 'Taxation of dividends' and 'Taxation of capital gains' below, is also a resident of the United States for the purposes of the Income Tax Convention.

The statements regarding UK tax set out below are based on UK tax law and the published practice of HM Revenue and Customs in the United Kingdom as at the date of this document and are subject to any change therein (including any change having retroactive effect).

Taxation of Dividends

Under the Income Tax Convention the United Kingdom is allowed to impose a 15% withholding tax on dividends paid to US shareholders controlling less than 10% of the voting capital of National Grid. The United Kingdom does not, however, currently impose a withholding tax on such dividends. If it were to impose such a tax, the treaty provides for an exemption from withholding taxes for dividends paid on shares held through a tax exempt pension fund, 401(k) plan or similar 'pension scheme' as defined in the Income Tax Convention. The Income Tax Convention does not provide for refunds to be paid in respect of tax credits arising on dividends paid by UK resident companies. To obtain benefits under the Income Tax Convention, a US holder must otherwise satisfy the requirements of the limitations on benefits article of the Income Tax Convention.

Cash distributions received by a US Holder with respect to its ADSs or ordinary shares generally will be treated as a dividend subject to US federal income taxation as ordinary income. Subject to certain exceptions for short-term and hedged positions, the US dollar amount of dividends received by certain non-corporate US Holders with respect to ADSs or ordinary shares before January 1, 2011 will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends." Dividends received with respect to ADSs or ordinary shares will be qualified dividends if National Grid (i) is eligible for the benefits of a comprehensive income tax treaty with the United States that the US Internal Revenue Service ("IRS") has approved for purposes of the qualified dividend rules and (ii) was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC"). The Income Tax Convention has been approved for purposes of the qualified dividend rules. Based on National Grid's audited financial statements and relevant market and shareholder data, National Grid believes that it was not treated as a PFIC for US federal income tax purposes with respect to its 2007 taxable year. In addition, based on its audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, National Grid does not anticipate becoming a PFIC for its 2008 taxable year or in the foreseeable future. Dividends paid by National Grid to corporate US holders will not be eligible for the dividends received deduction generally allowed to corporations. This discussion is based on current law and previous guidance issued by the IRS which could be changed.

Taxation of Capital Gains

Subject to the provisions set out in the next paragraph in relation to temporary non-residents, a US Holder who is not resident and not ordinarily resident in the UK for UK tax purposes is not liable for UK taxation on capital gains realized or accrued on the sale or other disposal of ADSs or ordinary shares. A US Holder is, however, liable for US federal income tax on such gains to the same extent as on any other gains from sales of stock. The gain, if any, is generally US source.

The following taxpayers may be subject to tax in both jurisdictions for any capital gain realized on the sale or other disposition of ADSs or ordinary shares:

- a US citizen who is resident or ordinarily resident in the UK
- a US corporation which is resident in the UK by reason of its business being managed and controlled in the
- a US citizen who is trading or carrying on a profession or vocation in the UK and used, held or acquired ADSs or ordinary shares for the purpose of such trade, profession or vocation

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• a US corporation which is otherwise carrying on business through a permanent establishment in the UK and used, held or acquired ADSs or ordinary shares for the purpose of such permanent establishment.

Such holder, however, is generally entitled to foreign tax credit, subject to certain limitations, against any US federal tax liability for the amount of any UK tax (namely capital gains tax in the case of an individual and corporation tax on chargeable gains in the case of a corporation) which has been paid in respect of such gain.

A US Holder who becomes resident in the UK after a period of temporary non-residence (of up to five years) following an earlier period of residence in the UK is also potentially liable to UK capital gains tax on gains made in the period of temporary non-residence.

A US Holder must also comply with the limitation on benefits article in the Income Tax Convention in order to obtain treaty benefits.

In addition, a tax loss on future sales of shares may be characterised as long-term capital loss if some or all of a US Holder's dividends are characterised as an "extraordinary dividend". This characterisation may result depending on the proportionate amount of the dividend compared with the cost basis in the shares.

UK Stamp Duty and Stamp Duty Reserve Tax ('SDRT')

Transfers of ordinary shares — Broadly, SDRT at the rate of 0.5% of the amount of value of the consideration is payable where an agreement to transfer ordinary shares is not completed by a duly stamped transfer to the transferee. Where an instrument of transfer is executed and duly stamped before the expiry of the period of six years beginning with such date, the SDRT liability will be cancelled, and any SDRT which has been paid will be refunded. SDRT is due whether or not the agreement or transfer of such chargeable securities is made or carried out in the UK and whether or not any party to that agreement or transfer is a UK resident. Purchases of ordinary shares completed by execution of a stock transfer form will generally give rise to a liability to UK stamp duty at the rate of 0.5% (rounded up to the nearest £5) of the amount or value of the consideration. Paperless transfers under the CREST paperless settlement system will generally be liable to SDRT at the rate of 0.5%, and not stamp duty. The transfer of ordinary shares where there is no change of beneficial ownership will generally attract fixed rate stamp duty of £5 per transfer. However, if the Finance Bill 2008 is enacted in its current form, any such transfer executed on or after 13 March 2008 will not attract stamp duty. SDRT is generally the liability of the purchaser and UK stamp duty is usually paid by the purchaser or transferee.

Transfers of ADSs — No UK stamp duty will be payable on the acquisition or transfer of existing ADSs or beneficial ownership of ADSs, provided that any instrument of transfer or written agreement to transfer is executed outside the UK and remains at all times outside the UK. An agreement for the transfer of ADSs in the form of ADRs will not give rise to a liability for SDRT. On a transfer of ordinary shares from the London, England office of The Bank of New York as agent of the Depositary (the 'Custodian') to a holder of ADSs upon cancellation of the ADSs, only a fixed stamp duty fee of £5 per instrument of transfer will be payable. However, if the Finance Bill 2008 is enacted in its current form, any such transfer executed on or after 13 March 2008 will not attract stamp duty. Any transfer for value of the underlying ordinary shares represented by ADSs may give rise to a liability on the transferee to UK stamp duty or SDRT. A charge to stamp duty or SDRT may arise on the issue or transfer of ordinary shares to the Depositary or the Custodian. The rate of stamp duty or SDRT will generally be 1.5% of either (i) in the case of an issue of ordinary shares, the issue price of the ordinary shares concerned, or (ii) in the case of a transfer of ordinary shares, the value of the consideration or, in some circumstances, the value of the ordinary shares concerned. The Depositary will generally be liable for the stamp duty or SDRT. In accordance with the terms of the Depositary Agreement, the Depositary will charge any tax payable by the Depositary or the Custodian (or their nominees) on the deposit of ordinary shares to the party to whom the ADSs are delivered against such deposits. If the stamp duty is not a multiple of £5, the duty will be rounded up to the nearest multiple of £5.

US Information Reporting and Backup Withholding

A US Holder who holds ADSs may in certain circumstances be subject to information reporting to the IRS and possible US backup withholding at a rate of 28% with respect to dividends on ADSs and proceeds from the sale or

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other disposition of ADSs unless such holder furnishes a correct taxpayer identification number or is otherwise exempt.

UK Inheritance Tax

An individual who is domiciled in the US for the purposes of the convention between the US and the UK for the avoidance of double taxation with respect to estate and gift taxes (the 'Estate Tax Convention') and who is not a national of the UK for the purposes of the Estate Tax Convention will generally not be subject to UK inheritance tax in respect of the ADSs or ordinary shares on the individual's death or on a gift of the ADSs or ordinary shares during the individual's lifetime, unless the ADSs or ordinary shares are part of the business property of a permanent establishment of the individual in the UK or pertain to a fixed base in the UK of an individual who performs independent personal services. Special rules apply to ADSs or ordinary shares held in trust. In the exceptional case where the ADSs or shares are subject both to UK inheritance tax and to US federal gift or estate tax, the Estate Tax Convention generally provides for the tax paid in the UK to be credited against tax paid in the US.

Documents on display

National Grid is subject to the filing requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and other information with the Securities and Exchange Commission. These materials, including this document, may be inspected during normal business hours at our registered office 1-3 Strand, London WC2N 5EH or at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. For further information about the Public Reference Room, please call the SEC on 1-800-SEC-0330. Some of our filings are also available on the SEC's website at www.sec.gov.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

The information set forth under the headings "Treasury policy" on page 76, "Commodity contracts" on pages 78 to 79, "Note 32 Supplementary information on derivative financial instruments" on page 159, "Note 33 Financial risk" on pages 160 to 164, and "Note 34 Commodity risk" on pages 165 to 166 of the Company's Annual Report and Accounts 2007/08 contained in Exhibit 15.1 is incorporated herein by reference.

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

There has been no material default in the payment of principal, interest, a sinking or purchase fund instalment or any other material default with respect to the indebtedness for or in respect of monies borrowed or raised by whatever means of the Company or any of its significant subsidiaries. There have been no arrears in the payment of dividends on, and no material delinquency with respect to, any class of preferred stock of any significant subsidiary of the Company required to be reported under this Item 13.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Disclosure controls and procedures

We have carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive and Finance Director, of the effectiveness of the design and operation of our disclosure controls and procedures as of 31 March 2008. There are inherent limitations to the effectiveness of any

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system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives. Based on that evaluation, the Chief Executive and Finance Director concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file and submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarised and reported as and when required and communicated to our management, including the Chief Executive and Finance Director, as appropriate, to allow timely decisions regarding disclosure.

Managements' evaluation of the effectiveness of internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as adopted by the European Union and IFRS as published by the International Accounting Standards Board. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Our management, with the participation of the Chief Executive and Finance Director, conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of 31 March 2008.

Because KeySpan Corporation was acquired by us during the financial year ended 31 March 2008, it was not required to be included in management's assessment of internal control over financial reporting for the year ended 31 March 2008, and therefore, management have excluded it from its assessment. KeySpan Corporation is a whollyowned subsidiary whose total assets and total revenues represented 25% and 22%, respectively, of the related consolidated financial statement amounts as of and for the year ended 31 March 2008.

PricewaterhouseCoopers LLP, which has audited our consolidated financial statements for the fiscal year ended 31 March 2008, has also audited the effectiveness of our internal control over financial reporting. The attestation report of PricewaterhouseCoopers LLP is included under Item 18 of this Form 20-F.

Change in internal control over financial reporting

During the period covered by this report, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

The Board of Directors has determined that George Rose, chairman of the Company's Audit Committee, is an "audit committee financial expert" within the meaning of this Item 16A. A brief listing of Mr. Rose's relevant experience is included as part of Item 6. Mr. Rose is also "independent" within the meaning of the New York Stock Exchange listing rules.

Item 16B. Code of Ethics

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer or controller, and any person performing similar functions. This code is available on our website at www.nationalgrid.com, where any amendments or waivers will also be posted. There were no amendments to, or waivers under, our Code of Ethics in the fiscal year ended 31 March 2008.

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Item 16C. Principal Accountant Fees and Services

PricewaterhouseCoopers LLP, independent registered public accounting firm, served as auditors of the Company for the fiscal year ended 31 March 2008.

	Year Ended March 31, 2008	Year Ended March 31, 2007
	(£1	m)
Audit fees	8.3	6.2
Audit related fees	0.4	1.8
Tax fees	1.2	1.3
All other fees	0.7	1.1
Total	£10.6	£10.4

Subject to the Company's Articles of Association and the UK Companies Act, the Audit Committee is solely and directly responsible for the approval of the appointment, re-appointment, compensation and oversight of the Company's independent auditors. It is our policy that the Audit Committee must approve in advance all non-audit work to be performed by the independent auditors.

During fiscal 2007/08, all of the above services were pre-approved by the Audit Committee.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

¹ The aggregate fees billed by PricewaterhouseCoopers LLP for the audit of the Company's financial statements and regulatory reporting for the fiscal year ended 31 March 2008 and the review of interim financial statements for the six months ended 30 September 2007 were £8.3 million. Fees billed by PricewaterhouseCoopers LLP for the audit of the Company's financial statements and regulatory reporting for the fiscal year ended 31 March 2007 and the review of interim financial statements for the six months ended 30 September 2006, were £6.2 million.

² The aggregate fees billed by PricewaterhouseCoopers LLP for assurance and related services that were reasonably related to the performance of the audit or review of the Company's financial statements and are not disclosed under "Audit Fees" above were £0.4 million in fiscal 2007/08 and £1.8 million in fiscal 2006/07. Included within the fees in fiscal 2007/08 are services principally related to comfort letters and SAS 70 control reports.

³ Aggregate fees billed by PricewaterhouseCoopers LLP for tax compliance, tax advice and tax planning were £1.2 million in fiscal 2007/08 and £1.3 million in fiscal 2006/07.

Aggregate fees billed by PricewaterhouseCoopers LLP for all other services in fiscal 2007/08 were £0.7 million. The most significant item was providing vendor due diligence services related to the proposed sale of National Grid's property business. Aggregate fees billed by PricewaterhouseCoopers LLP for all other services in fiscal 2006/07 were £1.1 million.

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Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information on Ordinary Shares purchased by the Company during fiscal 2007/08

	(a). Total Number of	(b). Average Price Paid	(c). Total Number of Shares Purchased of Shares purchased as Part of Publicly Announced Plans	(d). Maximum Number of Shares (Rounded) that May Yet Be Purchased Under the
Periods	Shares Purchased	per Share	or Programs	Plans or Programs
1 June to 30 June 2007 (actual purchases from 18 to 28 June)	14,000,000	£7.31	65,308,381	207 million
1 July to 30 July 2007 (actual purchases from 2 to 31 July)	32,050,959	£7.08	97,359,340	175 million
1 August to 31 August 2007 (actual purchases from 1 to 30 August)	19,566,000	£7.13	116,925,340	155 million
1 September to 31 September 2007 (actual purchases from 3 to 28 September)	16,016,544	£7.49	132,941,884	139 million
1 October to 28 October 2007 (actual purchases from 1 to 31 October)	19,520,305	£7.82	152,462,189	120 million
1 November to 31 November 2007 (actual purchases from 1 to 30 November)	19,815,480	£7.92	172,277,669	100 million
1 December to 31 December 2007 (actual purchases from 3 to 28 December)	10,500,430	£8.29	182,778,099	89 million
1 January to 31 January 2008 (actual purchases from 2 to 31 January)	16,103,326	£8.15	198,881,425	73 million
1 February to 29 February 2008 (actual purchases from 1 to 29 February)	10,325,351	£7.65	209,206,776	63 million
1 March to 31 March 2008 (actual purchases from 3 to 31 March)	13,328,023	£7.16	222,534,799	50 million
1 April to 30 April 2008 (actual purchases from 1 to 30 April)	10,775,000	£7.12	233,309,799	39 million
1 May to 31 May 2008 (actual purchases from 1 to 30 May)	7,896,000	£7.24	241,205,799	31 million
1 June to 31 June 2008 (actual purchases from 2 to 13 June)	4,935,000	£7.10	246,140,799	26 million

Note: At the Company's 2006 Annual General Meeting (AGM), held in July 2006, shareholder approval was given to purchase up to 10% of the ordinary shares in issue (up to 272 million shares) which approval was repeated at the Company's 2007 AGM, held in July 2007, to purchase 10% of the then issued share capital (up to 270 million shares). As part of the interim results for the six months to 30 September 2006, a share buy-back programme was announced to return around \$1.9 billion (£1 billion) (based on cash flows from stranded assets under our US rate plans). On 3 April 2007 the Company announced the sale of its UK Wireless business and that it would return £1.8 billion to shareholders via an extension of the existing share buy-back programme, expected to be effected on the London Stock Exchange over the next 12 to 18 months and dependent on market and economic conditions. Shares will be repurchased in accordance with the Board's general authority to make market repurchases of ordinary shares, as previously approved by shareholders. The Board will seek shareholder approval to renew this authority at the next AGM in July 2008. The ordinary share buyback commenced on 20 November 2006 and is ongoing pursuant to the Board's general authority as approved by the shareholders.

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PART III

Item 17. Financial Statements

The Company has responded to Item 18 in lieu of this Item.

Item 18. Financial Statements

The information set forth under the headings "Accounting policies" on pages 114 to 120, "Adoption of new accounting standards" on page 121, "Consolidated income statement" on page 122, "Consolidated balance sheet" on page 123, "Consolidated cash flow statement" on page 125, "Consolidated statement of recognised income and expense" on page 124, "Notes to the consolidated financial statements-analysis of items in the primary statements" on pages 126 to 152, and "Notes to the consolidated financial statements — supplementary information" on pages 153 to 178 of the Company's Annual Report and Accounts 2007/08 contained in Exhibit 15.1 is incorporated herein by reference.

The report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm is presented below.

Report of Independent Registered Public Accounting Firm to the Board of Directors and Shareholders of National Grid plc

In our opinion, the accompanying consolidated income statements and the related consolidated balance sheets, consolidated statements of cash flows, consolidated statements of recognised income and expense, present fairly, in all material respects, the financial position of National Grid plc and its subsidiaries at 31 March 2008 and 2007 and the results of their operations and cash flows for each of the three years in the period ended 31 March 2008, in conformity with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union. Also, in our opinion the Company maintained, in all material respects, effective internal control over financial reporting as of 31 March 2008, based on criteria established in Internal Control — Integrated Framework issued by the COSO. The Company's management are responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Managements' evaluation of the effectiveness of internal control over financial reporting under Item 15 in this Form 20-F. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2007 and 2008). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statements presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable

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assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Managements' evaluation of the effectiveness of internal control over financial reporting, included under Item 15 in this Form 20-F, management has excluded KeySpan Corporation from its assessment of internal control over financial reporting as of 31 March 2008 because KeySpan Corporation was acquired by the Company in a purchase business combination during the year ended 31 March 2008. We have also excluded KeySpan Corporation from our audit of internal control over financial reporting. KeySpan Corporation is a whollyowned subsidiary whose total assets and total revenues represent 25% and 22%, respectively, of the related consolidated financial statement amounts as of and for the year ended 31 March 2008.

PricewaterhouseCoopers LLP London, United Kingdom 14 May 2008

Item 19. Exhibits

Pursuant to the rules and regulations of the US Securities and Exchange Commission, National Grid has filed certain agreements as exhibits to this Annual Report on Form 20-F. These agreements may contain representations and warranties by the parties to them. These representations and warranties have been made solely for the benefit of the other party or parties to such agreement and (i) may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to such agreements if those statements turn out to be inaccurate, (ii) may have been qualified by disclosures that were made to such other party or parties and that either have been reflected in the company's filings or are not required to be disclosed in those filings, (iii) may apply materiality standards different from what may be viewed as material to investors and (iv) were made only as of the date of such agreements or such other date or dates as may be specified in such agreements and are subject to more recent developments. Accordingly, these representations and warranties may not describe National Grid's actual state of affairs at the date

In accordance with the instructions to Item 2(b)(i) of the Instructions to Exhibits to the Form 20-F, National Grid agrees to furnish to the US Securities and Exchange Commission, upon request, a copy of any instrument relating to long-term debt that does not exceed 10 percent of the total assets of National Grid and its subsidiaries on a consolidated basis.

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	Description	
1.1	Articles of Association of National Grid plc adopted by Special Resolution passed on 25 July 2005. (Exhibit 1.3 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated By Reference
2(a)	Amended and restated Deposit Agreement dated as of 1 August 2005 among National Grid, plc and The Bank of New York	Filed herewith
2(b).1.1	Prospectus issued by National Grid plc and National Grid Electricity Transmission plc on 18 August 2005 relating to €12,000,000,000 (previously €6,000,000,000) issuable under the Euro Medium Term Note Programme. (Exhibit 2 (b).1.1 to National Grid PLC Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).1.2	Supplementary Prospectus dated 26 August 2006. (Exhibit 2 (b).1.2 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).1.3	Supplementary Prospectus dated 17 November 2005. (Exhibit 2 (b).1.3 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).1.4	Supplementary Prospectus dated 6 March 2006. (Exhibit 2 (b).1.4 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).1.5	Supplementary Prospectus dated 12 May 2006. (Exhibit 2 (b).1.5 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).1.6	Supplementary Prospectus dated 19 May 2006. (Exhibit 2 (b).1.6 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).2.1	Prospectus issued by National Grid Gas Holdings plc and National Grid Gas plc on 24 February 2006 relating to €10,000,000,000 issuable under the Euro Medium Term Note Programme. (Exhibit 2 (b).2.1 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).2.2	Supplementary Prospectus dated 6 March 2006. (Exhibit 2 (b).2.2 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).2.3	Supplementary Prospectus dated 22 May 2006. (Exhibit 2 (b).2.3 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).3.1	Prospectus issued by National Grid plc and National Grid Electricity Transmission plc on 11 August 2006 relating to €12,000,000,000 issuable under the Euro Medium Term Note Programme (Exhibit 2 (c).1.1 to National Grid plc Form 20-F dated 19 June 2007 File No. 1-14958)	Incorporated by reference
2(b).3.2	Supplementary Prospectus issued by National Grid plc and National Grid Electricity Transmission plc on 1 December 2006 relating to €12,000,000,000 issuable under the Euro Medium Term Note Programme(Exhibit 2 (c).1.2 to National Grid plc Form 20-F dated 19 June 2007 File No. 1-14958)	Incorporated by reference
2(b).4.1	Prospectus issued by National Grid Gas Holdings plc and National Grid Gas plc and National Grid Gas Finance (No 1) plc on 23 February 2007 relating to €10,000,000,000 issuable under the Euro Medium Term Note Programme (Exhibit 2 (d).1.1 to National Grid plc Form 20-F dated 19 June 2007 File No. 1-14958)	Incorporated by reference
2(b).4.2	Supplementary Prospectus issued by National Grid Gas Holdings plc and National Grid Gas plc and National Grid Gas Finance (No 1) plc on 4 February 2008 relating to €10,000,000,000 issuable under the Euro Medium Term Note Programme	Filed herewith
2(b).5.1	Prospectus issued by National Grid plc and National Grid Electricity Transmission plc on 2 August 2007 relating to €15,000,000,000 issuable under the Euro Medium Term Note Programme	Filed herewith

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	Description	
2(b).5.2	Supplementary Prospectus issued by National Grid plc and National Grid Electricity Transmission plc on 4 February 2008 relating to €15,000,000,000 issuable under the Euro Medium Term Note Programme	Filed herewith
2(b).6.1	Prospectus issued by National Grid USA on 3 December 2007 relating to €4,000,000,000 issuable under the Euro Medium Term Note Programme	Filed herewith
2(b).6.2	Supplementary Prospectus issued by National Grid USA on 4 February 2008 relating to €4,000,000,000 issuable under the Euro Medium Term Note Programme	Filed herewith
2(b).7.1	Prospectus issued by National Grid Gas plc and National Grid Gas Finance (No 1) plc on 26 February 2008 relating to €10,000,000,000 issuable under the Euro Medium Term Note Programme	Filed herewith
4(c).1	Service Agreement among The National Grid Group plc, National Grid Company plc and Edward Astle dated 27 July 2001 (Exhibit 4.3 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).2	Service Agreement among National Grid plc and Mark Fairbairn 23 January 2007 (Exhibit 4 (c).2 to National Grid Transco Form 20-F dated 19 June 2007 File No. 1-14958)	Incorporated by reference
4(c).3	Service Agreement among The National Grid plc and Steven Holliday dated 1 April 2006. (Exhibit 4.(c).3 to National Grid Transco Form 20-F dated 19 June 2007 File No. 1-14958)	Incorporated by reference
4(c).4	Service Agreement among National Grid Transco plc, National Grid USA and Michael E. Jesanis dated 8 July 2004 (Exhibit 4.5 to National Grid Transco Form 20-F dated 15 June 2005 File No. 1-14958)	Incorporated by reference
4(c).5	Service Agreement among National Grid Group plc, National Grid Company plc and Steve Lucas dated 13 June 2002 (Exhibit 4.5 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).6	Service Agreement among The National Grid Group plc, National Grid Company plc and Roger J. Urwin dated as of 17 November 1995 (Exhibit 4.7 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).7	Service Agreement among National Grid Transco plc, National Grid Company plc and Nicholas Winser dated 28 April 2003 (Exhibit 4.8 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).8	Fixed Term Employment Agreement among National Grid plc, National Grid USA and Robert B. Catell dated 26 October 2007	Filed herewith
4(c).9	Employment Agreement among National Grid plc, National Grid USA and Thomas King dated 11 July 2007	Filed herewith
4(c).10	Letter of Appointment — Linda Adamany (Exhibit 4 (c).9 to National Grid plc Form 20-F dated 19 June 2007 File No. 1-14958)	Incorporated by reference
4(c).11 4(c).12.1	Letter of Appointment — Philip Aiken Letter of Appointment — John Allan (Exhibit 4.10 to National Grid Transco Form 20-F dated 15 June 2005 File No. 1-14958)	Filed herewith Incorporated by reference
4(c).12.2	Letter dated 7 March 2006 to John Allan relating to appointment as chairman of Remuneration Committee. (Exhibit 4 (c).8.2 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference

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	Description	
4(c).13.1	Letter of Appointment — John Grant (Exhibit 4.9 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).13.2	Letter dated 7 March 2006 to John Grant relating to retirement as chairman of Remuneration Committee. (Exhibit 4 (c).9.2 to National	Incorporated by reference
4(c).14	Grid plc Form 20-F dated 20 June 2006 File No. 1-14958) Letter of Appointment — Ken Harvey (Exhibit 4.10 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).15	Letter of Appointment — Paul Joskow (Exhibit 4.11 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).16	Letter of Appointment — Sir John Parker (Exhibit 4.12 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).17	Letter of Appointment — Stephen Pettit (Exhibit 4.13 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).18	Letter of Appointment — Maria Richter (Exhibit 4.14 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).19	Letter of Appointment — George Rose (Exhibit 4.15 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).20	National Grid plc Deferred Share Plan. (Exhibit 4 (c).16 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
4(c).21	National Grid Executive Share Option Plan 2002 (Exhibit 4 (c) to National Grid Group Form 20-F dated 21 June 2002 File No. 1-14958)	Incorporated by reference
4(c).22	National Grid Group Share Matching Plan 2002 (Exhibit 4 (c) to National Grid Group Form 20-F dated 21 June 2002 File No. 1-14958)	Incorporated by reference
4(c).23	National Grid Transco Performance Share Plan 2002 (as approved 23 July 2002 by a resolution of the shareholders of National Grid Group plc, adopted 17 October 2002 by a resolution of the Board of National Grid Group plc, amended 26 June 2003 by the Share Schemes Sub-Committee of National Grid Transco plc, and amended 5 May 2004 by the Share Schemes Sub-Committee of National Grid Transco plc) (Exhibit 4.19 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).24	National Grid Executive Share Option Scheme (Exhibit 4D to National Grid Group S-8 dated 26 July 2001 File No. 333-65968)	Incorporated by reference
4(c).25	Lattice Group Short Term Incentive Scheme (approved by a resolution of the shareholders of BG Group plc effective 23 October 2000; approved by a resolution of the Board of National Grid Transco plc on 30 April 2004; amended by resolutions of the Board of Lattice Group plc effective on 21 October 2002 and 13 May 2004) (Exhibit 4.23 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
8	List of subsidiaries	Filed herewith
12.1	Certification of Steve Holliday	Filed herewith
12.2	Certification of Steve Lucas	Filed herewith
13	Certifications of Steve Holiday and Steve Lucas furnished pursuant to 18 U.S.C. Section 1350	Filed herewith
15.1	National Grid plc Annual Report and Accounts 2007/08, in extracted form	Filed herewith
15.2	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm to National Grid plc	Filed herewith

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorised the undersigned to sign this annual report on its behalf.

NATIONAL GRID PLC

By: /s/ Steve Lucas

Steve Lucas Finance Director

London, England 17 June 2008

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: * Validation: N * Lines: * CRC: *

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<TEXT>

Y59930.SUB, DocName: EX-2.A, Doc: 2, Page: 1 Description: EXHIBIT 2(A)

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EXHIBIT 2(a)

NATIONAL GRID PLC

AND

THE BANK OF NEW YORK

As Depositary

AND

OWNERS AND BENEFICIAL OWNERS OF AMERICAN DEPOSITARY **RECEIPTS**

Amended and Restated Deposit Agreement

Dated as of August 1, 2005

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AMENDED AND RESTATED DEPOSIT AGREEMENT

AMENDED AND RESTATED DEPOSIT AGREEMENT dated as of August 1, 2005, among NATIONAL GRID PLC (F/K/A National Grid Transco plc F/K/A National Grid Group plc), a public limited company incorporated under the laws of England and Wales (herein called the Issuer), THE BANK OF NEW YORK, a New York banking corporation (herein called the Depositary), and all Owners and Beneficial Owners from time to time of American Depositary Receipts issued hereunder.

WITNESSETH:

WHEREAS, the Issuer and the Depositary entered into a deposit agreement dated as of November 21, 1995, as amended and restated as of October 6, 1999 (the "Original Deposit Agreement"); and

WHEREAS, the Issuer, New National Grid plc and the Depositary entered into an amended and restated deposit agreement dated as of January 31, 2002 (the "Amended and Restated Deposit Agreement") in connection with a Scheme of arrangement under Section 425 of the Companies of Act of 1985; and

WHEREAS, the Issuer and the Depositary now wish to amend and restate the Amended and Restated Deposit Agreement in accordance with Section 6.1 of the Amended and Restated Deposit Agreement; and

WHEREAS, the Issuer desires to provide, as hereinafter set forth in this amended and restated Deposit Agreement (the "Deposit Agreement"), for the deposit of Shares (as hereinafter defined) of the Issuer, from time to time with the Depositary or the Custodian, for the creation of American Depositary Shares representing the Shares (as hereinafter defined) so deposited (subject to the terms and conditions of this Deposit Agreement) and for the execution and delivery of American Depositary Receipts evidencing the American Depositary Shares; and

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WHEREAS, the American Depositary Receipts are to be substantially in the form of Exhibit A annexed hereto, with appropriate insertions, modifications and omissions, as hereinafter provided in this Deposit Agreement; and

NOW, THEREFORE, in consideration of the premises, it is agreed by and between the parties hereto that the Amended and Restated Deposit Agreement shall be amended and restated in its entirety as follows:

ARTICLE 1. DEFINITIONS.

The following definitions shall for all purposes, unless otherwise clearly indicated, apply to the respective terms used in this Deposit Agreement:

SECTION 1.1. American Depositary Shares.

The term "American Depositary Shares" shall mean the securities representing the interests in the Deposited Securities and evidenced by the Receipts issued hereunder. Each American Depositary Share shall represent the number of Shares specified in Exhibit A hereto, until there shall occur a distribution upon Deposited Securities covered by Section 4.3 or a change in Deposited Securities covered by Section 4.8 with respect to which additional Receipts are not executed and delivered, and thereafter American Depositary Shares shall evidence the amount of Shares or Deposited Securities specified in such Sections.

SECTION 1.2. Article; Section.

Wherever references are made in this Deposit Agreement to an "Article" or "Articles" or to a "Section" or "Sections", such references shall mean an article or articles or a section or sections of this Deposit Agreement, unless otherwise required by the context.

SECTION 1.3. Beneficial Owner.

The term "Beneficial Owner" shall mean each person owning from time to time any beneficial interest in the American Depositary Shares evidenced by any Receipt.

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SECTION 1.4. Commission.

The term "Commission" shall mean the Securities and Exchange Commission of the United States or any successor governmental agency in the United States.

SECTION 1.5. Consultation.

The term "consultation" shall include within its meaning the good faith attempt by the Depositary to discuss, if practicable, the relevant issue in a timely manner with a person employed by the Issuer reasonably believed by the Depositary to be empowered by the Issuer to engage in such discussion on behalf of the Issuer.

SECTION 1.6. Custodian.

The term "Custodian" shall mean the London, England office of The Bank of New York, as agent of the Depositary for the purposes of this Deposit Agreement, and any other firm or corporation which may hereafter be appointed by the Depositary pursuant to the terms of Section 5.5, as substitute or additional custodian or custodians hereunder, as the context shall require and shall also mean all of them collectively.

SECTION 1.7. Deposit Agreement.

The term "Deposit Agreement" shall mean this amended and restated Deposit Agreement, as the same may be amended from time to time in accordance with the provisions hereof and all instruments supplemental thereto.

SECTION 1.8. <u>Depositary; Corporate Trust Office.</u>

The term "Depositary" shall mean The Bank of New York, a New York banking corporation and any successor as depositary hereunder. The term "Corporate Trust Office", when used with respect to the Depositary, shall mean the office of the Depositary which at the date of this Agreement is 101 Barclay Street, New York, New York, 10286.

SECTION 1.9. Deposited Securities.

The term "Deposited Securities" as of any time shall mean Shares at such time deposited or deemed to be deposited under this Deposit Agreement and any and all other securities, property and cash received by the Depositary or the Custodian in respect

thereof and at such time held hereunder, subject as to cash to the provisions of Section 4.5.

SECTION 1.10. Dollars; Pounds; Pence.

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The term "Dollars" or the symbol "\$" shall mean United States dollars. The term "Pounds" or the symbol "£" shall mean British pounds sterling and the term "pence" or "p" shall mean British pence.

SECTION 1.11. Foreign Registrar.

The term "Foreign Registrar" shall mean the entity that presently carries out the duties of registrar for the Shares or any successor as registrar for the Shares and any other appointed agent of the Issuer for the transfer and registration of Shares.

SECTION 1.12. <u>Issuer.</u>

The term "Issuer" shall mean National Grid plc, a public limited company incorporated under the laws of England and Wales, and its successors.

SECTION 1.13. Owner.

The term "Owner" shall mean the person in whose name a Receipt is registered on the books of the Depositary maintained for such purpose.

SECTION 1.14. Receipts.

The term "Receipts" shall mean the American Depositary Receipts issued hereunder evidencing American Depositary Shares.

SECTION 1.15. Registrar.

The term "Registrar" shall mean any bank or trust company having an office in the Borough of Manhattan, The City of New York, which shall be appointed to register Receipts and transfers of Receipts as herein provided.

SECTION 1.16. Restricted Securities.

The term "Restricted Securities" shall mean Shares, or Receipts representing such Shares, which are acquired directly or indirectly from the Issuer or its affiliates (as defined in Rule 144 under the Securities Act of 1933) in a transaction or chain of transactions not involving any public offering or which are subject to resale

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limitations under Regulation D under that Act or both, or which are held by an officer, director (or persons performing similar functions) or other affiliate of the Issuer, or which are subject to other restrictions on sale or deposit under the laws of the United States or of England and Wales, or under a shareholder agreement or the Memorandum and Articles of Association of the Issuer.

SECTION 1.17. Securities Act of 1933.

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The term "Securities Act of 1933" shall mean the United States Securities Act of 1933, as from time to time amended.

SECTION 1.18. Shares.

The term "Shares" shall mean ordinary shares in registered form of the Issuer, heretofore validly issued and outstanding and fully paid, nonassessable or hereafter validly issued and outstanding and fully paid and nonassessable or interim certificates representing such Shares.

FORM OF RECEIPTS, DEPOSIT OF SHARES, EXECUTION AND DELIVERY, TRANSFER AND SURRENDER OF RECEIPTS.

SECTION 2.1. Form and Transferability of Receipts.

Definitive Receipts shall be substantially in the form set forth in Exhibit A annexed to this Deposit Agreement, with appropriate insertions, modifications and omissions, as hereinafter provided. No Receipt shall be entitled to any benefits under this Deposit Agreement or be valid or obligatory for any purpose, unless such Receipt shall have been executed by the Depositary by the manual or facsimile signature of a duly authorized signatory of the Depositary and, if a Registrar for the Receipts shall have been appointed, countersigned by the manual or facsimile signature of a duly authorized officer of the Registrar. The Depositary shall maintain books on which each Receipt so executed and delivered as hereinafter provided and the transfer of each such Receipt shall be registered. Receipts bearing the manual or facsimile signature of a duly authorized signatory of the Depositary who was at any time a proper signatory of the Depositary shall bind the Depositary, notwithstanding that such signatory has ceased to hold such office prior to the execution and delivery of such Receipts by the Registrar or did not hold such office on the date of issuance of such Receipts.

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(212)924-5500 Operator: BNY99999T Date: 17-JUN-2008 03:10:51.35 BNY Y59930 406.00.00.00 0/2

The Receipts may be endorsed with or have incorporated in the text thereof such legends or recitals or modifications not inconsistent with the provisions of this Deposit Agreement as may be required by the Depositary or required to comply with any applicable law or regulations thereunder or with the rules and regulations of any securities exchange upon which American Depositary Shares may be listed or to conform with any usage with respect thereto, or to indicate any special limitations or restrictions to which any particular Receipts are subject by reason of the date of issuance of the underlying Deposited Securities or otherwise.

Title to a Receipt (and to the American Depositary Shares evidenced thereby), when properly endorsed or accompanied by proper instruments of transfer, shall be transferable in accordance with the terms of this Deposit Agreement by delivery with the same effect as in the case of a negotiable instrument under the laws of the State of New York; provided, however, that the Depositary, notwithstanding any notice to the contrary, may treat the Owner thereof as the absolute owner thereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in this Deposit Agreement and for all other purposes and neither the Depositary nor the Issuer shall have any obligation or be subject to any liability under this Deposit Agreement to any Beneficial Owner of a Receipt unless such Beneficial Owner is the Owner thereof.

SECTION 2.2. Deposit of Shares.

Subject to the terms and conditions of this Deposit Agreement, Shares or evidence of the right to receive Shares may be deposited by delivery thereof to any Custodian hereunder, accompanied by any appropriate instrument or instruments of transfer, or endorsement, in form satisfactory to the Custodian, together with all such certifications as may be required by the Depositary or the Custodian in accordance with the provisions of this Deposit Agreement, and, if the Depositary requires, together with a written order directing the Depositary to execute and deliver to, or upon the written order of, the person or persons stated in such order, a Receipt or Receipts for the number of American Depositary Shares representing such deposit. No Share shall be accepted for deposit unless accompanied by evidence satisfactory to the Depositary that any necessary approval has been granted by any governmental body in England and Wales which is then performing the function of the regulation of currency exchange. If required by the Depositary, Shares presented for deposit at any time, whether or not the transfer books of

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the Issuer or the Foreign Registrar, if applicable, are closed, shall also be accompanied by an agreement or assignment, or other instrument satisfactory to the Depositary, which will provide for the prompt transfer to the Custodian of any dividend, or right to subscribe for additional Shares or to receive other property which any person in whose name the Shares are or have been recorded may thereafter receive upon or in respect of such deposited Shares, or in lieu thereof, such agreement of indemnity or other agreement as shall be satisfactory to the Depositary.

At the request and risk and expense of any person proposing to deposit Shares, and for the account of such person, the Depositary may receive certificates for Shares to be deposited, together with the other instruments herein specified, for the purpose of forwarding such Share certificates to the Custodian for deposit hereunder.

Upon each delivery to a Custodian of a certificate or certificates for Shares to be deposited hereunder, together with the other documents above specified, such Custodian shall, as soon as transfer and recordation can be accomplished, present such certificate or certificates to the Issuer or the Foreign Registrar, if applicable, for transfer and recordation of the Shares being deposited in the name of the Depositary or its nominee or such Custodian or its nominee.

Deposited Securities shall be held by the Depositary or by a Custodian for the account and to the order of the Depositary or at such other place or places as the Depositary shall determine.

SECTION 2.3. Execution and Delivery of Receipts.

Upon receipt by any Custodian of any deposit pursuant to Section 2.2 hereunder (and in addition, if the transfer books of the Issuer or the Foreign Registrar, if applicable, are open, the Depositary may in its sole discretion require a proper acknowledgment or other evidence from the Issuer or the Foreign Registrar, if applicable that any Deposited Securities have been recorded upon the books of the Issuer or the Foreign Registrar, as the case may be, in the name of the Depositary or its nominee or such Custodian or its nominee), together with the other documents required as above specified, such Custodian shall notify the Depositary of such deposit and the person or persons to whom or upon whose written order a Receipt or Receipts are deliverable in respect thereof and the number of American Depositary Shares to be evidenced thereby.

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Such notification shall be made by letter, first class airmail postage prepaid, or, at the request, risk and expense of the person making the deposit, by air courier, cable, telex or facsimile transmission. Upon receiving such notice from such Custodian, or upon the receipt of Shares by the Depositary, the Depositary, subject to the terms and conditions of this Deposit Agreement, shall execute and deliver at its Corporate Trust Office, to or upon the order of the person or persons entitled thereto, a Receipt or Receipts, registered in the name or names and evidencing any authorized number of American Depositary Shares requested by such person or persons, but only upon payment to the Depositary of the fees of the Depositary for the execution and delivery of such Receipt or Receipts as provided in Section 5.9, and of all taxes and governmental charges and fees payable in connection with such deposit and the transfer of the Deposited Securities.

SECTION 2.4. <u>Transfer of Receipts; Combination and Split-up of Receipts.</u>

The Depositary, subject to the terms and conditions of this Deposit Agreement, shall, without unreasonable delay, register transfers of Receipts on its transfer books from time to time, upon any surrender of a Receipt, by the Owner in person or by a duly authorized attorney, properly endorsed or accompanied by proper instruments of transfer, and duly stamped as may be required by the laws of the State of New York and of the United States of America. Thereupon the Depositary shall execute a new Receipt or Receipts and deliver the same to or upon the order of the person entitled thereto.

The Depositary, subject to the terms and conditions of this Deposit Agreement, shall upon surrender of a Receipt or Receipts for the purpose of effecting a split-up or combination of such Receipt or Receipts, execute and deliver a new Receipt or Receipts for any authorized number of American Depositary Shares requested, evidencing the same aggregate number of American Depositary Shares as the Receipt or Receipts surrendered.

The Depositary may appoint one or more co-transfer agents, and shall provide notice to the Company of such appointment, for the purpose of effecting transfers, combinations and split-ups of Receipts at designated transfer offices on behalf of the Depositary. In carrying out its functions, a co-transfer agent may require evidence of authority and compliance with applicable laws and other requirements by Owners or

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persons entitled to Receipts and will be entitled to protection and indemnity to the same extent as the Depositary.

SECTION 2.5. Surrender of Receipts and Withdrawal of Shares.

Upon surrender at the Corporate Trust Office of the Depositary of a Receipt for the purpose of withdrawal of the Deposited Securities represented by the American Depositary Shares evidenced by such Receipt, and upon payment of the fee of the Depositary for the surrender of Receipts as provided in Section 5.9 and payment of all taxes and governmental charges payable in connection with such surrender and withdrawal of the Deposited Securities, and subject to the terms and conditions of this Deposit Agreement, the Owner of such Receipt shall be entitled to delivery, to him or upon his order, of the amount of Deposited Securities at the time represented by the American Depositary Shares evidenced by such Receipt. Delivery of such Deposited Securities may be made by the delivery of (a) certificates in the name of such Owner or as ordered by him or by certificates properly endorsed or accompanied by proper instruments of transfer to such Owner or as ordered by him and (b) any other securities, property and cash to which such Owner is then entitled in respect of such Receipts to such Owner or as ordered by him. Such delivery shall be made, as hereinafter provided, without unreasonable delay.

A Receipt surrendered for such purposes may be required by the Depositary to be properly endorsed in blank or accompanied by proper instruments of transfer in blank, and if the Depositary so requires, the Owner thereof shall execute and deliver to the Depositary a written order directing the Depositary to cause the Deposited Securities being withdrawn to be delivered to or upon the written order of a person or persons designated in such order. Thereupon the Depositary shall direct the Custodian to deliver at the London, England office of such Custodian, subject to Sections 2.6, 3.1 and 3.2 and to the other terms and conditions of this Deposit Agreement, to or upon the written order of the person or persons designated in the order delivered to the Depositary as above provided, the amount of Deposited Securities represented by the American Depositary Shares evidenced by such Receipt, except that the Depositary may make delivery to such person or persons at the Corporate Trust Office of the Depositary of any dividends or distributions with respect to the Deposited Securities represented by the American Depositary Shares evidenced by such Receipt, or of any proceeds of sale of any dividends, distributions or rights, which may at the time be held by the Depositary.

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At the request, risk and expense of any Owner so surrendering a Receipt, and for the account of such Owner, the Depositary shall direct the Custodian to forward any cash or other property (other than rights) comprising, and forward a certificate or certificates and other proper documents of title for, the Deposited Securities represented by the American Depositary Shares evidenced by such Receipt to the Depositary for delivery at the Corporate Trust Office of the Depositary. Such direction shall be given by letter, first class airmail postage prepaid, or, at the request, risk and expense of such Owner, by air courier, cable, telex or facsimile transmission.

SECTION 2.6. Limitations on Execution and Delivery, Transfer and Surrender of Receipts.

As a condition precedent to the execution and delivery, registration of transfer, split-up, combination or surrender of any Receipt or withdrawal of any Deposited Securities, the Depositary, Custodian or Registrar may require payment from the depositor of Shares or the presentor of the Receipt of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn) and payment of any applicable fees as herein provided, may require the production of proof satisfactory to it as to the identity and genuineness of any signature and may also require compliance with any regulations the Depositary may establish consistent with the provisions of this Deposit Agreement, including, without limitation, this Section 2.6.

The delivery of Receipts against deposits of Shares generally or against deposits of particular Shares may be suspended, or the transfer of Receipts in particular instances may be refused, or the registration of transfer of outstanding Receipts generally may be suspended, during any period when the transfer books of the Depositary, the Issuer or the Foreign Registrar are closed, or if any such action is deemed necessary or advisable by the Depositary or the Issuer at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of this Deposit Agreement, or for any other reason, subject to the provisions of Section 7.7 hereof. Notwithstanding any other provision of this Deposit Agreement or the Receipts, the surrender of outstanding Receipts and withdrawal of Deposited Securities may not be suspended subject only to (i) temporary delays caused by closing the transfer books of the Depositary, the Issuer or the Foreign Registrar or the

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deposit of Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges, and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the Receipts or to the withdrawal of the Deposited Securities. Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under this Deposit Agreement any Shares required to be registered under the provisions of the Securities Act of 1933, unless a registration statement is in effect as to such Shares.

SECTION 2.7. Lost Receipts, etc.

In case any Receipt shall be mutilated, destroyed, lost or stolen, the Depositary shall execute and deliver a new Receipt of like tenor in exchange and substitution for such mutilated Receipt upon cancellation thereof, or in lieu of and in substitution for such destroyed, lost or stolen Receipt. Before the Depositary shall execute and deliver a new Receipt in substitution for a destroyed, lost or stolen Receipt, the Owner thereof shall have (a) filed with the Depositary (i) a request for such execution and delivery before the Depositary has notice that the Receipt has been acquired by a bona fide purchaser and (ii) a sufficient indemnity bond and (b) satisfied any other reasonable requirements imposed by the Depositary.

SECTION 2.8. Cancellation and Destruction of Surrendered Receipts.

All Receipts surrendered to the Depositary shall be cancelled by the Depositary. The Depositary is authorized to destroy Receipts so cancelled.

SECTION 2.9. Pre-Release of Receipts.

The Depositary may issue Receipts against the delivery by the Issuer (or any agent of the Issuer recording Share ownership) of rights to receive Shares from the Issuer (or any such agent). No such issue of Receipts will be deemed a "Pre-Release" that is subject to the restrictions of the following paragraph.

Unless requested in writing by the Issuer to cease doing so, the Depositary may, notwithstanding Section 2.3 hereof, execute and deliver Receipts prior to the receipt of Shares pursuant to Section 2.2 ("Pre-Release"). The Depositary may, pursuant to Section 2.5, deliver Shares upon the receipt and cancellation of Receipts which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such Receipt has been Pre-Released. The

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Depositary may receive Receipts in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation and agreement from the person to whom Receipts are to be delivered (the "Pre-Releasee") that the Pre- Releasee, or its customer, (i) owns the shares or Receipts to be remitted, as the case may be, (ii) assigns all beneficial rights, title and interest in such Shares or Receipts, as the case may be, to the Depositary in its capacity as such and for the benefit of the Owners, and (iii) will not take any action with respect to such Shares or Receipts, as the case may be, that is inconsistent with the transfer of beneficial ownership (including, without the consent of the Depositary, disposing of such Shares or Receipts, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralized with cash, U.S. government securities or such other collateral as the Depositary determines, in good faith, will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of Shares not deposited but represented by American Depositary Shares outstanding at any time as a result of Pre-Releases will not normally exceed thirty percent (30%) of the Shares deposited hereunder; provided, however, that the Depositary reserves the right to disregard such limit from time to time as it deems reasonably appropriate, and may, with the prior written consent of the Issuer, change such limit for purposes of general application. The Depositary will also set Dollar limits with respect to Pre-Release transactions to be entered into hereunder with any particular Pre-Releasee on a case-by-case basis as the Depositary deems appropriate. For purposes of enabling the Depositary to fulfill its obligations to the Owners under the Deposit Agreement, the collateral referred to in clause (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations to the Depositary in connection with a Pre-Release transaction, including the Pre-Releasee's obligation to deliver Shares or Receipts upon termination of a Pre-Release transaction (and shall not, for the avoidance of doubt, constitute Deposited Securities hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing.

SECTION 2.10. Direct Registration System.

(a) ADSs may be maintained by the Depositary in book-entry form known as the "Direct Registration System" ("DRS"). Upon issuance of ADSs, the ADSs

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of each Owner will be credited to the DRS account of each such Owner and in each such Owner's name. Each Owner will be given the option of (i) receiving a certificate representing its ADSs, (ii) transfering such ADSs to a broker designated by each and every person or entity in whose name such ADSs are registered on the books of the Depositary or (iii) maintaining their ADSs in DRS.

- (b) The Issuer understands that Profile is a required feature of DRS. Profile allows a participant of The Depository Trust Company ("DTC") claiming to act on behalf of the Owner of ADSs, to direct the Depositary to transfer to such DTC participant the ADSs designated by such DTC participant without receipt by the Depositary of such prior written authorization from the Owner to transfer such ADSs.
- (c) The Issuer understands the Depositary will not verify, determine or otherwise ascertain that the DTC participant which is claiming to be acting on behalf of an Owner is, in fact, authorized to act on behalf of such Owner. The Issuer and each Owner agree that the Depositary shall have no liability for relying upon and complying with directions from a DTC participant as set forth above; and the Issuer shall indemnify and hold harmless the Depositary from and against any liability, expense, damage, loss and judgment arising from or related to the foregoing (including reasonable attorneys fees and expenses and expenses arising from or connected with the enforcement of this provision). For the avoidance of doubt, (i) the Depositary shall be fully protected by the foregoing limitation of liability and indemnification with respect to reliance upon and compliance with instructions from the DTC participant even if the Depositary's reliance on, and compliance with, such instructions is determined by a final, non-appealable order or judgment of a court of competent jurisdiction to constitute negligence, willful misconduct, breach of any duty owed by the Depositary to such Owner or violation of any law and (ii) the forgoing shall not apply to the manner in which the Depositary carries out actual transfer of the ADSs which are the subject of the DTC participant's instruction, which transfer shall continue to be governed by the other applicable terms of this Deposit Agreement. By way of example and not by way of limitation, if a court determines that the transfer of ADSs pursuant to a DTC participant's instruction without

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obtaining prior authorization from the Owner constitutes negligence, the Depositary will nevertheless be protected under this subparagraph (c); on the other hand, in carrying out such instructions, if the Depositary transfers ADSs from the wrong account or to the wrong DTC participant, the obligation to indemnify the Depositary shall be determined in accordance with Sections 5.3 and 5.8 hereof.

ARTICLE 3. CERTAIN OBLIGATIONS OF OWNERS OF RECEIPTS.

SECTION 3.1. Filing Proofs, Certificates and Other Information.

Any person presenting Shares for deposit or any Owner or Beneficial Owner of a Receipt may be required from time to time to file with the Depositary or the Custodian such proof of citizenship or residence, exchange control approval, proof of the nature of such person's interest, proof of compliance with all applicable laws and regulations and with the provisions of or governing the Deposited Securities and the terms of this Deposit Agreement or such information relating to the registration on the books of the Issuer or the Foreign Registrar, if applicable, to execute such certificates and to make such representations and warranties, as the Issuer or the Depositary may deem necessary or proper or as the Issuer may reasonably require by written request to the Depositary or any Custodian. The Depositary may withhold the delivery or registration of transfer of any Receipt or the distribution of any dividend or sale or distribution of rights or of the proceeds thereof or the delivery of any Deposited Securities until such proof or other information is filed or such certificates are executed or such representations and warranties made. Each Owner and Beneficial Owner agrees to provide any information requested by the Issuer or the Depositary pursuant to this Section 3.1.

The Depositary shall provide the Issuer, upon the Issuer's request and in a timely manner, with copies of any information or other material which it receives pursuant to this Section 3.1.

SECTION 3.2. Liability of Owner for Taxes.

If any tax or other governmental charge shall become payable with respect to any Receipt or any Deposited Securities represented by any Receipt, such tax or other governmental charge shall be payable by the Owner or Beneficial Owner of such Receipt

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to the Depositary. The Depositary may refuse to effect any transfer of such Receipt or any withdrawal of Deposited Securities represented by American Depositary Shares evidenced by such Receipt until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner or Beneficial Owner thereof any part or all of the Deposited Securities represented by the American Depositary Shares evidenced by such Receipt, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge and the Owner or Beneficial Owner of such Receipt shall remain liable for any deficiency.

SECTION 3.3. Warranties on Deposit of Shares.

Every person depositing Shares under this Deposit Agreement shall be deemed thereby to represent and warrant that such Shares and each certificate therefor are validly issued, fully paid and nonassessable and that the person making such deposit is duly authorized so to do. Every such person shall also be deemed to represent that the deposit of such Shares and the sale of Receipts evidencing American Depositary Shares representing such Shares by that person are not restricted under the Securities Act of 1933. Such representations and warranties shall survive the deposit of Shares and issuance of Receipts.

SECTION 3.4. <u>Disclosure of Interests.</u>

Notwithstanding any other provision of this Deposit Agreement, the Memorandum and Articles of Association of the Issuer or applicable English law, each Owner and Beneficial Owner agrees to be bound by and subject to applicable provisions of the U.K. Companies Act, 1985 and the Memorandum and Articles of Association of the Issuer, summarized below, to the same extent as if such Owner and Beneficial Owner held Shares directly. The Issuer has informed the Depositary that the following information is accurate as the Depositary has made no independent investigation regarding such information.

A holder of Shares in the Issuer may lose the right to vote its Shares if it or any other person appearing to be interested in shares held by it fails to comply within a prescribed period of time with a request by the Issuer under the U.K. Companies Act, 1985 to give certain information with respect to past or present ownership or interests in such Shares. In the case of holders of more than 0.25% in

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nominal amount of the share capital of the Issuer (or any class thereof), in addition to disenfranchisement, the sanctions that may be applied by the Issuer include withholding of the right to receive payment of dividends and other monies payable on, and restrictions on transfers of the

Section 198 of the U.K. Companies Act, 1985 provides that a person (including a company and other legal entities) that acquires an interest of 3 percent or more of any class of shares (including through American Depositary Receipts) comprised in an English public company's "relevant share capital" (i.e., the Issuer's issued share capital carrying the right to vote in all circumstances at a general meeting of the Issuer) is required to notify the company of its interest within two business days following the day on which the obligation arises. After the 3 percent level is exceeded, similar notifications must be made in respect of increases or decreases through a whole percentage point.

For purposes of such notification obligation, the interest of a person in shares means any kind of interest in shares including interests in any shares (a) in which a spouse, or child or stepchild under the age of 18, is interested, (b) in which a corporate body is interested and either (i) that corporate body or its directors generally act in accordance with that person's directions or instructions or (ii) that person controls onethird or more of the voting power of that corporate body or (c) in which another party is interested and the person and that other party are parties to a "concert party" agreement under Section 204 of the U.K. Companies Act, 1985. A concert party agreement is one which provides for one or more parties to acquire interests in shares of a particular company and imposes obligations or restrictions on any one of the parties as to the use, retention or disposal of such interests acquired pursuant to such agreement and any interest in the company's shares is in fact acquired by any of the parties pursuant to the agreement. Certain interests (e.g., those held by certain investment fund managers) may be disregarded for the purposes of calculating the 3 percent threshold, but the obligations of disclosure will still apply where such interests exceed 10 percent or more of any class of the company's relevant share capital and to increases or decreases through a whole percentage point thereafter.

In addition, Section 212 of the U.K. Companies Act, 1985 provides that a public company may by written notice require a person whom the company knows or has

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reasonable cause to believe to be, or to have been at any time during the three years immediately preceding the date on which the notice is issued, interested in shares consisting of the company's "relevant share capital" to confirm that fact or to indicate whether or not that is the case, and where such person holds or during the relevant time had held an interest in such shares, to give such further information as may be required relating to such interest and any other interest in the shares of which such person is aware.

Where notice is served by a company under the foregoing provisions on a person who is or was interested in shares of the company and that person fails to give the company any information required by the notice within the time specified in the notice, the company may apply to the English court for an order directing that the shares in question be subject to restrictions prohibiting, among other things, any transfer of those shares, the taking up of rights in respect of such shares and, other than on liquidation, payments in respect of such shares.

A person who fails to fulfill the obligations imposed by Sections 198 and 212 of the U.K. Companies Act, 1985 described above is subject to criminal penalties.

(c) The Depositary agrees to use reasonable efforts to forward to any Owners at the request of the Issuer and at the Issuer's expense, any request by the Issuer for information and to comply with any instructions of the Issuer, to the extent reasonably practicable, given to effectuate the foregoing restrictions. If the Issuer requests information from the Depositary or the Custodian, as the registered owners of Shares, pursuant to the Memorandum and Articles of Association of the Issuer or the U.K. Companies Act, 1985, the obligations of the Depositary or the Custodian, as the case may be, shall be limited to disclosing to the Issuer such information relating to the Shares in question as has in each case been recorded by it pursuant to the terms of this Deposit Agreement.

ARTICLE 4. THE DEPOSITED SECURITIES.

SECTION 4.1. Cash Distributions.

Whenever the Depositary shall receive any cash dividend or other cash distribution on any Deposited Securities, the Depositary shall, subject to the provisions of Section 4.5, convert such dividend or distribution into Dollars, if applicable, and shall

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distribute the amount thus received (net of the fees of the Depositary as provided in Section 5.9 hereof, if applicable) to the Owners entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively; provided, however, that in the event that the Issuer or the Depositary shall be required to withhold and does withhold from such cash dividend or such other cash distribution an amount on account of taxes or other governmental charges, the amount distributed to the Owner of the Receipts evidencing American Depositary Shares representing such Deposited Securities shall be reduced accordingly. The Depositary shall distribute only such amount, however, as can be distributed without attributing to any Owner a fraction of one cent. Any such fractional amounts shall be rounded to the nearest whole cent and so distributed to Owners entitled thereto. The Issuer or its agent will remit to the appropriate governmental agency in England and Wales all amounts withheld and owing to such agency. The Depositary will forward to the Issuer or its agent such information from its records as the Issuer may reasonably request to enable the Issuer or its agent to file necessary reports with governmental agencies, and the Depositary or the Issuer or its agent may file any such reports necessary to obtain benefits under the applicable tax treaties for the Owners of Receipts.

SECTION 4.2. <u>Distributions Other Than Cash, Shares or Rights.</u>

Subject to the provisions of Sections 4.11 and 5.9, whenever the Depositary shall receive any distribution other than a distribution described in Sections 4.1, 4.3 or 4.4, the Depositary shall cause the securities or property received by it to be distributed to the Owners entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution; provided, however, that if in the reasonable opinion of the Depositary such distribution cannot be made proportionately among the Owners entitled thereto, or if for any other reason (including, but not limited to, any requirement that the Issuer or the Depositary withhold an amount on account of taxes or other governmental charges or that such securities must be registered under the Securities Act of 1933 in order to be distributed to Owners or Beneficial Owners) the Depositary deems such distribution not to be feasible, the Depositary may, after notice to the Issuer adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including, but not limited to, the public or private sale of the securities or property thus received, or

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any part thereof, and the net proceeds of any such sale (net of the fees of the Depositary as provided in Section 5.9) shall be distributed by the Depositary to the Owners entitled thereto as in the case of a distribution received in cash pursuant to Section 4.1.

SECTION 4.3. <u>Distributions in Shares.</u>

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If any distribution upon any Deposited Securities consists of a dividend in, or free distribution of, Shares, the Depositary may, and shall if the Issuer shall so request, distribute to the Owners of outstanding Receipts entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, additional Receipts evidencing an aggregate number of American Depositary Shares representing the amount of Shares received as such dividend or free distribution, subject to the terms and conditions of the Deposit Agreement with respect to the deposit of Shares and the issuance of American Depositary Shares evidenced by Receipts, including the withholding of any tax or other governmental charge as provided in Section 4.11 and the payment of fees of the Depositary as provided in Section 5.9. In lieu of delivering Receipts for fractional American Depositary Shares in any such case, the Depositary shall sell the amount of Shares represented by the aggregate of such fractions and distribute the net proceeds, all in the manner and subject to the conditions described in Section 4.1. If additional Receipts are not so distributed, each American Depositary Share shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

SECTION 4.4. Rights.

In the event that the Issuer shall offer or cause to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depositary, after consultation with the Issuer, shall have discretion as to the procedure to be followed in making such rights available to any Owners or in disposing of such rights on behalf of any Owners and making the net proceeds available to such Owners or, if by the terms of such rights offering or for any other reason, the Depositary may not either make such rights available to any Owners or dispose of such rights and make the net proceeds available to such Owners, then the Depositary shall allow the rights to lapse. If at the time of the offering of any rights the Depositary determines in its discretion, after consultation with the Issuer, that it is lawful and feasible to make such rights available to all Owners or to certain Owners but not to other

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Owners, the Depositary may distribute to any Owner to whom it determines the distribution to be lawful and feasible, in proportion to the number of American Depositary Shares held by such Owner, warrants or other instruments therefor in such form as it, after consultation with the Issuer, deems appropriate.

In circumstances in which rights would otherwise not be distributed, if an Owner of Receipts requests the distribution of warrants or other instruments in order to exercise the rights allocable to the American Depositary Shares of such Owner hereunder, the Depositary will make such rights available to such Owner upon written notice from the Issuer to the Depositary that (a) the Issuer has elected in its sole discretion to permit such rights to be exercised and (b) such Owner has executed such documents as the Issuer has determined in its sole discretion are reasonably required under applicable law.

If the Depositary has distributed warrants or other instruments for rights to all or certain Owners, then upon instruction from such an Owner pursuant to such warrants or other instruments to the Depositary from such Owner to exercise such rights, upon payment by such Owner to the Depositary for the account of such Owner of an amount equal to the purchase price of the Shares to be received upon the exercise of the rights, and upon payment of the fees of the Depositary and any other charges as set forth in such warrants or other instruments, the Depositary shall, on behalf of such Owner, exercise the rights and purchase the Shares, and the Issuer shall cause the Shares so purchased to be delivered to the Depositary on behalf of such Owner. As agent for such Owner, the Depositary will cause the Shares so purchased to be deposited pursuant to Section 2.2 of this Deposit Agreement, and shall, pursuant to Section 2.3 of this Deposit Agreement, execute and deliver Receipts to such Owner. In the case of a distribution pursuant to the second paragraph of this section, such Receipts shall be legended in accordance with applicable U.S. laws, and shall be subject to the appropriate restrictions on sale, deposit, cancellation, and transfer under such laws.

If the Depositary determines in its discretion, after consultation with the Issuer, that it is not lawful and feasible to make such rights available to all or certain Owners, it may sell the rights, warrants or other instruments in proportion to the number of American Depositary Shares held by the Owners to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds of such

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sales (net of the fees of the Depositary as provided in Section 5.9 and all taxes and governmental charges payable in connection with such rights and subject to the terms and conditions of this Deposit Agreement) for the account of such Owners otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Owners because of exchange restrictions or the date of delivery of any Receipt or otherwise.

The Depositary will not offer rights to Owners unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act of 1933 with respect to a distribution to Owners or are registered under the provisions of such Act. Nothing in this Deposit Agreement shall create, or be construed to create, any obligation on the part of the Issuer to file a registration statement with respect to such rights or underlying securities or to endeavor to have a registration statement declared effective. If an Owner of Receipts requests distribution of warrants or other instruments, notwithstanding that there has been no such registration under such Act, the Depositary shall not effect such distribution unless it has received an opinion from recognized counsel in the United States for the Issuer upon which the Depositary may rely that such distribution to such Owner is exempt from such registration.

The Depositary shall not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Owners in general or any Owner in particular.

SECTION 4.5. Conversion of Foreign Currency.

Whenever the Depositary or the Custodian shall receive foreign currency, by way of dividends or other distributions or the net proceeds from the sale of securities, property or rights, and if at the time of the receipt thereof the foreign currency so received can in the judgment of the Depositary be converted on a reasonable basis into Dollars and the resulting Dollars transferred to the United States, the Depositary shall convert or cause to be converted, by sale or in any other manner that it may determine, such foreign currency into Dollars, and such Dollars shall be distributed to the Owners entitled thereto or, if the Depositary shall have distributed any warrants or other instruments which entitle the holders thereof to such Dollars, then to the holders of such warrants and/or instruments upon surrender thereof for cancellation in whole or in part depending on the terms of such warrants or other instruments. Such distribution may be

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made upon an averaged or other practicable basis without regard to any distinctions among Owners on account of exchange restrictions, the date of delivery of any Receipt or otherwise and shall be net of any expenses of conversion into Dollars incurred by the Depositary as provided

If such conversion or distribution can be effected only with the approval or license of any government or agency thereof, the Depositary shall file such application for approval or license, if any, as it may deem desirable; provided, however, that the Issuer shall not be obligated to make any such filings.

If at any time the Depositary shall determine that in its judgment any foreign currency received by the Depositary or the Custodian is not convertible on a reasonable basis into Dollars transferable to the United States, or if any approval or license of any government or agency thereof which is required for such conversion is denied or in the reasonable opinion of the Depositary is not obtainable, or if any such approval or license is not obtained within a reasonable period as determined by the Depositary, the Depositary, after consultation with the Issuer, may distribute the foreign currency (or an appropriate document evidencing the right to receive such foreign currency) received by the Depositary to, or in its discretion may hold such foreign currency uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled to receive the same.

If any such conversion of foreign currency, in whole or in part, cannot be effected for distribution to some of the Owners entitled thereto, the Depositary may in its discretion make such conversion and distribution in Dollars to the extent permissible to the Owners entitled thereto and may distribute the balance of the foreign currency received by the Depositary to, or hold such balance uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled thereto.

SECTION 4.6. Fixing of Record Date.

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each American Depositary Share, or whenever the Depositary shall receive notice of any

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meeting of holders of Shares or other Deposited Securities, the Depositary shall fix a record date, which shall be as close as practicable to the date corresponding to the record date fixed by the Issuer in respect of the Shares or other Deposited Securities, (a) for the determination of the Owners who shall be (i) entitled to receive such dividend, distribution or rights or the net proceeds of the sale thereof or (ii) entitled to give instructions for the exercise of voting rights at any such meeting, or (b) on or after which each American Depositary Share will represent the changed number of Shares. Subject to the provisions of Sections 4.1 through 4.5 and to the other terms and conditions of this Deposit Agreement, the Owners on such record date shall be entitled, as the case may be, to receive the amount distributable by the Depositary with respect to such dividend or other distribution or such rights or the net proceeds of sale thereof in proportion to the number of American Depositary Shares held by them respectively and to give voting instructions and to act in respect of any other such matter.

SECTION 4.7. Voting of Deposited Securities.

Subject to and in accordance with the Articles of Association of the Issuer, the Depositary hereby irrevocably appoints (or, if the Deposited Securities are registered in the name of or held by its nominee, shall procure that its nominee shall irrevocably appoint) each Owner for the time being on the record date (the "Voting Record Date") fixed by the Depositary in accordance with Section 4.06 in respect of any meeting (including any adjourned meeting) at which holders of Deposited Securities are entitled to vote as its proxy to attend, vote and speak at the relevant meeting (or any adjournment thereof) as provided in the Articles of Association of the Issuer in respect of the Deposited Securities represented by the American Depositary Shares evidenced by the Receipts held by such Owner on the Voting Record Date, and by reason of that appointment in respect of any such meeting each such Owner shall be constituted the agent of the Depositary to appoint (in relation to those Deposited Securities) in the name of the Depositary either a person nominated by the Depositary or any other person as proxy to attend, vote and speak as the Owner may instruct, subject to and in accordance with the provisions of this Section and the Articles of Association of the Issuer (and if the Deposited Securities are registered in the name of or held by the nominee of the

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Depositary, the Depositary shall procure that the nominee duly constitutes each such Owner as its agent for that purpose). As soon as practicable after receipt of notice of any meeting at which the holders of Deposited Securities are entitled to vote, or of solicitation of consents or proxies from holders of Deposited Securities, the Depositary shall, in accordance with Section 4.06, fix the Voting Record Date in respect of such meeting or solicitation. The Depositary or, if the Issuer so determines, the Issuer shall mail to Owners of record on such Voting Record Date: (a) such information as is contained in such notice of meeting or in the solicitation materials, (b) a Receipt proxy card in a form prepared by the Depositary, after consultation with the Issuer, (c) a statement that each Owner of Record at the close of business on the Voting Record Date will be entitled, subject to any applicable law, the Issuer's Articles of Association and the provisions of or governing the Deposited Securities, either (i) to use such Receipt proxy card at that meeting as written evidence of the appointment of that Owner in accordance with this Section in order to attend, vote and speak at such meeting solely with respect to the Shares or other Deposited Securities represented by American Depositary Shares evidenced by such Owner's Receipts or (ii) as the agent of the Depositary (or its nominee) to appoint any other person as proxy solely with respect to the Shares or other Deposited Securities represented by American Depositary Shares evidenced by such Owner's Receipts and (if the Owner wishes) to instruct such person as to the exercise of the voting rights pertaining to them, and (d) if the person nominated by the Depositary is to be appointed in that manner as proxy, a brief statement as to the manner in which the Owner may give voting instructions to the person nominated by the Depositary. Upon the written request of an Owner of record on the Voting Record Date received on or before the date established by the Depositary for such purpose (the "Instruction Date"), the Depositary shall endeavor, insofar as practicable and permitted under applicable law, the provisions of the Issuer's Articles of Association and the provisions of the Deposited Securities, to cause to be voted the Deposited Securities in accordance with the instructions set forth in such request.

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Neither the Depositary nor the Custodian nor the nominee of either of them shall exercise any discretion as to voting and neither the Depositary nor the Custodian nor the nominee of either of them shall vote or attempt to exercise the right to vote the Shares or other Deposited Securities represented by American Depositary Shares except pursuant to and in accordance with such written instructions from Owners given in accordance with this Section 4.07. Shares or other Deposited Securities represented by American Depositary Shares for which no specific voting instructions are received by the Depositary from the Owner shall not be voted by the Depositary or its nominee but may be directly voted by Owners in attendance at meetings of shareholders, subject to, and in accordance with, the provisions of this Section and the Issuer's Articles of Association.

For the avoidance of doubt, the appointment pursuant to this Section of a proxy by an Owner acting as agent of the Depositary (or its nominee) shall constitute the appointed person as a proxy for the purposes of section 372 of the UK Companies Act 1985 and of the Articles of Association of the Issuer; whereas the appointment pursuant to this Section of an Owner as a proxy by the Depositary (or its nominee) shall not constitute that Owner as such a proxy but shall instead confer on that Owner the special rights and privileges accorded under the Issuer's Articles of Association to ADR Proxies (as defined in those Articles of Association).

Notwithstanding anything in this Section 4.7 or in Section 6.1 to the contrary, the Depositary and the Issuer may modify, amend or adopt additional voting procedures at any time or from time to time as they determine may be necessary or appropriate.

There can be no assurance that Owners generally or any Owner in particular will receive the notice described in this Section 4.7 sufficiently prior to the Instruction Date to ensure that the Depositary will vote the Shares or Deposited Securities in accordance with the provisions set forth in this Section.

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SECTION 4.8. Changes Affecting Deposited Securities.

In circumstances where the provisions of Section 4.3 do not apply, upon any change in nominal value, change in par value, split-up, consolidation or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting the Issuer or to which it is a party, any securities which shall be received by the Depositary or a Custodian in exchange for or in conversion of or in respect of Deposited Securities, shall be treated as new Deposited Securities under this Deposit Agreement, and American Depositary Shares shall thenceforth represent, in addition to the existing Deposited Securities, the new Deposited Securities so received in exchange or conversion, unless additional Receipts are delivered pursuant to the following sentence. In any such case the Depositary may, and shall if the Issuer shall so request, execute and deliver additional Receipts as in the case of a dividend in Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities.

SECTION 4.9. Reports.

The Depositary shall make available for inspection by Owners at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from the Issuer which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Issuer. The Depositary shall also, upon written request, send to the Owners copies of such reports furnished by the Issuer pursuant to Section 5.6.

SECTION 4.10. <u>Lists of Owners.</u>

Promptly upon request by the Issuer, the Depositary shall, at the expense of the Issuer, furnish to it a list, as of a recent date, of the names, addresses and holdings of American Depositary Shares by all persons in whose names Receipts are registered on the books of the Depositary.

SECTION 4.11. Withholding.

In the event that the Depositary determines that any distribution in property (including Shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depositary is obligated to withhold, the Depositary may by public or private sale dispose of all or a portion of such property (including Shares and

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rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes or charges and the Depositary shall distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners entitled thereto in proportion to the number of American Depositary Shares held by them respectively.

ARTICLE 5. THE DEPOSITARY, THE CUSTODIANS AND THE ISSUER.

SECTION 5.1. Maintenance of Office and Transfer Books by the Depositary.

Until termination of this Deposit Agreement in accordance with its terms, the Depositary shall maintain in the Borough of Manhattan, The City of New York, facilities for the execution and delivery, registration, registration of transfers and surrender of Receipts in accordance with the provisions of this Deposit Agreement.

The Depositary shall keep books for the registration of Receipts and transfers of Receipts which at all reasonable times shall be open for inspection by the Owners, provided that such inspection shall not be for the purpose of communicating with Owners in the interest of a business or object other than the business of the Issuer or a matter related to this Deposit Agreement or the Receipts.

The Depositary may close the transfer books, at any time or from time to time, when deemed expedient by it in connection with the performance of its duties hereunder after consultation with to the extent practicable or at the request of the Issuer.

If any Receipts or the American Depositary Shares evidenced thereby are listed on one or more stock exchanges in the United States, the Depositary shall act as Registrar or appoint a Registrar or one or more co-registrars for registry of such Receipts in accordance with any requirements of such exchange or exchanges.

SECTION 5.2. <u>Prevention or Delay in Performance by the Depositary or the Issuer.</u>

Neither the Depositary nor the Issuer nor any of their respective directors, employees, agents or affiliates shall incur any liability to any Owner or Beneficial Owner of any Receipt, if by reason of any provision of any present or future law or regulation of the United States or any other country, or of any governmental or regulatory authority or

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stock exchange, or by reason of any provision, present or future, of the Memorandum and Articles of Association of the Issuer, or by reason of any act of God or war or other circumstances beyond its control, the Depositary or the Issuer or any of their respective directors, employees, agents or affiliates shall be prevented or forbidden from, or be subject to any civil or criminal penalty on account of, doing or performing any act or thing which by the terms of this Deposit Agreement it is provided shall be done or performed; nor shall the Depositary or the Issuer or any of their respective directors, employees, agents or affiliates incur any liability to any Owner or Beneficial Owner of any Receipt by reason of any non- performance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of this Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for in this Deposit Agreement. Where, by the terms of a distribution pursuant to Sections 4.1, 4.2, or 4.3 of the Deposit Agreement, or an offering or distribution pursuant to Section 4.4 of the Deposit Agreement, or for any other reason, such distribution or offering may not be made available to Owners, and the Depositary may not dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depositary shall not make such distribution or offering, and shall allow any rights, if applicable, to lapse.

SECTION 5.3. Obligations of the Depositary, the Custodian and the Issuer.

Neither the Issuer nor any of its directors, employees, agents or affiliates assume any obligation nor shall any of them be subject to any liability under this Deposit Agreement to Owners or Beneficial Owners of Receipts, except that the Issuer agrees to perform its obligations specifically set forth in this Deposit Agreement without negligence or bad faith.

The Depositary assumes no obligation nor shall it be subject to any liability under this Deposit Agreement to any Owner or Beneficial Owners of any Receipt (including, without limitation, liability with respect to the validity or worth of the Deposited Securities), except that it agrees to perform its obligations specifically set forth in this Deposit Agreement without negligence or bad faith.

Neither the Depositary nor the Issuer nor any of their respective directors, employees, agents or affiliates shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or in

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respect of the Receipts, which in their respective reasonable opinions may involve them in expense or liability, unless indemnity satisfactory to them against all expense and liability shall be furnished as often as may be required, and the Custodian shall not be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary.

Neither the Depositary nor the Issuer nor any of their respective directors, employees, agents or affiliates shall be liable for any action or nonaction by any of them in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Owner or any other person believed by any of them in good faith to be competent to give such advice or information. Each of the Depositary, the Issuer and their respective directors, employees, agents and affiliates may rely and shall be protected in acting upon any written notice, request or direction or other document believed by such person to be genuine and to have been signed or presented by the proper party or parties.

The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence or bad faith while it acted as Depositary.

The Depositary shall not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities, or for the manner in which any such vote is cast or the effect of any such vote, provided that any such action or nonaction is in good faith.

No disclaimer of liability under the Securities Act of 1933 is intended by any provision of this Deposit Agreement.

SECTION 5.4. Resignation and Removal of the Depositary.

The Depositary may at any time resign as Depositary hereunder by written notice of its election so to do delivered to the Issuer, such resignation to take effect upon the appointment of a successor depositary and its acceptance of such appointment as hereinafter provided.

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The Depositary may at any time be removed by the Issuer by written notice of such removal effective upon the appointment of a successor depositary and its acceptance of such appointment as hereinafter provided.

In case at any time the Depositary acting hereunder shall resign or be removed, the Issuer shall use its best efforts to appoint a successor depositary, which shall be a bank or trust company having an office in the Borough of Manhattan, The City of New York. Every successor depositary shall execute and deliver to its predecessor and to the Issuer an instrument in writing accepting its appointment hereunder, and thereupon such successor depositary, without any further act or deed, shall become fully vested with all the rights, powers, duties and obligations of its predecessor; but such predecessor, nevertheless, upon payment of all sums due it and on the written request of the Issuer shall execute and deliver an instrument transferring to such successor all rights and powers of such predecessor hereunder, shall duly assign, transfer and deliver all right, title and interest in the Deposited Securities to such successor, and shall deliver to such successor a list of the Owners of all outstanding Receipts. Any such successor depositary shall promptly mail notice of its appointment to the Owners.

Any corporation into or with which the Depositary may be merged or consolidated shall be the successor of the Depositary without the execution or filing of any document or any further act.

SECTION 5.5. The Custodians.

The Custodian shall be subject at all times and in all respects to the directions of the Depositary and shall be responsible solely to it. Any Custodian may resign and be discharged from its duties hereunder by notice of such resignation delivered to the Depositary at least 30 days prior to the date on which such resignation is to become effective. If upon such resignation there shall be no Custodian acting hereunder, the Depositary shall, promptly after receiving such notice, appoint a substitute custodian or custodians, each of which shall thereafter be a Custodian hereunder. Whenever the Depositary in its discretion determines that it is in the best interest of the Owners to do so, it may appoint substitute or additional custodian or custodians, which shall thereafter be one of the Custodians hereunder. Upon demand of the Depositary any Custodian shall deliver such of the Deposited Securities held by it as are requested of it to any other Custodian or such substitute or additional custodian or custodians. Each such

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substitute or additional custodian shall deliver to the Depositary, forthwith upon its appointment, an acceptance of such appointment satisfactory in form and substance to the Depositary.

Upon the appointment of any successor depositary hereunder, each Custodian then acting hereunder shall forthwith become, without any further act or writing, the agent hereunder of such successor depositary and the appointment of such successor depositary shall in no way impair the authority of each Custodian hereunder; but the successor depositary so appointed shall, nevertheless, on the written request of any Custodian or as required by the laws of England and Wales, execute and deliver to such Custodian all such instruments as may be proper to give to such Custodian full and complete power and authority as agent hereunder of such successor depositary.

SECTION 5.6. Notices and Reports.

On or before the first date on which the Issuer gives notice, by publication or otherwise, of any meeting of holders of Shares or other Deposited Securities, or of any adjourned meeting of such holders, or of the taking of any action in respect of any cash or other distributions or the offering of any rights, the Issuer agrees to transmit to the Depositary and the Custodian a copy of the notice thereof in the form given or to be given to holders of Shares or other Deposited Securities.

The Issuer will arrange for the prompt transmittal by the Issuer to the Depositary and the Custodian of such notices and any other reports and communications which are made generally available by the Issuer to holders of its Shares. If requested in writing by the Issuer, the Depositary will arrange for the mailing, at the Issuer's expense, of copies of such notices, reports and communications to all Owners. The Issuer will timely provide the Depositary with the quantity of such notices, reports, and communications, as requested by the Depositary from time to time, in order for the Depositary to effect such mailings.

SECTION 5.7. <u>Distribution of Additional Shares, Rights, etc.</u>

The Issuer agrees that in the event of any issuance or distribution of (1) additional Shares, (2) rights to subscribe for Shares, (3) securities convertible into Shares, or (4) rights to subscribe for such securities, (each a "Distribution") the Issuer will promptly furnish to the Depositary a written opinion from U.S. counsel for the Issuer,

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which counsel shall be satisfactory to the Depositary, stating whether or not the Distribution requires a Registration Statement under the Securities Act of 1933 to be in effect prior to making such Distribution available to Owners entitled thereto. If in the opinion of such counsel a Registration Statement is required, such counsel shall furnish to the Depositary a written opinion as to whether or not there is a Registration Statement in effect which will cover such Distribution. Nothing in this Section 5.7 or elsewhere in this Deposit Agreement shall create any obligation on the part of the Issuer to file a Registration Statement in respect of any such securities or rights.

The Issuer agrees with the Depositary that neither the Issuer nor any company controlled by, controlling or under common control with the Issuer will at any time deposit any Shares, either originally issued or previously issued and reacquired by the Issuer or any such affiliate, unless a Registration Statement is in effect as to such Shares under the Securities Act of 1933. The Depositary will comply with the reasonable instructions of the Issuer not to accept knowingly for deposit hereunder any Shares identified in such instructions at such times and under such circumstances as may be specified in such instructions in order to facilitate the Issuer's compliance with the securities laws of the United States.

SECTION 5.8. Indemnification.

The Issuer agrees to indemnify the Depositary, its directors, employees, agents and affiliates and any Custodian against, and hold each of them harmless from, any liability or expense (including, but not limited to, the reasonable fees and expenses of counsel) which may arise out of acts performed or omitted, in accordance with the provisions of this Deposit Agreement and of the Receipts, as the same may be amended, modified or supplemented from time to time, (i) by either the Depositary or a Custodian or their respective directors, employees, agents and affiliates, except for any liability or expense arising out of the negligence or bad faith of either of them, or (ii) by the Issuer or any of its directors, employees, agents and affiliates.

The indemnities contained in the preceding paragraph shall not extend to any liability or expense which may arise out of any Pre-Release (as defined in Section 2.9) but only to the extent that any such liability or expense arises in connection with (a) any United States Federal, state or local income tax laws, or (b) the failure of the Depositary to deliver Deposited Securities when required under the terms of Section 2.5

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hereof. However, the indemnities contained in the preceding paragraph shall apply to any liability or expense which may arise out of any misstatement or alleged misstatement or omission or alleged omission in any registration statement, proxy statement, prospectus (or placement memorandum), or preliminary prospectus (or preliminary placement memorandum) relating to the offer of sale of American Depositary Shares, except to the extent any such liability or expense arises out of (i) information relating to the Depositary or any Custodian (other than the Issuer), as applicable, furnished in writing and not materially changed or altered by the Issuer expressly for use in any of the foregoing documents, or, (ii) if such information is provided, the failure to state a material fact necessary to make the information provided not misleading.

The Depositary agrees to indemnify the Issuer, its directors, employees, agents and affiliates and hold them harmless from any liability or expense which may arise out of acts performed or omitted by the Depositary or its Custodian or their respective directors, employees, agents and affiliates due to their negligence or bad faith.

If an action, proceeding (including, but not limited to, any governmental investigation, claim or dispute (collectively, a "Proceeding") in respect of which indemnity may be sought by either party is brought or asserted against the other party, the party seeking indemnification (the "Indemnitee") shall promptly (and in any event more than ten (10) days after receipt of notice of such Proceeding) notify the party obligated to provide such indemnification (the "Indemnitor") of such Proceeding. The failure of the Indemnitee to so notify the Indemnitor shall not impair the Indemnitee's ability to seek indemnification from the Indemnitor (but only for costs, expenses and liabilities incurred after such notice) unless such failure adversely effects the Indemnitor's ability to adequately oppose or defend such Proceeding. Upon receipt of such notice from the Indemnitee, the Indemnitor shall be entitled to participate in such Proceeding and, to the extent that it shall so desire and provided no conflict of interest exists as specified in subparagraph (b) below, to assume the defense thereof with counsel reasonably satisfactory to the Indemnitee which may be counsel to the Indemnitor (in which case all attorney's fees and expenses shall be borne by the Indemnitor and the Indemnitor shall in good faith defend the Indemnitee). The Indemnitee shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be borne by the Indemnitee unless (a) the Indemnitor agrees in writing to pay such fees and expenses, (b) the Indemnitee shall have

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reasonably and in good faith concluded that there is a conflict of interest between the Indemnitor and the Indemnitee in the conduct of the defense of such action or (c) the Indemnitor fails, within ten (10) days prior to the date the first response or appearance is required to be made in such Proceeding, to assume the defense of such Proceeding with counsel reasonably satisfactory to the Indemnitee. No compromise or settlement of such Proceeding may be effected by either party without the other party's consent unless (i) there is no finding or admission of any violation of law and no effect on any other claims that may be made against such other party and (ii) the sole relief provided is monetary damages that are paid in full by the party seeking the settlement. Neither party shall have any liability or obligation with respect to any compromise or settlement effected without its consent, which shall not be unreasonably withheld. The Indemnitor shall have no obligation to indemnify and hold harmless the Indemnitee from any loss, expense or liability incurred by the Indemnitee as a result of a default judgment entered against the Indemnitee unless such judgment was entered after the Indemnitor agreed, in writing, to assume the defense of such Proceeding.

The obligations set forth in the Section 5.8 shall survive the termination of this Deposit Agreement and the succession or substitution of any indemnified person.

SECTION 5.9. Charges of Depositary.

The Issuer agrees to pay the fees, reasonable expenses and out-of-pocket charges of the Depositary and those of any Registrar only in accordance with agreements in writing entered into between the Depositary and the Issuer from time to time. Any written agreement signed by the Issuer and the Depositary relating to the Depositary's fees and expenses under this Deposit Agreement shall be binding on the Issuer and the Depositary until it is expressly amended or superseded by a subsequent written agreement, irrespective of whether such agreement was entered into prior to, simultaneously with or subsequent to this Deposit Agreement, and notwithstanding any provision of this Deposit Agreement that might be construed to be inconsistent with such agreement. The Depositary shall present its statement for such charges and expenses to the Issuer once every three months. The charges and expenses of the Custodian are for the sole account of the Depositary.

The following charges shall be incurred by any party depositing or withdrawing Shares or by any party surrendering Receipts or to whom Receipts are

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issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Issuer or an exchange of stock regarding the Receipts or Deposited Securities or a distribution of Receipts pursuant to Section 4.3), whichever applicable: (1) taxes and other governmental charges, (2) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Share register of the Issuer or Foreign Registrar and applicable to transfers of Shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals hereunder, (3) such cable, telex and facsimile transmission expenses as are expressly provided in this Deposit Agreement, (4) such expenses as are incurred by the Depositary in the conversion of foreign currency pursuant to Section 4.5 (5) a fee of \$5.00 or less per 100 American Depositary Shares (or portion thereof) for the execution and delivery of Receipts pursuant to Section 2.3, 4.3 or 4.4, and the surrender of Receipts pursuant to Section 2.5 or 6.2, (6) a fee of \$.02 or less per American Depositary Share (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement including, but not limited to, Section 4.1 through 4.4 hereof, except for distributions of cash dividends, and (7) a fee for the distribution of securities pursuant to Section 4.2, such fee being in an amount equal to the fee for the execution and delivery of American Depositary Shares referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause (7) treating all such securities as if they were Shares), but which securities are instead distributed by the Depositary to Owners.

The Depositary, subject to Section 2.9 hereof, may own and deal in any class of securities of the Issuer and its affiliates and in Receipts.

SECTION 5.10. Retention of Depositary Documents.

The Depositary is authorized to destroy those documents, records, bills and other data compiled during the term of this Deposit Agreement at the times permitted by the laws or regulations governing the Depositary unless the Issuer requests that such papers be retained for a longer period or turned over to the Issuer or to a successor depositary.

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SECTION 5.11. Exclusivity.

The Issuer agrees not to appoint any other depositary for issuance of American Depositary Receipts so long as The Bank of New York is acting as Depositary hereunder.

SECTION 5.12. List of Restricted Securities Owners.

From time to time, the Issuer shall provide to the Depositary a list setting forth, to the actual knowledge of the Issuer, those persons or entities who beneficially own Restricted Securities and the Issuer shall update that list on a regular basis. The Issuer agrees to advise in writing each of the persons or entities so listed that such Restricted Securities are ineligible for deposit hereunder. The Depositary may rely on such a list or update but shall not be liable for any action or omission made in reliance thereon.

ARTICLE 6. AMENDMENT AND TERMINATION.

SECTION 6.1. Amendment.

The form of the Receipts and any provisions of this Deposit Agreement may at any time and from time to time be amended by agreement between the Issuer and the Depositary without the consent of Owners or Beneficial Owners of Receipts in any respect which they may deem necessary or desirable. Any amendment which shall impose or increase any fees or charges (other than taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which shall otherwise prejudice any substantial existing right of Owners (other than the modification of voting procedures as provided in Section 4.7 hereof), shall, however, not become effective as to outstanding Receipts until the expiration of thirty days after notice of such amendment shall have been given to the Owners of outstanding Receipts. Every Owner at the time any amendment so becomes effective shall be deemed, by continuing to hold such Receipt, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Owner of any Receipt to surrender such Receipt and receive therefor the Deposited Securities represented thereby, except in order to comply with mandatory provisions of applicable law.

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SECTION 6.2. <u>Termination</u>.

The Depositary shall at any time at the direction of the Issuer terminate this Deposit Agreement by mailing notice of such termination to the Owners of all Receipts then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate this Deposit Agreement by mailing notice of such termination to the Issuer and the Owners of all Receipts then outstanding if at any time 90 days shall have expired after the Depositary shall have delivered to the Issuer a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment as provided in Section 5.4. On and after the date of termination, the Owner of a Receipt will, upon (a) surrender of such Receipt at the Corporate Trust Office of the Depositary, (b) payment of the fee of the Depositary for the surrender of Receipts referred to in Section 2.5, and (c) payment of any applicable taxes or governmental charges, be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by the American Depositary Shares evidenced by such Receipt. If any Receipts shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of Receipts, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under this Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights as provided in this Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for Receipts surrendered to the Depositary (after deducting, in each case, the fee of the Depositary for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of this Deposit Agreement, and any applicable taxes or governmental charges). At any time after the expiration of one year from the date of termination, the Depositary may sell the Deposited Securities then held hereunder and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it hereunder, unsegregated and without liability for interest, for the pro rata benefit of the Owners of Receipts which have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under this

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Deposit Agreement, except to account for such net proceeds and other cash (after deducting, in each case, the fee of the Depositary for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of this Deposit Agreement, and any applicable taxes or governmental charges). Upon the termination of this Deposit Agreement, the Issuer shall be discharged from all obligations under this Deposit Agreement except for its obligations to the Depositary under Sections 5.8 and 5.9 hereof.

ARTICLE 7. MISCELLANEOUS.

SECTION 7.1. Counterparts.

This Deposit Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of such counterparts shall constitute one and the same instrument. Copies of this Deposit Agreement shall be filed with the Depositary and the Custodians and shall be open to inspection by any Beneficial Owner or Owner of a Receipt during business hours.

SECTION 7.2. No Third Party Beneficiaries.

This Deposit Agreement is for the exclusive benefit of the parties hereto and shall not be deemed to give any legal or equitable right, remedy or claim whatsoever to any other person.

SECTION 7.3. Severability.

In case any one or more of the provisions contained in this Deposit Agreement or in the Receipts should be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall in no way be affected, prejudiced or disturbed thereby.

SECTION 7.4. Owners and Beneficial Owners as Parties; Binding Effect.

The Owners and Beneficial Owners of Receipts from time to time shall be parties to this Deposit Agreement and shall be bound by all of the terms and conditions hereof and of the Receipts by acceptance thereof.

SECTION 7.5. Notices.

Any and all notices to be given to the Issuer shall be deemed to have been duly given if personally delivered or sent by mail or cable, telex or facsimile transmission

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confirmed by letter, addressed to National Grid plc, 15 Marylebone Road, London NW1 5JD, United Kingdom, Attention: Company Secretary or any other place to which the Issuer may have transferred its principal office.

Any and all notices to be given to the Depositary shall be deemed to have been duly given if in English and personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to The Bank of New York, 101 Barclay Street, New York, New York 10286, Attention: American Depositary Receipt Administration, or any other place to which the Depositary may have transferred its Corporate Trust Office.

Any and all notices to be given to any Owner shall be deemed to have been duly given if personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to such Owner at the address of such Owner as it appears on the transfer books for Receipts of the Depositary, or, if such Owner shall have filed with the Depositary a written request that notices intended for such Owner be mailed to some other address, at the address designated in such request.

Delivery of a notice sent by mail or cable, telex or facsimile transmission shall be deemed to be effected at the time when a duly addressed letter containing the same (or a confirmation thereof in the case of a cable, telex or facsimile transmission) is deposited, postage prepaid, in a post-office letter box. The Depositary or the Issuer may, however, act upon any cable, telex or facsimile transmission received by it, notwithstanding that such cable, telex or facsimile transmission shall not subsequently be confirmed by letter as aforesaid.

SECTION 7.6. Governing Law.

This Deposit Agreement and the Receipts shall be interpreted and all rights hereunder and thereunder and provisions hereof and thereof shall be governed by the laws of the State of New York. It is understood that, notwithstanding any present or future provision of the laws of the State of New York, the rights of holders of Shares and other Deposited Securities and the obligations and duties of the Issuer in respect of such holders, as such, shall be governed by the laws of England and Wales (or, if applicable, such other law as may govern Deposited Securities).

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SECTION 7.7. Compliance with U.S. Securities Laws.

Notwithstanding anything in this Deposit Agreement to the contrary, the Issuer and the Depositary each agrees that it will not exercise any rights it has under this Deposit Agreement to prevent the withdrawal or delivery of Deposited Securities in a manner which would violate the U.S. securities laws, including, but not limited to, Section I.A.(1) of the General Instructions to the Form F-6 Registration Statement, as amended from time to time, under the Securities Act of 1933.

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IN WITNESS WHEREOF NATIONAL GRID PLC and THE BANK OF NEW YORK have duly executed this agreement as of the day and year first set forth above and all Owners and Beneficial Owners shall become parties hereto upon acceptance by them of Receipts issued in accordance with the terms hereof.

NATIONAL GRID PLC

By: /s/ R.J. Urwin

Name: Title:

THE BANK OF NEW YORK,

as Depositary

By: /s/ Joan F. DiGiovanni

Name: Joan F. DiGiovanni Title: Vice President

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VOTING RIGHTS MAY BE RESTRICTED AS PROVIDED IN PARAGRAPH 22 AND VOTING PROCEDURES MAY BE MODIFIED WITHOUT NOTICE TO HOLDERS AS PROVIDED IN PARAGRAPH 16.

Exhibit A to Deposit Agreement

No.

AMERICAN DEPOSITARY SHARES (Each American Depositary Share represents five (5) deposited Shares)

THE BANK OF NEW YORK AMERICAN DEPOSITARY RECEIPT FOR ORDINARY SHARES OF THE PAR VALUE OF 11 17/43 PENCE EACH OF NATIONAL GRID PLC (F/K/A National Grid Transco plc F/K/A National Grid Group plc) (INCORPORATED UNDER THE LAWS OF ENGLAND AND WALES)

The Bank of New York as depositary (hereinafter called the "Depositary"), hereby certifies that _ _, or registered assigns IS THE OWNER OF

AMERICAN DEPOSITARY SHARES

representing deposited Ordinary Shares (herein called "Shares") of National Grid plc (herein called the "Company"). At the date hereof, each American Depositary Share represents five (5) Shares which are either deposited or subject to deposit under the deposit agreement at the London, England office of The Bank of New York (herein called the "Custodian"). The Depositary's Corporate Trust Office is located at a different address than its principal executive office. Its Corporate Trust Office is located at 101 Barclay Street, New York, N.Y. 10286, and its principal executive office is located at One Wall Street, New York, N.Y. 10286.

> THE DEPOSITARY'S CORPORATE TRUST OFFICE ADDRESS IS 101 BARCLAY STREET, NEW YORK, N.Y. 10286

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THE DEPOSIT AGREEMENT.

This American Depositary Receipt is one of an issue (herein called "Receipts"), all issued and to be issued upon the terms and conditions set forth in the amended and restated deposit agreement, dated as August 1, 2005, (herein called the "Deposit Agreement"), by and among the Company, the Depositary, and all Owners and Beneficial Owners from time to time of Receipts issued thereunder, each of whom by accepting a Receipt agrees to become a party thereto and become bound by all the terms and conditions thereof. The Deposit Agreement sets forth the rights of Owners and Beneficial Owners of the Receipts and the rights and duties of the Depositary in respect of the Shares deposited thereunder and any and all other securities, property and cash from time to time received in respect of such Shares and held thereunder (such Shares, securities, property, and cash are herein called "Deposited Securities"). Copies of the Deposit Agreement are on file at the Depositary's Corporate Trust Office in New York City and at the office of the Custodian.

The statements made on the face and reverse of this Receipt are summaries of certain provisions of the Deposit Agreement and are qualified by and subject to the detailed provisions of the Deposit Agreement, to which reference is hereby made. Capitalized terms not defined herein shall have the meanings set forth in the Deposit Agreement.

SURRENDER OF RECEIPTS AND WITHDRAWAL OF SHARES.

Upon surrender at the Corporate Trust Office of the Depositary of this Receipt, and upon payment of the fee of the Depositary provided in this Receipt and payment of all taxes and governmental charges payable in connection with such surrender and the withdrawal of Deposited Securities, and subject to the terms and conditions of the Deposit Agreement, the Owner hereof is entitled to delivery, to him or upon his order, of the amount of Deposited Securities at the time represented by the American Depositary Shares for which this Receipt is issued. Delivery of such Deposited Securities may be made by the delivery of (a) certificates in the name of the Owner hereof or as ordered by him or by the delivery of certificates properly endorsed or accompanied by proper instruments of transfer and (b) any other securities, property and cash to which such Owner is then entitled in respect of this Receipt. Such delivery will be made without unreasonable delay, at the option of the Owner hereof, either at the office of the Custodian or at the Corporate Trust Office of the Depositary, provided that the forwarding of certificates for Shares or other Deposited Securities for such delivery at the Corporate Trust Office of the Depositary shall be at the risk and expense of the Owner hereof. Such direction shall be given by letter, first class airmail postage prepaid, or, at the request, risk and expense of such Owner, by air courier, cable, telex or facsimile transmission. Notwithstanding any other provision of the Deposit Agreement or this Receipt, the surrender of outstanding Receipts and withdrawal of Deposited Securities may not be suspended subject only to (i) temporary delays caused by closing the transfer

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books of the Depositary the Company or the Foreign Registrar or the deposit of Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges, and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the Receipts or to the withdrawal of the Deposited Securities.

3. TRANSFERS, SPLIT-UPS, AND COMBINATIONS OF RECEIPTS.

The transfer of this Receipt is registrable, without unreasonable delay, on the books of the Depositary at its Corporate Trust Office by the Owner hereof in person or by a duly authorized attorney, upon surrender of this Receipt properly endorsed for transfer or accompanied by proper instruments of transfer and funds sufficient to pay any applicable transfer taxes and the expenses of the Depositary and upon compliance with such regulations, if any, as the Depositary may establish for such purpose. This Receipt may be split into other such Receipts, or may be combined with other such Receipts into one Receipt, evidencing the same aggregate number of American Depositary Shares as the Receipt or Receipts surrendered. As a condition precedent to the execution and delivery, registration of transfer, split-up, combination, or surrender of any Receipt or withdrawal of any Deposited Securities, the Depositary, the Custodian or Registrar may require payment from the presentor of the Receipt of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn) and payment of any applicable fees as provided in this Receipt, may require the production of proof satisfactory to it as to the identity and genuineness of any signature and may also require compliance with any regulations the Depositary may establish consistent with the provisions of the Deposit Agreement or this Receipt.

The delivery of Receipts against deposits of Shares generally or against deposits of particular Shares may be suspended, or the transfer of Receipts in particular instances may be refused, or the registration of transfer of outstanding Receipts generally may be suspended, during any period when the transfer books of the Depositary, the Company or the Foreign Registrar are closed, or if any such action is deemed necessary or advisable by the Depositary or the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of the Deposit Agreement or this Receipt, or for any other reason, subject to Article (22) hereof. Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under the Deposit Agreement any Shares required to be registered under the provisions of the Securities Act of 1933, unless a registration statement is in effect as to such Shares.

4. LIABILITY OF OWNER FOR TAXES.

If any tax or other governmental charge shall become payable with respect to any Receipt or any Deposited Securities represented hereby, such tax or other governmental

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charge shall be payable by the Owner or Beneficial Owner hereof to the Depositary. The Depositary may refuse to effect any transfer of this Receipt or any withdrawal of Deposited Securities represented by American Depositary Shares evidenced by such Receipt until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner or Beneficial Owner hereof any part or all of the Deposited Securities represented by the American Depositary Shares evidenced by this Receipt, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge and the Owner or Beneficial Owner hereof shall remain liable for any deficiency.

WARRANTIES OF DEPOSITORS.

Every person depositing Shares hereunder shall be deemed thereby to represent and warrant that such Shares and each certificate therefor are validly issued, fully paid and nonassessable, and that the person making such deposit is duly authorized so to do. Every such person shall also be deemed to represent that the deposit of such Shares and the sale of Receipts evidencing American Depositary Shares representing such Shares by that person are not restricted under the Securities Act of 1933. Such representations and warranties shall survive the deposit of Shares and issuance of Receipts.

FILING PROOFS, CERTIFICATES, AND OTHER INFORMATION.

Any person presenting Shares for deposit or any Owner or Beneficial Owner of a Receipt may be required from time to time to file with the Depositary or the Custodian such proof of citizenship or residence, exchange control approval, proof of the nature of such person's interest, proof of compliance with all applicable laws and regulations and with the provisions of or governing the Deposited Securities and the terms of the Deposit Agreement or such information relating to the registration on the books of the Company or the Foreign Registrar, if applicable, to execute such certificates and to make such representations and warranties, as the Company or the Depositary may deem necessary or proper or as the Company may reasonably require by written request to the Depositary or any Custodian. The Depositary may withhold the delivery or registration of transfer of any Receipt or the distribution of any dividend or sale or distribution of rights or of the proceeds thereof or the delivery of any Deposited Securities until such proof or other information is filed or such certificates are executed or such representations and warranties made. Each Owner and Beneficial Owner agrees to provide any information requested by the Company or the Depositary pursuant to Section 3.1 of the Deposit Agreement. No Share shall be accepted for deposit unless accompanied by evidence satisfactory to the Depositary that any necessary approval has been granted by any governmental body in England and Wales which is then performing the function of the regulation of currency exchange.

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7. CHARGES OF DEPOSITARY.

The Company agrees to pay the fees, reasonable expenses and out-of-pocket charges of the Depositary and those of any Registrar only in accordance with agreements in writing entered into between the Depositary and the Company from time to time. Any written agreement signed by the Company and the Depositary relating to the Depositary's fees and expenses under the Deposit Agreement shall be binding on the Company and the Depositary until it is expressly amended or superseded by a subsequent written agreement, irrespective of whether such agreement was entered into prior to, simultaneously with or subsequent to the Deposit Agreement, and notwithstanding any provision of the Deposit Agreement that might be construed to be inconsistent with such agreement. The Depositary shall present its statement for such charges and expenses to the Company once every three months. The charges and expenses of the Custodian are for the sole account of the Depositary.

The following charges shall be incurred by any party depositing or withdrawing Shares or by any party surrendering Receipts or to whom Receipts are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the Receipts or Deposited Securities or a distribution of Receipts pursuant to Section 4.3 of the Deposit Agreement), whichever applicable: (1) taxes and other governmental charges, (2) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Share register of the Company or Foreign Registrar and applicable to transfers of Shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals hereunder, (3) such cable, telex and facsimile transmission expenses as are expressly provided in the Deposit Agreement, (4) such expenses as are incurred by the Depositary in the conversion of foreign currency pursuant to Section 4.5 of the Deposit Agreement, (5) a fee of \$5.00 or less per 100 American Depositary Shares (or portion thereof) for the execution and delivery of Receipts pursuant to Section 2.3, 4.3 or 4.4, and the surrender of Receipts pursuant to Section 2.5 or 6.2 of the Deposit Agreement, (6) a fee of \$.02 or less per American Depositary Share (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement including, but not limited to Sections 4.1 through 4.4 thereof, except for distributions of cash dividends, and (7) a fee for the distribution of securities pursuant to Section 4.2 of the Deposit Agreement, such fee being in an amount equal to the fee for the execution and delivery of American Depositary Shares referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause (7) treating all such securities as if they were Shares), but which securities are instead distributed by the Depositary to Owners.

The Depositary, subject to Article (8) hereof, may own and deal in any class of securities of the Company and its affiliates and in Receipts.

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PRE-RELEASE OF RECEIPTS.

The Depositary may issue Receipts against the delivery by the Company (or any agent of the Company recording Share ownership) of rights to receive Shares from the Company (or any such agent). No such issue of Receipts will be deemed a "Pre-Release". Unless requested in writing by the Company to cease doing so, the Depositary may, notwithstanding Section 2.3 of the Deposit Agreement, execute and deliver Receipts prior to the receipt of Shares pursuant to Section 2.2 of the Deposit Agreement ("Pre-Release"). The Depositary may, pursuant to Section 2.5 of the Deposit Agreement, deliver Shares upon the receipt and cancellation of Receipts which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such Receipt has been Pre-Released. The Depositary may receive Receipts in lieu of Shares in satisfactory of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation and agreement from the person to whom Receipts are to be delivered (the "Pre-Releasee") that the Pre-Releasee, or its customer, (i) owns the shares or Receipts to be remitted, as the case may be, (ii) assigns all beneficial rights, title and interest in such Shares or Receipts, as the case may be, to the Depositary in its capacity as such and for the benefit of the Owners, and (iii) will not take any action with respect to such Shares or Receipts, as the case may be, that is inconsistent with the transfer of beneficial ownership (including, without the consent of the Depositary, disposing of such Shares or Receipts, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralized with cash, U.S. government securities or such other collateral as the Depositary determines, in good faith, will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of Shares not deposited but represented by American Depositary Shares outstanding at any time as a result of Pre-Releases will not normally exceed thirty percent (30%) of the Shares deposited under the Deposit Agreement; provided, however, that the Depositary reserves the right to disregard such limit from time to time as it deems reasonably appropriate, and may, with the prior written consent of the Company, change such limit for purposes of general application. The Depositary will also set Dollar limits with respect to Pre-Release transactions to be entered into under the Deposit Agreement with any particular Pre-Releasee on a case-by-case basis as the Depositary deems appropriate. For purposes of enabling the Depositary to fulfill its obligations to the Owners under the Deposit Agreement, the collateral referred to in clause (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations to the Depositary in connection with a Pre-Release transaction, including the Pre-Releasee's obligation to deliver Shares or Receipts upon termination of a Pre-Release transaction (and shall not, for the avoidance of doubt, constitute Deposited Securities hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing.

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TITLE TO RECEIPTS.

It is a condition of this Receipt and every successive Beneficial Owner and Owner of this Receipt by accepting or holding the same consents and agrees, that title to this Receipt when properly endorsed or accompanied by proper instruments of transfer, is transferable in accordance with the terms and conditions of the Deposit Agreement by delivery with the same effect as in the case of a negotiable instrument under the laws of the State of New York, provided, however, that the Depositary, notwithstanding any notice to the contrary, may treat the person in whose name this Receipt is registered on the books of the Depositary as the absolute owner hereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in the Deposit Agreement or for all other purposes and neither the Depositary nor the Company shall have any obligation or be subject to any liability under the Deposit Agreement to any Beneficial Owner of a Receipt unless such Beneficial Owner is the Owner thereof.

VALIDITY OF RECEIPT.

This Receipt shall not be entitled to any benefits under the Deposit Agreement or be valid or obligatory for any purpose, unless this Receipt shall have been executed by the Depositary by the manual or facsimile signature of a duly authorized signatory of the Depositary and, if a Registrar for the Receipts shall have been appointed, countersigned by the manual or facsimile signature of a duly authorized officer of the Registrar.

REPORTS; INSPECTION OF TRANSFER BOOKS. 11.

The Company is subject to the periodic reporting requirements of the Securities Exchange Act of 1934 and, accordingly, files certain reports with the Securities and Exchange Commission (hereinafter called the "Commission").

Such reports and communications will be available for inspection and copying by Beneficial Owners and Owners at the public reference facilities maintained by the Commission located at 450 Fifth Street, N.W., Washington, D.C. 20549.

The Depositary will make available for inspection by Owners of Receipts at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from the Company which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Company. The Depositary will also, upon written request, send to Owners of Receipts copies of such reports when furnished by the Company pursuant to the Deposit Agreement.

The Depositary will keep books for the registration of Receipts and transfers of Receipts which at all reasonable times shall be open for inspection by the Owners of

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Receipts provided that such inspection shall not be for the purpose of communicating with Owners of Receipts in the interest of a business or object other than the business of the Company or a matter related to the Deposit Agreement or the Receipts.

DIVIDENDS AND DISTRIBUTIONS.

Whenever the Depositary receives any cash dividend or other cash distribution on any Deposited Securities, the Depositary will, if at the time of receipt thereof any amounts received in a foreign currency can in the judgment of the Depositary be converted on a reasonable basis into United States dollars transferable to the United States, and subject to the Deposit Agreement, convert such dividend or distribution into dollars and, if applicable, will distribute the amount thus received (net of the fees of the Depositary as provided in Section 5.9 of the Deposit Agreement) to the Owners of Receipts entitled thereto, provided, however, that in the event that the Company or the Depositary is required to withhold and does withhold from any cash dividend or other cash distribution in respect of any Deposited Securities an amount on account of taxes or other governmental charges, the amount distributed to the Owners of the Receipts evidencing American Depositary Shares representing such Deposited Securities shall be reduced accordingly.

Subject to the provisions of Sections 4.11 and 5.9 of the Deposit Agreement, whenever the Depositary receives any distribution other than a distribution described in Sections 4.1, 4.3 or 4.4 of the Deposit Agreement, the Depositary will cause the securities or property received by it to be distributed to the Owners of Receipts entitled thereto, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution; provided, however, that if in the reasonable opinion of the Depositary such distribution cannot be made proportionately among the Owners of Receipts entitled thereto, or if for any other reason (including, but not limited to, any requirement that the Company or the Depositary withhold an amount on account of taxes or other governmental charges or that such securities must be registered under the Securities Act of 1933 in order to be distributed to Owners or Beneficial Owners) the Depositary deems such distribution not to be feasible, the Depositary may, after notice to the Company, adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including, but not limited to, the public or private sale of the securities or property thus received, or any part thereof, and the net proceeds of any such sale (net of the fees of the Depositary as provided in Section 5.9 of the Deposit Agreement) shall be distributed by the Depositary to the Owners of Receipts entitled thereto as in the case of a distribution received in cash pursuant to Section 4.1 of the Deposit Agreement.

If any distribution upon any Deposited Securities consists of a dividend in, or free distribution of, Shares, the Depositary may, and shall if the Company shall so request, distribute to the Owners of outstanding Receipts entitled thereto, additional Receipts evidencing an aggregate number of American Depositary Shares representing the amount

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of Shares received as such dividend or free distribution subject to the terms and conditions of the Deposit Agreement with respect to the deposit of Shares and the issuance of American Depositary Shares evidenced by Receipts, including the withholding of any tax or other governmental charge as provided in Section 4.11 of the Deposit Agreement and the payment of the fees of the Depositary as provided in Section 5.9 of the Deposit Agreement. In lieu of delivering Receipts for fractional American Depositary Shares in any such case, the Depositary will sell the amount of Shares represented by the aggregate of such fractions and distribute the net proceeds, all in the manner and subject to the conditions set forth in the Deposit Agreement. If additional Receipts are not so distributed, each American Depositary Share shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

In the event that the Depositary determines that any distribution in property (including Shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depositary is obligated to withhold, the Depositary may by public or private sale dispose of all or a portion of such property (including Shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes or charges, and the Depositary shall distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners of Receipts entitled thereto.

13. **CONVERSION OF FOREIGN CURRENCY.**

Whenever the Depositary or the Custodian shall receive foreign currency, by way of dividends or other distributions or the net proceeds from the sale of securities, property or rights, and if at the time of the receipt thereof the foreign currency so received can in the judgment of the Depositary be converted on a reasonable basis into Dollars and the resulting Dollars transferred to the United States, the Depositary shall convert or cause to be converted, by sale or in any other manner that it may determine, such foreign currency into Dollars, and such Dollars shall be distributed to the Owners entitled thereto or, if the Depositary shall have distributed any warrants or other instruments which entitle the holders thereof to such Dollars, then to the holders of such warrants and/or instruments upon surrender thereof for cancellation in whole or in part depending on the terms of such warrants or other instruments. Such distribution may be made upon an averaged or other practicable basis without regard to any distinctions among Owners on account of exchange restrictions, the date of delivery of any Receipt or otherwise and shall be net of any expenses of conversion into Dollars incurred by the Depositary as provided in Section 5.9 of the Deposit Agreement.

If such conversion or distribution can be effected only with the approval or license of any government or agency thereof, the Depositary shall file such application for approval or license, if any, as it may deem desirable; provided, however, that the Company shall not be obligated to make any such filings.

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If at any time the Depositary shall determine that in its judgment any foreign currency received by the Depositary or the Custodian is not convertible on a reasonable basis into Dollars transferable to the United States, or if any approval or license of any government or agency thereof which is required for such conversion is denied or in the reasonable opinion of the Depositary is not obtainable, or if any such approval or license is not obtained within a reasonable period as determined by the Depositary, the Depositary, after consultation with the Company, may distribute the foreign currency (or an appropriate document evidencing the right to receive such foreign currency) received by the Depositary to, or in its discretion may hold such foreign currency uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled to receive the same.

If any such conversion of foreign currency, in whole or in part, cannot be effected for distribution to some of the Owners entitled thereto, the Depositary may in its discretion make such conversion and distribution in Dollars to the extent permissible to the Owners entitled thereto and may distribute the balance of the foreign currency received by the Depositary to, or hold such balance uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled thereto.

In the event that the Company shall offer or cause to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depositary, after consultation with the Company, shall have discretion as to the procedure to be followed in making such rights available to any Owners or in disposing of such rights on behalf of any Owners and making the net proceeds available in Dollars to such Owners or, if by the terms of such rights offering or, for any other reason, the Depositary may not either make such rights available to any Owners or dispose of such rights and make the net proceeds available to such Owners, then the Depositary shall allow the rights to lapse. If at the time of the offering of any rights the Depositary determines in its discretion, after consultation with the Company, that it is lawful and feasible to make such rights available to all Owners or to certain Owners but not to other Owners, the Depositary may distribute, to any Owner to whom it determines the distribution to be lawful and feasible, in proportion to the number of American Depositary Shares held by such Owner, warrants or other instruments therefor in such form as it, after consultation with the Company, deems appropriate. The Depositary shall not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Owners in general or any Owner in particular.

In circumstances in which rights would otherwise not be distributed, if an Owner of Receipts requests the distribution of warrants or other instruments in order to exercise the rights allocable to the American Depositary Shares of such Owner hereunder, the Depositary will make such rights available to such Owner upon written notice from the Company to the Depositary that (a) the Company has elected in its sole discretion to

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permit such rights to be exercised and (b) such Owner has executed such documents as the Company has determined in its sole discretion are reasonably required under applicable law.

If the Depositary has distributed warrants or other instruments for rights to all or certain Owners, then upon instruction from such an Owner pursuant to such warrants or other instruments to the Depositary from such Owner to exercise such rights, upon payment by such Owner to the Depositary for the account of such Owner of an amount equal to the purchase price of the Shares to be received upon the exercise of the rights, and upon payment of the fees of the Depositary and any other charges as set forth in such warrants or other instruments, the Depositary shall, on behalf of such Owner, exercise the rights and purchase the Shares, and the Company shall cause the Shares so purchased to be delivered to the Depositary on behalf of such Owner. As agent for such Owner, the Depositary will cause the Shares so purchased to be deposited pursuant to Section 2.2 of the Deposit Agreement, and shall, pursuant to Section 2.3 of the Deposit Agreement, execute and deliver Receipts to such Owner. In the case of a distribution pursuant to the second paragraph of this Article, such Receipts shall be legended in accordance with applicable U.S. laws, and shall be subject to the appropriate restrictions on sale, deposit, cancellation, and transfer under such laws

If the Depositary determines in its discretion, after consultation with the Company, that it is not lawful and feasible to make such rights available to all or certain Owners, it may sell the rights, warrants or other instruments in proportion to the number of American Depositary Shares held by the Owners to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds of such sales (net of the fees of the Depositary as provided in Section 5.9 of the Deposit Agreement and all taxes and governmental charges payable in connection with such rights and subject to the terms and conditions of this Deposit Agreement) for the account of such Owners otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Owners because of exchange restrictions or the date of delivery of any Receipt or otherwise.

The Depositary will not offer rights to Owners unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act of 1933 with respect to a distribution to Owners or are registered under the provisions of such Act. Nothing in the Deposit Agreement shall create, or be construed to create, any obligation on the part of the Company to file a registration statement with respect to such rights or underlying securities or to endeavor to have a registration statement declared effective. If an Owner of Receipts requests distribution of warrants or other instruments, notwithstanding that there has been no such registration under such Act, the Depositary shall not effect such distribution unless it has received an opinion from recognized counsel in the United States for the Company upon which the Depositary may rely that such distribution to such Owner is exempt from such registration.

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The Depositary shall not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Owners in general or any Owner in particular.

RECORD DATES.

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each American Depositary Share, or whenever the Depositary shall receive notice of any meeting of holders of Shares or other Deposited Securities, the Depositary shall fix a record date, which shall be as close as practicable to the date corresponding to the record date fixed by the Company in respect of the Shares or other Deposited Securities, (a) for the determination of the Owners of Receipts who shall be (i) entitled to receive such dividend, distribution or rights or the net proceeds of the sale thereof or (ii) entitled to give instructions for the exercise of voting rights at any such meeting, or (b) on or after which each American Depositary Share will represent the changed number of Shares, subject to the provisions of the Deposit Agreement.

VOTING OF DEPOSITED SECURITIES.

Subject to and in accordance with the Articles of Association of the Company, the Depositary hereby irrevocably appoints (or, if the Deposited Securities are registered in the name of or held by its nominee, shall procure that its nominee shall irrevocably appoint) each Owner for the time being on the record date (the "Voting Record Date") fixed by the Depositary in accordance with Section 4.06 of the Deposit Agreement in respect of any meeting (including any adjourned meeting) at which holders of Deposited Securities are entitled to vote as its proxy to attend, vote and speak at the relevant meeting (or any adjournment thereof) as provided in the Articles of Association of the Company in respect of the Deposited Securities represented by the American Depositary Shares evidenced by the Receipts held by such Owner on the Voting Record Date, and by reason of that appointment in respect of any such meeting each such Owner shall be constituted the agent of the Depositary to appoint (in relation to those Deposited Securities) in the name of the Depositary either a person nominated by the Depositary or any other person as proxy to attend, vote and speak as the Owner may instruct, subject to and in accordance with the provisions of Section 4.7 of the Deposit Agreement and the Articles of Association of the Company (and if the Deposited Securities are registered in the name of or held by the nominee of the Depositary, the Depositary shall procure that the nominee duly constitutes each such Owner as its agent for that purpose). As soon as practicable after receipt of notice of any meeting at which the holders of Deposited Securities are entitled to vote, or of solicitation of consents or proxies from holders of Deposited Securities, the Depositary shall, in accordance with Section 4.06 of the Deposit Agreement, fix the Voting Record Date in respect of such meeting or solicitation.

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The Depositary or, if the Company so determines, the Company shall mail to Owners of record on such Voting Record Date: (a) such information as is contained in such notice of meeting or in the solicitation materials, (b) a Receipt proxy card in a form prepared by the Depositary, after consultation with the Company, (c) a statement that each Owner of Record at the close of business on the Voting Record Date will be entitled, subject to any applicable law, the Company's Articles of Association and the provisions of or governing the Deposited Securities, either (i) to use such Receipt proxy card at that meeting as written evidence of the appointment of that Owner in accordance with this Section in order to attend, vote and speak at such meeting solely with respect to the Shares or other Deposited Securities represented by American Depositary Shares evidenced by such Owner's Receipts or (ii) as the agent of the Depositary (or its nominee) to appoint any other person as proxy solely with respect to the Shares or other Deposited Securities represented by American Depositary Shares evidenced by such Owner's Receipts and (if the Owner wishes) to instruct such person as to the exercise of the voting rights pertaining to them, and (d) if the person nominated by the Depositary is to be appointed in that manner as proxy, a brief statement as to the manner in which the Owner may give voting instructions to the person nominated by the Depositary. Upon the written request of an Owner of record on the Voting Record Date received on or before the date established by the Depositary for such purpose (the "Instruction Date"), the Depositary shall endeavor, insofar as practicable and permitted under applicable law, the provisions of the Company's Articles of Association and the provisions of the Deposited Securities, to cause to be voted the Deposited Securities in accordance with the instructions set forth in such request.

Neither the Depositary nor the Custodian nor the nominee of either of them shall exercise any discretion as to voting and neither the Depositary nor the Custodian nor the nominee of either of them shall vote or attempt to exercise the right to vote the Shares or other Deposited Securities represented by American Depositary Shares except pursuant to and in accordance with such written instructions from Owners given in accordance with Section 4.07 of the Deposit Agreement. Shares or other Deposited Securities represented by American Depositary Shares for which no specific voting instructions are received by the Depositary from the Owner shall not be voted by the Depositary or its nominee but may be directly voted by Owners in attendance at meetings of shareholders, subject to, and in accordance with, the provisions of Section 4.7 of the Deposit Agreement and the Company's Articles of Association.

For the avoidance of doubt, the appointment pursuant to Section 4.7 of the Deposit Agreement of a proxy by an Owner acting as agent of the Depositary (or its nominee) shall constitute the appointed person as a proxy for the purposes of section 372 of the UK Companies Act 1985 and of the Articles of Association of the Company; whereas the appointment pursuant to Section 4.7 of the Deposit Agreement of an Owner as a proxy by the Depositary (or its nominee) shall not constitute that Owner as such a proxy but shall instead confer on that Owner the special rights and privileges accorded

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under the Company's Articles of Association to ADR Proxies (as defined in those Articles of Association).

Notwithstanding anything in Section 4.7 or in Section 6.1 of the Deposit Agreement to the contrary, the Depositary and the Company may modify, amend or adopt additional voting procedures at any time or from time to time as they determine may be necessary or appropriate.

There can be no assurance that Owners generally or any Owner in particular will receive the notice described in Section 4.7 of the Deposit Agreement sufficiently prior to the Instruction Date to ensure that the Depositary will vote the Shares or Deposited Securities in accordance with the provisions set forth in Section 4.7 of the Deposit Agreement.

CHANGES AFFECTING DEPOSITED SECURITIES.

In circumstances where the provisions of Section 4.3 of the Deposit Agreement do not apply, upon any change in nominal value, change in par value, split-up, consolidation, or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation, or sale of assets affecting the Company or to which it is a party, any securities which shall be received by the Depositary or a Custodian in exchange for or in conversion of or in respect of Deposited Securities shall be treated as new Deposited Securities under the Deposit Agreement, and American Depositary Shares shall thenceforth represent, in addition to the existing Deposited Securities, the new Deposited Securities so received in exchange or conversion, unless additional Receipts are delivered pursuant to the following sentence. In any such case the Depositary may, and shall if the Company shall so request, execute and deliver additional Receipts as in the case of a dividend on the Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities.

LIABILITY OF THE COMPANY AND DEPOSITARY.

Neither the Depositary nor the Company nor any of their respective directors, employees, agents or affiliates shall incur any liability to any Owner or Beneficial Owner of any Receipt, if by reason of any provision of any present or future law of the United States or any other country, or of any other governmental or regulatory authority, or by reason of any provision, present or future, of the Memorandum and Articles of Association of the Company, or by reason of any act of God or war or other circumstances beyond its control, the Depositary or the Company or any of their respective directors, employees, agents or affiliates shall be prevented or forbidden from or be subject to any civil or criminal penalty on account of doing or performing any act or thing which by the terms of the Deposit Agreement it is provided shall be done or performed; nor shall the Depositary, the Company or any of their respective directors,

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employees, agents or affiliates incur any liability to any Owner or Beneficial Owner of a Receipt by reason of any non-performance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of the Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreement. Where, by the terms of a distribution pursuant to Sections 4.1, 4.2, or 4.3 of the Deposit Agreement, or an offering or distribution pursuant to Section 4.4 of the Deposit Agreement, such distribution or offering may not be made available to Owners of Receipts, and the Depositary may not dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depositary shall not make such distribution or offering, and shall allow any rights, if applicable, to lapse. Neither the Company nor the Depositary, nor any of their respective directors, employees, agents or affiliates assume any obligation nor shall any of them be subject to any liability under the Deposit Agreement to Owners or Beneficial Owners of Receipts, except that they agree to perform their obligations specifically set forth in the Deposit Agreement without negligence or bad faith. The Depositary shall not be subject to any liability with respect to the validity or worth of the Deposited Securities. Neither the Depositary nor the Company nor any of their respective directors, employees, agents or affiliates shall be under any obligation to appear in, prosecute or defend any action, suit, or other proceeding in respect of any Deposited Securities or in respect of the Receipts, which in their respective reasonable opinions may involve them in expense or liability, unless indemnity satisfactory to it against all expense and liability shall be furnished as often as may be required, and the Custodian shall not be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary. Neither the Depositary nor the Company nor any of their respective directors, employees, agents or affiliates shall be liable for any action or nonaction by any of them in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Owner or Beneficial Owner of a Receipt, or any other person believed by any of them in good faith to be competent to give such advice or information. Each of the Depositary, the Company and their respective directors, employees, agents and affiliates may rely and shall be protected in acting upon any written notice, request or direction or other document believed by such person to be genuine and to have been signed or presented by the proper party or parties. The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with a matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence or bad faith while it acted as Depositary. The Depositary shall not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities, or for the manner in which any such vote is cast or the effect of any such vote, provided that any such action or nonaction is in good faith. The Company agrees to indemnify the Depositary, its directors, employees, agents and affiliates and any Custodian against, and hold

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them harmless from, any liability or expense (including, but not limited to, the reasonable fees and expenses of counsel) which may arise out of acts performed or omitted, in accordance with the provisions of the Deposit Agreement and of the Receipts, as the same may be amended, modified, or supplemented from time to time, (i) by either the Depositary or a Custodian or their respective directors, employees, agents and affiliates, except for any liability or expense arising out of the negligence or bad faith of either of them, or (ii) by the Company or any of its directors, employees, agents and affiliates. No disclaimer of liability under the Securities Act of 1933 is intended by any provision of the Deposit Agreement.

RESIGNATION AND REMOVAL OF THE DEPOSITARY.

The Depositary may at any time resign as Depositary hereunder by written notice of its election so to do delivered to the Company, such resignation to take effect upon the appointment of a successor depositary and its acceptance of such appointment as provided in the Deposit Agreement. The Depositary may at any time be removed by the Company by written notice of such removal, effective upon the appointment of a successor depositary and its acceptance of such appointment as provided in the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Owners of Receipts to do so, it may appoint a substitute or additional custodian or custodians.

20. **AMENDMENT.**

The form of the Receipts and any provisions of the Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary without the consent of Owners or Beneficial Owners of Receipts in any respect which they may deem necessary or desirable. Any amendment which shall impose or increase any fees or charges (other than taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which shall otherwise prejudice any substantial existing right of Owners (other than the modification of voting procedures as provided in paragraph 16 hereof) of Receipts, shall, however, not become effective as to outstanding Receipts until the expiration of thirty days after notice of such amendment shall have been given to the Owners of outstanding Receipts. Every Owner of a Receipt at the time any amendment so becomes effective shall be deemed, by continuing to hold such Receipt, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Owner of any Receipt to surrender such Receipt and receive therefor the Deposited Securities represented thereby except in order to comply with mandatory provisions of applicable law.

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TERMINATION OF DEPOSIT AGREEMENT.

The Depositary shall at any time at the direction of the Company terminate the Deposit Agreement by mailing notice of such termination to the Owners of all Receipts then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement by mailing notice of such termination to the Company and the Owners of all Receipts then outstanding if at any time 30 days shall have expired after the Depositary shall have delivered to the Company a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment as provided in the Deposit Agreement. On and after the date of termination, the Owner of a Receipt, will upon (a) surrender of such Receipt at the Corporate Trust Office of the Depositary, (b) payment of the fee of the Depositary for the surrender of Receipts referred to in Section 2.5 of the Deposit Agreement, and (c) payment of any applicable taxes or governmental charges, will be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by the American Depositary Shares evidenced by such Receipt. If any Receipts shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of Receipts, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under the Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights as provided in the Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for Receipts surrendered to the Depositary (after deducting, in each case, the fee of the Depositary for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). At any time after the expiration of one year from the date of termination, the Depositary may sell the Deposited Securities then held under the Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it thereunder, unsegregated and without liability for interest, for the pro rata benefit of the Owners of Receipts which have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement, except to account for such net proceeds and other cash (after deducting, in each case, the fee of the Depositary for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). Upon the termination of the Deposit Agreement, the Company shall be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary with respect to indemnification, charges, and expenses.

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DISCLOSURE OF INTERESTS.

Notwithstanding any other provision of the Deposit Agreement, the Memorandum and Articles of Association of the Company or applicable English law, each Owner and Beneficial Owner agrees to be bound by and subject to applicable provisions of the U.K. Companies Act, 1985 and the Memorandum and Articles of Association of the Company, summarized below, to the same extent as if such Owner and Beneficial Owner held Shares directly. The Company has informed the Depositary that the following information is accurate as the Depositary has made no independent investigation regarding such information.

- (a) A holder of Shares in the Company may lose the right to vote its Shares if it or any other person appearing to be interested in shares held by it fails to comply within a prescribed period of time with a request by the Company under the U.K. Companies Act, 1985 to give certain information with respect to past or present ownership or interests in such Shares. In the case of holders of more than 0.25% in nominal amount of the share capital of the Company (or any class thereof), in addition of disenfranchisement, the sanctions that may be applied by the Company include withholding of the right to receive payment of dividends and other monies payable on, and restrictions on transfers of the relevant Shares.
- (b) Section 198 of the U.K. Companies Act, 1985 provides that a person (including a company and other legal entities) that acquires an interest of 3 percent or more of any class of shares (including through American Depositary Receipts) comprised in an English public company's "relevant share capital" (i.e., the Company's issued share capital carrying the right to vote in all circumstances at a general meeting of the Company) is required to notify the company of its interest within two business days following the day on which the obligation arises. After the 3 percent level is exceeded, similar notifications must be made in respect of increases or decreases through a whole percentage point.

For purposes of such notification obligation, the interest of a person in shares means any kind of interest in shares including interests in any shares (a) in which a spouse, or child or stepchild under the age of 18, is interested, (b) in which a corporate body is interested and either (i) that corporate body or its directors generally act in accordance with that person's directions or instructions or (ii) that person controls onethird or more of the voting power of that corporate body or (c) in which another party is interested and the person and that other party are parties to a "concert party" agreement under Section 204 of the U.K. Companies Act, 1985. A concert party agreement is one which provides for one or more parties to acquire interests in shares of a particular company and imposes obligations or restrictions on any one of the parties as to the use, retention or disposal of such interests acquired pursuant to such agreement and any interest in the company's shares is in fact acquired by any of the parties pursuant to the agreement. Certain interests (e.g., those held by certain investment fund managers) may

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be disregarded for the purposes of calculating the 3 percent threshold, but the obligations of disclosure will still apply where such interests exceed 10 percent or more of any class of the company's relevant share capital and to increases or decreases through a whole percentage point

In addition, Section 212 of the U.K. Companies Act, 1985 provides that a public company may by written notice require a person whom the company knows or has reasonable cause to believe to be, or to have been at any time during the three years immediately preceding the date on which the notice is issued, interested in shares consisting of the company's "relevant share capital" to confirm that fact or to indicate whether or not that is the case, and where such person holds or during the relevant time had held an interest in such shares, to give such further information as may be required relating to such interest and any other interest in the shares of which such person is aware.

Where notice is served by a company under the foregoing provisions on a person who is or was interested in shares of the company and that person fails to give the company any information required by the notice within the time specified in the notice, the company may apply to the English court for an order directing that the shares in question be subject to restrictions prohibiting, among other things, any transfer of those shares, the taking up of rights in respect of such shares and, other than on liquidation, payments in respect of such shares.

A person who fails to fulfill the obligations imposed by Sections 198 and 212 of the Companies Act described above is subject to criminal penalties.

(c) The Depositary agrees to use reasonable efforts to forward to any Owners at the request of the Company and at the Company's expense, any request by the Company for information and to comply with any instructions of the Company, to the extent reasonably practicable, given to effectuate the foregoing restrictions. If the Company requests information from the Depositary or the Custodian, as the registered owners of Shares, pursuant to the Memorandum and Articles of Association of the Company or the U.K. Companies Act, 1985, the obligations of the Depositary or the Custodian, as the case may be, shall be limited to disclosing to the Company such information relating to the Shares in question as has in each case been recorded by it pursuant to the terms of the Deposit Agreement.

23. COMPLIANCE WITH U.S. SECURITIES LAWS.

Notwithstanding anything in the Deposit Agreement or this Receipt to the contrary, the Company and the Depositary each agrees that it will not exercise any rights it has under the Deposit Agreement to prevent the withdrawal or delivery of Deposited Securities in a manner which would violate the U.S. securities laws, including, but not

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limited to, Section I.A.(1) of the General Instructions to the Form F-6 Registration Statement, as amended from time to time, under the Securities Act of 1933.

DIRECT REGISTRATION SYSTEM.

- (a) ADSs may be maintained by the Depositary in book-entry form known as the "Direct Registration System" ("DRS"). Upon issuance of ADSs, the ADSs of each Owner will be credited to the DRS account of each such Owner and in each such Owner's name. Each Owner will be given the option of (i) receiving a certificate representing its ADSs, (ii) transfering such ADSs to a broker designated by each and every person or entity in whose name such ADSs are registered on the books of the Depositary or (iii) maintaining their ADSs in DRS.
- (b) The Company understands that Profile is a required feature of DRS. Profile allows a participant of The Depository Trust Company ("DTC") claiming to act on behalf of the Owner of ADSs, to direct the Depositary to transfer to such DTC participant the ADSs designated by such DTC participant without receipt by the Depositary of such prior written authorization from the Owner to transfer such ADSs.
- (c) The Company understands the Depositary will not verify, determine or otherwise ascertain that the DTC participant which is claiming to be acting on behalf of an Owner is, in fact, authorized to act on behalf of such Owner. The Company and each Owner agree that the Depositary shall have no liability for relying upon and complying with directions from a DTC participant as set forth above; and the Company shall indemnify and hold harmless the Depositary from and against any liability, expense, damage, loss and judgment arising from or related to the foregoing (including reasonable attorneys fees and expenses and expenses arising from or connected with the enforcement of this provision). For the avoidance of doubt, (i) the Depositary shall be fully protected by the foregoing limitation of liability and indemnification with respect to reliance upon and compliance with instructions from the DTC participant even if the Depositary's reliance on, and compliance with, such instructions is determined by a final, non-appealable order or judgment of a court of competent jurisdiction to constitute negligence, willful misconduct, breach of any duty owed by the Depositary to such Owner or violation of any law and (ii) the forgoing shall not apply to the manner in which the Depositary carries out actual transfer of the ADSs which are the subject of the DTC participant's instruction, which transfer shall continue to be governed by the other applicable terms of this Deposit Agreement. By way of example and not by way of limitation, if a court determines that the transfer of ADSs pursuant to a DTC participant's instruction without obtaining prior authorization from the Owner constitutes negligence, the Depositary will nevertheless be protected under this subparagraph (c); on the other hand, in carrying out such instructions, if the Depositary transfers ADSs from the wrong account or to the wrong DTC participant, the obligation to indemnify the Depositary shall be determined in accordance with Sections 5.3 and 5.8 of the Deposit Agreement.

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: * Validation: N * Lines: * CRC: *

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EXHIBIT 2(b).4.2

SUPPLEMENTARY PROSPECTUS DATED 4 FEBRUARY 2008

nationalgrid

National Grid Gas Holdings plc

(incorporated with limited liability in England and Wales on 27 November 1998 under registered number 3675375)

National Grid Gas plc

(incorporated with limited liability in England and Wales on 1 April 1986 under registered number 2006000)

National Grid Gas Finance (No 1) plc (incorporated with limited liability in England and Wales on 3 August 2006 under registered number 5895068)

Euro 10,000,000,000 **Euro Medium Term Note Programme**

In respect of Instruments to be issued by National Grid Gas Finance (No 1) plc, unconditionally and irrevocably guaranteed by

National Grid Gas plc

This Supplement (the "Supplement") to the Prospectus dated 23 February 2007 (the "Prospectus"), which comprises a base prospectus for each of National Grid Gas Holdings plc, National Grid Gas plc and National Grid Gas Finance (No 1) plc (together, the "Issuers"), constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the "FSMA"). This Supplement is prepared in connection with the Euro Medium Term Note Programme (the "Programme") established by the Issuers. Terms defined in the Prospectus have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Prospectus and any other supplements to the Prospectus issued by the Issuers.

Each of the Issuers accepts responsibility for the information contained in this Supplement. To the best of the knowledge of each Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Prospectus by this Supplement and (b) any other statement in, or incorporated by reference in, the Prospectus, the statements in this Supplement will prevail.

On 31 January 2008, National Grid plc published its Interim Management Statement for the period 1 October 2007 to 30 January 2008 (the "Interim Management Statement"). A copy of the Interim Management Statement has been filed with the Financial Services Authority and, by virtue of this Supplement, the first two paragraphs of the text under the heading "DIVIDEND POLICY UPDATE" in the Interim Management Statement is incorporated in, and forms part of, the Prospectus. Copies of all documents incorporated by reference in the Prospectus can be obtained from the registered office of the Issuers and the specified office of the Paying Agent for the time being in London, as set out in the Prospectus.

Save as disclosed in this Supplement, no significant new factor, material mistake or inaccuracy relating to information included in the Prospectus has arisen or been noted, as the case may be, in relation to any of the Issuers since the publication of the Prospectus.

An investor should be aware of its rights arising pursuant to Section 87Q(4) of the FSMA.

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EXHIBIT 2(b).5.1

The Royal Bank of Scotland

PROSPECTUS



National Grid plc

(incorporated with limited liability in England and Wales on 11 July 2000 under registered number 4031152)

National Grid Electricity Transmission plc (incorporated with limited liability in England and Wales on 1 April 1989 under registered number 2366977))

Euro 15,000,000,000 **Euro Medium Term Note Programme**

Under the Euro Medium Term Note Programme (the "Programme") described in this prospectus (the "Prospectus"), each of National Grid plc ("National Grid") and National Grid Electricity Transmission plc ("NGET") (each, an "Issuer" and together, the "Issuers"), 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 relevant Issuer, the Trustee and the relevant Dealer (as defined below). The aggregate nominal amount of Instruments outstanding will not at any time exceed Euro 15,000,000,000 (or the equivalent in other currencies). The Instruments will only be issued in bearer form.

Application has been made to the Financial Services Authority in its capacity as competent authority (the "U.K. Listing Authority") under 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 the London Stock Exchange's Gilt-Edged and Fixed Interest Market (the "Market"). References in this Prospectus to Instruments being "listed" (and all related references) shall mean that such Instruments have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of the Investment Services Directive 93/22/EEC (the "Investment Services Directive"). The Programme also permits Instruments to be issued on an unlisted basis or to be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems as may be agreed with the relevant Issuer. The relevant Final Terms (as defined on page 8) 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 any other listing authority, stock exchange and/or quotation system).

Each Series (as defined on page 7) 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 global instrument. The "Global Instruments"). If the Global Instruments are stated in the applicable Final Terms to be issued in new global note ("NGN") form they may be eligible collateral for Eurosystem monetary policy and 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, société anonyme ("Clearstream, Luxembourg") (the "Common Depositary"). 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 provisions governing the exchange of interests in any Global Instrument for interests in any other Global Instrument and definitive Instruments are described in "Summary of Provisions Relating to the Instruments while in Global Form".

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

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 a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the relevant Directive 2003/71/EC (the "Prospectus Directive"), the minimum denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Instruments).

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

Programme Arranger and Dealer

HSBC

Dealers

ABN AMRO Banc of America Securities Limited **Barclays Capital Deutsche Bank Dresdner Kleinwort** Mitsubishi UFJ Securities International plc **National Australia Bank Limited**

The date of this Prospectus is 2 August 2007

RBC Capital Markets

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IMPORTANT NOTICES

This Prospectus is comprised of a base prospectus (each a "Base Prospectus") for the purposes of Article 5.4 of the Prospectus Directive and relevant implementing measures in the United Kingdom and for the purpose of giving information with regard to each of (i) National Grid and each of its subsidiary undertakings, including NGET (together, the "National Grid Group") (the "National Grid Prospectus") and (ii) with the exception of the information contained in the section entitled "Description of National Grid plc", "Risk Factors - Risks relating to National Grid and its business", and the information contained in paragraphs 2, 4, 6, 9, 11, 13, 16(b) and 16(d) in the section entitled "General Information" NGET and each of its subsidiary undertakings (together, the "NGET Group") (the "NGET Prospectus", together with the National Grid Prospectus, the "Prospectuses" and each a "Prospectus") which, according to the particular nature of each Issuer and the Instruments to be issued by it, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the relevant Issuer and the rights attaching to such Instruments.

National Grid accepts responsibility for the information contained in the National Grid Prospectus. To the best of the knowledge of National Grid (having taken all reasonable care to ensure that such is the case) such information contained in the National Grid Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

NGET accepts responsibility for the information contained in the NGET Prospectus. To the best of the knowledge of NGET (having taken all reasonable care to ensure that such is the case) such information contained in the NGET 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 "Documents Incorporated By Reference" below) and, in relation to any Tranche (as defined herein) of Instruments, should be read and construed together with the applicable Final Terms (as defined herein).

No person has been authorised to give any information or to make any representation other than as contained in this Prospectus in connection with the issue or sale of the Instruments and, if given or made, any such information or representation must not be relied upon as having been authorised by either of the Issuers 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 either of the Issuers 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 either of the Issuers 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 Issuers, 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 and will be in bearer form and subject to U.S.

Y59930.SUB, DocName: EX-2.B.5.1, Doc: 4, Page: 3 [E/O] Description: EXH 2(B).5.1 **EDGAR 2** tax law requirements. Subject to certain exceptions, Instruments may not be offered, sold or delivered within the United States or to 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 relevant Issuer or the Dealers to subscribe for, or purchase, any Instruments.

None of the Dealers, the Arranger or the Trustee have independently verified the information contained in this Prospectus. None of the Dealers, the Arranger or the Trustee makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. Neither this Prospectus nor any other financial statement is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by either of the Issuers, the Trustee, the Arranger or the Dealers that any recipient of this Prospectus or any other financial statements should purchase the Instruments. Each potential purchaser of Instruments should determine for itself the relevance of the information contained in this Prospectus and its purchase of Instruments should be based upon such investigation as it deems necessary. None of the Dealers, the Arranger or the Trustee undertakes to review the financial condition or affairs of either of the Issuers 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

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

In connection with the issue of any Tranche (as defined in "Overview of the Programme - Method of Issue"), the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") in the applicable Final Terms (or any person acting on behalf of any Stabilising Manager(s)) may over-allot Instruments or effect transactions with a view to supporting the market price of the Instruments at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) or person(s) acting on behalf of any Stabilising Manager(s) in accordance with all applicable laws and rules.

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DOCUMENTS INCORPORATED BY REFERENCE

Each Base Prospectus should be read and construed in conjunction with the audited consolidated annual financial statements of each of NGET or National Grid, as the case may be, for the financial years ended 31 March 2006 and 31 March 2007, together in each case with the audit report thereon, which have been previously published or are published simultaneously with this Prospectus and which have been approved by the Financial Services Authority or filed with it. Such documents shall be deemed to be incorporated in, and form part of the relevant Base Prospectus, save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of the relevant Base Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of the relevant Base Prospectus.

The relevant Issuer will at its registered office and at the specified offices of the Paying Agents, make available for inspection during normal business hours and free of charge, upon oral or written request, a copy of this Base Prospectus and any document incorporated by reference in this Base Prospectus. Any request for inspection of such documents should be directed to the specified office of any Paying Agent.

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SUPPLEMENTAL PROSPECTUS

If at any time an Issuer shall be required to prepare a supplemental prospectus pursuant to Section 87G of FSMA ("Supplemental Prospectus"), such Issuer will prepare and make available to the public 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 FSMA.

OVERVIEW OF THE PROGRAMME

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

Issuers National Grid plc

National Grid Electricity Transmission plc

Description Euro Medium Term Note Programme

Size Up to Euro 15,000,000,000 (or the equivalent in other currencies at the date of

issue) aggregate nominal amount of Instruments outstanding at any one time.

Arranger HSBC Bank plc

Principal Dealers ABN AMRO Bank N.V.

Banc of America Securities Limited

Barclays Bank PLC

Citigroup Global Markets Limited
Deutsche Bank AG, London Branch
Dresdner Bank AG London Branch

HSBC Bank plc

Mitsubishi UFJ Securities International plc

National Australia Bank Limited

Royal Bank of Canada Europe Limited

The Royal Bank of Scotland plc

The Issuers 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 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

Other Paying Agent Kredietbank S.A. Luxembourgeoise

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

Name: NATIONAL GRID

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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 nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms document (the "**Final Terms**").

Instruments may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Instruments may be issued, the issue price of which will be payable in two or more instalments.

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 "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.

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

On or before the issue date for each Tranche, if the relevant Global Instrument is intended to be eligible collateral for Eurosystem monetary policy and intra-day credit operations, 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 not intended to be eligible collateral for Eurosystem monetary policy and intra-day credit operations, 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 relevant Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.

Issue Price

Form of Instruments

Clearing Systems

Initial Delivery of Instruments

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Currencies

Maturities

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

be issued as Dual Currency Instruments.

Subject to compliance with all relevant laws, regulations and directives, 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 FSMA by the relevant Issuer.

Definitive Instruments will be in such denominations as may be specified in 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 a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum denomination shall be €50,000 (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 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 will bear interest set separately for each Series as follows:

on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions published by

Denominations

Fixed Rate Instruments

Floating Rate Instruments

EDGAR 2

the International Swaps and Derivatives Association, Inc. or

(b) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin. Interest periods will be selected by the relevant 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.

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

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Instruments will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Final Terms.

Payments of principal in respect of Index Linked Redemption Instruments or of interest in respect of Index Linked Interest Instruments will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms and (if applicable) the relevant Supplemental Prospectus.

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.

The relevant Final Terms will specify the basis for calculating the redemption amounts payable, which may be by reference to a stock index or formula or as otherwise provided in the relevant Final Terms.

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

The Final Terms issued in respect of each issue of Instruments that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Instruments may be redeemed.

Terms applicable to high interest Instruments, low interest Instruments, step-up Instruments, step-down Instruments, Dual Currency Instruments, reverse Dual Currency

Zero Coupon Instruments

Dual Currency Instruments

Index Linked Instruments

Interest Periods and Rates of Interest

Redemption

Redemption by Instalments

Other Instruments

CRC: 46315 EDGAR 2 **Optional Redemption**

Redemption at the Option of the Instrumentholders following a National Grid Restructuring Event, or as the case may be, an NGET Restructuring Event (each as defined in Condition 5.6.2):

Status of Instruments

Negative Pledge

Cross Acceleration

Instruments, optional Dual Currency Instruments, Partly-Paid Instruments and any other type of Instrument that the relevant Issuer, the Trustee and any Dealer(s) may agree to issue under the Programme, subject to compliance with all relevant laws, regulations and directives, will be set out in the relevant Final Terms and (if applicable) the relevant Supplemental Prospectus.

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 relevant Issuer (either in whole or in part) and/or the Instrumentholders, and if so the terms applicable to such redemption.

The relevant Issuer may elect to redeem all, but not some only, of the Instruments of any Series at their Residual Holding Redemption Amount at any time if the Residual Holding Percentage or more of the aggregate nominal amount of such Instruments originally issued shall have been redeemed or purchased and cancelled.

Instruments issued by National Grid will be subject to an optional redemption by Instrumentholders following a Put Event (as defined in Condition 5.6.1). Instruments issued by NGET will, if so specified in the relevant Final Terms, be subject to an optional redemption by Instrumentholders following a Put Event (as defined in Condition 5.6.1).

If at any time while any relevant Instrument remains outstanding, a Put Event occurs then (other than in certain circumstances described in Condition 5.6.1) the Instrumentholders will, upon the giving of a Put Event Notice (as defined in Condition 5.6.1), have the option to require the relevant Issuer to redeem the relevant Instrument on the Put Date (as defined in Condition 5.6.4) at the principal amount of the Instrument together with accrued interest to the Put Date.

The Instruments will constitute unsubordinated and unsecured obligations of the relevant Issuer, all as described in "Terms and Conditions of the Instruments — Status".

Instruments issued by National Grid will have the benefit of a negative pledge as described in "Terms and Conditions of the Instruments — Status and Negative Pledge".

Instruments issued by NGET will not have the benefit of a negative pledge.

The Instruments will have the benefit of a cross

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acceleration provision as described in "Terms and Conditions of the Instruments — Events of Default".

The events of default under the Instruments are as specified below under "Terms and Conditions of the Instruments — Events of Default".

Except as provided in "Optional Redemption" and "Redemption" above, Instruments will be redeemable at the option of the relevant Issuer prior to maturity only for tax reasons and in the case of Index Linked Instruments only, for index reasons. See "Terms and Conditions of the Instruments — Redemption, Purchase and Options" and "Terms and Conditions of the Instruments — Indexation".

All payments of principal and interest in respect of the Instruments, Receipts and Coupons will be made free and clear of withholding taxes of the United Kingdom unless compelled by law. In that event, the Issuer will, subject to customary exceptions (including the standard EU exceptions), pay such additional amounts as will result in the payment to the Instrumentholders, Receiptholders or Couponholders of the amounts which would otherwise have been received in respect of the Instruments, Receipts and Coupons had no withholding or deduction been made, all as described in "Terms and Conditions of the Instruments — Taxation".

English

Each Series may be admitted to the Official List and admitted to trading on the Market and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed between the relevant Issuer and the relevant Dealer(s) and specified in the relevant Final Terms or may be unlisted.

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

United States, United Kingdom, European Economic Area (in the case of unlisted Instruments) and Japan. See "Plan of Distribution".

Category 2 selling restrictions will apply to the Instruments for the purposes of Regulation S under the Securities Act.

The Instruments will be issued in compliance with U.S.

Events of Default

Early Redemption

Withholding Tax

Governing Law

Listing

Ratings

Selling Restrictions

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

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Terms and Conditions

CRC: 62704 EDGAR 2 Treas. Reg. §1.163-5(c)(2)(i)(D) (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) (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.

The Terms and Conditions applicable to each Series will be as agreed between the relevant Issuer, the Trustee and the relevant Dealer(s) or other subscriber at or prior to the time of issuance of such Series and will be specified in the relevant Final Terms. The Terms and Conditions applicable to each Series will therefore be those as set out in "Terms and Conditions of the Instruments" below as supplemented, modified or replaced by the relevant Final Terms.

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RISK FACTORS

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

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

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

Factors that may affect National Grid's ability to fulfil its obligations under Instruments issued under the Programme

Risks relating to National Grid and its businesses

Changes in law or regulation in the geographies in which National Grid operates could have an adverse effect on National Grid's results of operations

Many of National Grid's businesses are utilities or networks that are subject to regulation by governments and other authorities. Consequently, changes in law or regulation in the countries or states in which National Grid operates could adversely affect the Group. Regulatory decisions concerning, for example, whether licences or approvals to operate are granted or renewed, whether market developments have been satisfactorily implemented, whether there has been any breach of the terms of a licence or approval, the level of permitted revenues for National Grid's businesses and proposed business development activities, could have an adverse impact on National Grid's results of operations, cash flows, the financial condition of its businesses and the ability to develop those businesses in the future.

Breaches of or changes in environmental or health and safety laws or regulations could expose National Grid to claims for financial compensation and adverse regulatory consequences as well as damaging National Grid's reputation

Aspects of National Grid's activities are potentially dangerous, such as the operation and maintenance of electricity lines and the transmission and distribution of natural gas. Electricity and gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of National Grid's operations that are not currently regarded or proved to have adverse effects but could become so, for example, the effects of electric and magnetic fields. National Grid is subject to laws and regulations relating to pollution, the protection of the environment, and how National Grid uses and disposes of hazardous substances and waste materials. National Grid is also subject to laws and regulations governing health and safety matters, protecting both the public and its employees. Any breach of these obligations, or even incidents that do not amount to a breach, could adversely affect the results of operations and National Grid's reputation.

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

National Grid may suffer a major network failure or may not be able to carry out critical non-network operations. Operational performance could be adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand or inadequate record keeping. This could cause National Grid to fail to meet agreed standards of service or to be in breach of a licence or approval. Even incidents that do not amount to a breach could result in adverse regulatory action and financial consequences, as well as harming National Grid's reputation. In addition to these risks, National Grid may be affected by other potential events that are largely outside of its control such as the impact of weather or unlawful acts of third parties. Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure will adversely affect operational and potentially business performance. Terrorist attack, sabotage or other intentional acts may also physically damage National Grid's businesses or otherwise significantly affect corporate activities and as a consequence adversely impact the results of operations.

National Grid's results of operations depend on a number of factors relating to business performance including performance against regulatory targets, recovery of incurred expenditure and the delivery of anticipated costs and efficiency savings

Earnings maintenance and growth from National Grid's regulated gas and electricity businesses will be affected by its ability to meet or better regulatory efficiency targets set by the Office of Gas and Electricity Markets ("Ofgem") and other regulators. In the U.S., under National Grid's state rate plans, earnings from National Grid's regulated businesses will be affected by its ability to deliver integration and efficiency savings. Earnings from National Grid's regulated businesses in both the U.K. and the U.S. will be affected by its ability to recover incurred expenditure. Levels of earnings also depend on meeting service quality standards set by regulators. In addition, from time to time, National Grid publishes cost and efficiency savings targets for its businesses in the U.K. and the U.S. National Grid is also reorganising its operations along lines of business. To meet these targets and standards, National Grid must improve operational performance, service reliability and customer service. If National Grid does not meet these targets and standards, or is unable to recover incurred expenditure or does not achieve this reorganisation as envisaged, it may not achieve the expected benefits and its performance, results of operations and its reputation may be harmed.

Business development activity, including acquisitions and disposals, may be based on incorrect assumptions or conclusions and significant liabilities may be overlooked or there may be other unanticipated or unintended effects

In February 2006, National Grid announced the acquisition of KeySpan Corporation ("**KeySpan**"). This acquisition is subject to a number of conditions precedent of which the approval by the New York Public Service Commission remains outstanding. This approval may not be received or it may be granted but on terms that are different than anticipated. National Grid has also announced that it expects to achieve certain levels of synergy and efficiency savings as a result of this acquisition, but these may not subsequently be achievable. Following completion of the proposed acquisition of KeySpan the risks and uncertainties that its operations are subject to would be assumed by National Grid. Many of these risks and uncertainties are similar to those that are faced by National Grid's existing businesses; however, there are some that are not. These other risks and uncertainties include the following: KeySpan's generation business may be subject to competition and general economic conditions having an impact on demand as well as other related risks; the

risk that in-city unforced capacity prices in New York may be less than expected causing loss under existing KeySpan swap arrangements; and investments in natural gas and oil exploration and production may in certain circumstances under SEC rules require non-cash impairment.

Changes to the regulatory treatment of commodity costs may have an adverse effect on the results of operations

Changes in commodity prices could potentially impact on National Grid's energy delivery businesses. Current regulatory arrangements in the U.K. and U.S. provide the ability to pass through virtually all of the increased costs related to commodity prices to consumers. However, if regulators in the U.K. or the U.S. were to restrict this ability, it could have an adverse effect on National Grid's operating results.

National Grid's reputation may be harmed if consumers of energy suffer a disruption to their supply even if this disruption is outside of National Grid's control

National Grid's energy delivery businesses are responsible for transporting available electricity and gas. National Grid consults with and provides information to regulators, governments and industry participants about future demand and the availability of supply. However, where there is insufficient supply, National Grid's role is to manage the relevant system safely, which, in extreme circumstances, may require National Grid to disconnect consumers.

Fluctuations in exchange rates, interest rates and commodity price indices, in particular in the U.S. dollar, could have a significant impact on National Grid's results of operations because National Grid has substantial business interests in the U.S. and because of the significant proportion of National Grid's borrowings, derivative financial instruments and commodity contracts that may potentially be affected by such fluctuations.

National Grid currently has significant operations in the U.S. and the proportion of its activities located there will substantially increase following the completion of the proposed acquisition of KeySpan. These businesses are subject to the risks normally associated with foreign operations, including the need to translate U.S. assets and liabilities, and income and expenses into Sterling, National Grid's primary reporting currency. National Grid's results of operations may be similarly impacted because a significant proportion of its borrowings, derivative financial instruments and commodity contracts are affected by changes in exchange rates, interest rates and commodity price indices, in particular, the U.S. dollar to Sterling exchange rate.

The nature and extent of National Grid's borrowings means that an increase in interest rates could have an adverse impact on its financial position and business results

A significant proportion of National Grid's borrowings are subject to variable interest rates that may fluctuate with changes to prevailing interest rates. Increases in these interest rates could therefore increase National Grid's costs and diminish its profits.

National Grid's financial position may be adversely affected by a number of factors including restrictions in borrowing and debt arrangements, changes to credit ratings and effective tax rates

National Grid is subject to certain covenants and restrictions in relation to its listed debt securities and its bank lending facilities. National Grid is also subject to restrictions on financing that have been imposed by regulators. These restrictions may hinder National Grid in servicing the financial requirements of its current businesses or the financing of newly acquired or developing businesses. National Grid's debt is rated by credit rating agencies and changes to these ratings may affect both its borrowing capacity and the cost of those borrowings. The effective rate of tax National Grid pays

may be influenced by a number of factors including changes in law and accounting standards and the proportion of National Grid's business operations which are located in the U.S.

Future funding requirements of National Grid's pension schemes could adversely affect its results of operations.

National Grid participates in a number of pension schemes which together cover substantially all of its employees. In both the U.K. and the U.S., the principal schemes are defined benefit schemes where the scheme assets are held independently of National Grid's finances. Estimates of the amount and timing of future funding for these schemes are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require National Grid to make additional contributions to these pension schemes which, to the extent they are not recoverable under its price controls or state rate plans, could adversely affect National Grid's results of operations.

New or revised accounting standards, rules and interpretations by the U.K., U.S. or international accounting standard setting boards and other relevant bodies could have an adverse effect on National Grid's reported financial results

The accounting treatment under International Financial Reporting Standards ("IFRS"), as adopted by the European Union, of replacement expenditure, regulatory assets, pension and post-retirement benefits, derivative financial instruments and commodity contracts significantly affect the way National Grid reports its financial position and results of operations. As a body of practice develops for IFRS, the application and interpretation of accounting principles to National Grid's circumstances, and to those areas above in particular, could result in changes in its financial results and financial position. In addition, new standards, rules or interpretations may be issued that could also have significant effects.

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

Risks relating to NGET and its business

Changes in law or regulation could have an adverse effect on NGET's results of operations

NGET is subject to regulation by governmental and regulatory authorities, in particular by Ofgem. Consequently, changes in law or regulation could adversely affect the company. Regulatory decisions concerning, for example, whether licences or approvals to operate are granted or renewed, whether market developments have been satisfactorily implemented, whether there has been any breach of the terms of a licence or approval, the level of permitted revenues for NGET's business and proposed business development activities, could have an adverse impact on NGET's results of operations, cash flows, the financial condition of its businesses and the ability to develop those businesses in the future.

Breaches of or changes in environmental or health and safety laws or regulations could expose NGET to claims for financial compensation and adverse regulatory consequences as well as damaging NGET's reputation

Aspects of NGET's activities are potentially dangerous, such as the operation and maintenance of electricity lines. Electricity utilities also typically use and generate in their operations hazardous and

Y59930.SUB, DocName: EX-2.B.5.1, Doc: 4, Page: 18 [E/O] Description: EXH 2(B).5.1 EDGAR 2 potentially hazardous products and by-products. In addition, there may be other aspects of NGET's operations that are not currently regarded or proved to have adverse effects but could become so, for example, the effects of electric and magnetic fields. NGET is subject to laws and regulations relating to pollution, the protection of the environment, and how NGET uses and disposes of hazardous substances and waste materials. NGET is also subject to laws and regulations governing health and safety matters, protecting both the public and its employees. Any breach of these obligations, or even incidents relating to the environment or health and safety that do not amount to a breach, could adversely affect the results of operations and NGET's reputation.

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

NGET may suffer a major network failure or may not be able to carry out critical non-network operations. Operational performance could be adversely affected by a failure to maintain the health of the network, inadequate forecasting of demand or inadequate record keeping. This could cause NGET to fail to meet agreed standards of service or to be in breach of a licence or approval. Even incidents that do not amount to a breach could result in adverse regulatory action and financial consequences, as well as harming NGET's reputation. In addition to these risks, NGET may be affected by other potential events that are largely outside of its control such as the impact of weather or unlawful acts of third parties. Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure will adversely affect operational and, potentially, business performance. Terrorist attack, sabotage or other intentional acts may also physically damage NGET's businesses or otherwise significantly affect corporate activities and as a consequence adversely impact the results of operations.

NGET's results of operations depend on a number of factors relating to business performance including performance against regulatory targets and the delivery of anticipated costs and efficiency savings

Earnings maintenance and growth from NGET's business will be affected by its ability to meet or better regulatory efficiency targets set by Ofgem. From time to time, NGET also publishes cost and efficiency savings. To meet these targets, NGET must continue to improve management and operational performance. Earnings from NGET's business also depend on meeting standards set by Ofgem. To meet these standards, NGET must maintain and/or improve reliability and other measures. Earnings from NGET's regulated business may also be affected by its ability to recover incurred expenditure. The company is also part of National Grid's reorganisation of its operations along lines of business. If NGET does not meet these targets and standards or is unable to recover incurred expenditure or does not implement its part of this reorganisation as envisaged its business, performance, results of operations and its reputation may be harmed.

Changes to the regulatory treatment of commodity costs may have an adverse effect on the results of operations

Changes in commodity prices could potentially impact on NGET's business. Current regulatory arrangements in the U.K. provide the ability to pass through virtually all of the increased costs related to commodity prices to consumers. However, if Ofgem were to restrict this ability, it could have an adverse effect on NGET's operating results.

NGET's reputation may be harmed if consumers of energy suffer a disruption to their supply even if this disruption is outside of NGET's control

NGET is responsible for transporting available electricity. NGET consults with and provides information to regulators, governments and industry participants about future demand and the availability of supply. However, where there is insufficient supply, NGET's role is to manage the relevant system safely, which, in extreme circumstances, may require NGET to disconnect consumers.

The nature and extent of NGET's borrowings means that an increase in interest rates could have an adverse impact on its financial position and business results

A significant proportion of NGET's borrowings are subject to variable interest rates that may fluctuate with changes to prevailing interest rates. Increases in these interest rates could therefore increase NGET's costs and diminish its profits.

NGET's financial position may be adversely affected by a number of factors including restrictions in borrowing and debt arrangements, changes to credit ratings and effective tax rates

NGET is subject to certain covenants and restrictions in relation to its listed debt securities and its bank lending facilities. NGET is also subject to restrictions on financing that have been imposed by regulators. These restrictions may hinder NGET in servicing the financial requirements of its current businesses or the financing of newly acquired or developing businesses. NGET's debt is rated by credit rating agencies and changes to these ratings may affect both its borrowing capacity and the cost of those borrowings. The effective rate of tax that NGET pays may be influenced by a number of factors including changes in law and accounting standards.

Future funding requirements of NGET's section of the Electricity Supply Pension Scheme could adversely affect its results of operations.

Substantially all of NGET's employees are members of the Electricity Supply Pension Scheme. The scheme is divided into sections, one of which is NGET's. This scheme provides final salary defined benefits on a funded basis. Its assets are held independently of NGET's finances in a separate trustee administered fund. Estimates of the amount and timing of future funding for the scheme are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require NGET to make additional contributions to its section of the scheme which, to the extent they are not recoverable under its price control, could adversely affect NGET's results of operations.

New or revised accounting standards, rules and interpretations by the U.K or international accounting standard setting boards and other relevant bodies could have an adverse effect on NGET's reported financial results

The accounting treatment under IFRS, as adopted by the European Union, of replacement expenditure, pension and post-retirement benefits, derivative financial instruments and commodity contracts significantly affect the way NGET reports its financial position and results of operations. As a body of practice develops for IFRS, the application and interpretation of accounting principles to NGET's particular circumstances, and to those areas in particular, could result in changes in the financial results and financial position that NGET reports. In addition, new standards, rules or interpretations may be issued that could also have significant effects.

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

Instruments may not be a suitable investment for all investors

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

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

Some 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.

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 and Dual Currency Instruments

The Issuer may issue Instruments with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Instruments with principal or interest payable in one or more currencies which may be different from the currency in which the Instruments are denominated. 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 or in a different currency than expected;
- (iv) the amount of principal payable at redemption may be less than the nominal amount of such Instruments or even zero;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Instruments in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor 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 Factor, the greater the effect on yield.

Partly-paid Instruments

The Issuer may issue Instruments where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Instruments with a multiplier or other leverage factor

Instruments with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

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 nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater

the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to Instruments generally

Set out below is a brief description of certain 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, in the circumstances described in Condition 11 of the Terms and Conditions of the Instruments.

European Monetary Union

If the United Kingdom joins the European Monetary Union prior to the maturity of the Instruments, there is no assurance that this would not adversely affect investors in the Instruments. It is possible that prior to the maturity of the Instruments the United Kingdom may become a participating Member State and that the Euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of any Instruments denominated in Sterling may become payable in Euro (ii) the law may allow or require such Instruments to be re-denominated into Euro and additional measures to be taken in respect of such Instruments; and (iii) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on such Instruments or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the Euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Instruments.

EU Savings Directive

Under EU Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual or certain other persons resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Also, a number of non-EU countries and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person

in a Member State to, or collected by such a person for, an individual resident in one of those territories.

If a payment in respect of an Instrument which is the subject of the Directive were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to such Instrument as a result of the imposition of such withholding tax. However, the Issuer is required, save as provided in Condition 6.4 of the Instruments, to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing the Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

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.

Integral multiples of less than €50,000

In relation to any issue of Instruments which have a denomination consisting of the minimum Specified Denomination of $\[\epsilon 50,000 \]$ plus a higher integral multiple of another smaller amount, it is possible that the Instruments may be traded in amounts in excess of $\[\epsilon 50,000 \]$ (or its equivalent) that are not integral multiples of $\[\epsilon 50,000 \]$ (or its equivalent). In such a case a holder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Instrument in respect of such holding (should Definitive Instruments be printed) and would need to purchase a principal amount of Instruments such that it holds an amount equal to one or more Specified Denominations. Except in circumstances set out in the relevant Global Instrument, investors will not be entitled to receive Definitive Instruments.

Risks related to the market generally

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

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 Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") investors will have to rely on their procedures for transfer, payment and communication with the Issuer.

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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 a common depositary 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 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. 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 subsequent changes in market interest rates may 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 an issue of Instruments. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Instruments. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal 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)

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CRC: 9093 EDGAR 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.

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 and amendment and as supplemented or varied in accordance with the provisions of 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, amended, supplemented or varied (and subject to simplification by the deletion 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" (as defined below) are to the Instruments of one Series only of the relevant Issuer (as defined below), not to all Instruments that may be issued under the Programme.

National Grid plc ("National Grid") and National Grid Electricity Transmission plc ("NGET") (each an "Issuer" and together, the "Issuers") have established a Euro Medium Term Note Programme (the "Programme") for the issuance of up to Euro 15,000,000,000 in aggregate principal amount of debt instruments (the "Instruments"). The Instruments are constituted by a Trust Deed (as amended or supplemented from time to time, the "Trust Deed") dated 2 August 2007 between the Issuers 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, Receipts, Coupons and Talons referred to below. An Agency Agreement (as amended or supplemented from time to time, the "Agency Agreement") dated 2 August 2007 has been entered into in relation to the Instruments between the Issuers, the Trustee, The Bank of New York 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 during usual business hours at the registered office of the Trustee (as at 2 August 2007 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") and the holders of the receipts for the payment of instalments of principal (the "Receipts") relating to Instruments of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed 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 provided that in the case of any Instruments which are to be admitted to trading on a regulated market within the European

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Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Instruments).

This Instrument is a Fixed Rate Instrument, a Floating Rate Instrument, a Zero Coupon Instrument, a Perpetual Instrument, an Index Linked Interest Instrument, an Index Linked Redemption Instrument, an Instalment Instrument, a Dual Currency Instrument or a Partly Paid Instrument, a combination of any of the preceding or any other kind of Instrument, 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, save in the case of Zero Coupon Instruments in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Instalment Instruments are issued with one or more Receipts attached. Title to the Instruments and the Receipts, Coupons and Talons shall pass by delivery and except as ordered by a court of competent jurisdiction or as required by law, the Issuer and the Paying Agents shall be entitled to treat the bearer of any Instrument, Receipt, Coupon or Talon as the absolute owner of that Instrument, Receipt, 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 an Issuer and the Receipts relating to it, "holder" (in relation to an Instrument, Receipt, Coupon or Talon) means the bearer of any Instrument, Receipt, 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 the Instruments.

2 Status and Negative Pledge

2.1 Status

The Instruments and the Receipts and Coupons relating to them constitute direct, unconditional and unsecured obligations of the Issuer and rank *pari passu* without any preference or priority among themselves. The payment obligations of the Issuer under the Instruments, Receipts and Coupons shall, subject to such exceptions as are from time to time applicable under the laws of England and, in relation to Instruments issued by National Grid, as provided in Condition 2.2, rank equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Issuer.

2.2 Negative Pledge

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

as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Instrumentholders.

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

3 Interest

3.1 Interest on Fixed Rate Instruments

Each Fixed Rate Instrument bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, payable in arrear on each Interest Payment Date. The amount of Interest payable shall be determined in accordance with Condition 3.2.4(f).

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

3.2 Interest on Floating Rate Instruments and Index Linked Interest Instruments

3.2.1 Interest Payment Dates

Each Floating Rate Instrument and Index Linked Interest Instrument bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of Interest payable shall be determined in accordance with Condition 3.2.4(f). Such Interest Payment Date(s) is/are either specified in the relevant Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are specified in the relevant Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown on this Instrument as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

3.2.2 Business Day Convention

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

or (d) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

3.2.3 Rate of Interest for Floating Rate Instruments

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

- ISDA Determination for Floating Rate Instruments: Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (a), "ISDA Rate" for an Interest Accrual Period means a rate equal to the Floating Rate which would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
 - the Floating Rate Option is as specified in the relevant Final Terms;
 - the Designated Maturity is a period specified in the relevant Final Terms; and (ii)
 - (iii) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Final Terms.

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

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

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

If the Reference Rate from time to time in respect of Floating Rate Instruments is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Instruments will be determined as provided hereon.

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

in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

Rate of Interest for Index Linked Interest Instruments 324

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 interest will accrue by reference to an Index or Formula as specified in the relevant Final Terms.

(a) Zero Coupon Instruments

Where an Instrument, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Instrument. As from the Maturity Date, the Rate of Interest for any overdue principal of such an Instrument shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as defined in Condition 5.4.1(b)).

(b) Dual Currency Instruments

In the case of Dual Currency Instruments, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating a Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified in the relevant Final Terms.

(c) Partly Paid Instruments

In the case of Partly Paid Instruments (other than Partly Paid Instruments which are Zero Coupon Instruments), interest will accrue as previously stated on the paid-up nominal amount of such Instruments and otherwise as specified in the relevant Final Terms.

(d) Accrual of Interest

Interest shall cease to accrue on each Instrument on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 3 to the Relevant Date (as defined in Condition 7).

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

(i) If any Margin is specified in the relevant Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment

shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 3.2.3(b) above, by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin, subject always to the next paragraph.

- (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified in the relevant Final Terms, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means the lowest amount of such currency which is available as legal tender in the country of such currency.

(f) 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.

(g) Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts

The Calculation Agent shall as soon as practicable on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest

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

(h) Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the preceding provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

3.2.5 Definitions

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

"Business Day" means:

- (a) in the case of a currency other than Euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency;
- (b) in the case of Euro, a day on which the TARGET System is operating (a "TARGET Business Day"); and/or

(c) in the case of a currency and/or one or more Business Centres as specified in the relevant Final Terms, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency or, if no currency is indicated, generally in each of the Business Centres.

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

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

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

where:

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

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

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

 ${}^{\circ}M_2{}^{\circ}$ 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;

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

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

where:

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

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

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

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

" 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, in which case D_2 will be 30;

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

where:

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

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

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

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

" 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

" 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

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

where:

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

"Determination Date" means the date specified as such in the relevant Final Terms or, if none is so specified, the Interest Payment Date.

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

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

"Interest Amount" means:

(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, (a) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (b) the day falling two Business Days in London prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor Euro or (c) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is Euro.

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

"Interest Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

"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., unless otherwise specified in the relevant Final Terms.

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

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

"Reference Banks" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the relevant Final Terms.

"Reference Rate" means the rate specified as such in the relevant Final Terms.

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

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

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor to it.

3.2.6 Calculation Agent

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the relevant Final Terms and for so long as any Instrument is outstanding. Where more than one Calculation Agent is appointed in respect of the Instruments, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under these Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or 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 Indexation

This Condition 4 is applicable only if the relevant Final Terms specifies the Instruments as Index Linked Instruments.

Definitions 4.1

"Base Index Figure" means (subject to Condition 4.3(i)) the base index figure as specified in the relevant Final Terms;

"Index" or "Index Figure" means, subject as provided in Condition 4.3(i), the U.K. Retail Price Index (RPI) (for all items) published by the Office for National Statistics (January 1987 = 100) or any comparable index which may replace the U.K. Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt. Any reference to the Index Figure which is specified in the relevant Final Terms as:

- applicable to a particular month, shall, subject as provided in Conditions 4.3 and 4.5, 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 4.3 and 4.5, 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 4.3 and 4.5, 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.

If the Index is replaced, the Issuer will describe the replacement Index in a supplement to the Prospectus;

"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 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; and

"Reference Gilt" means the Treasury Stock specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Issuer (an "Indexation Adviser").

4.2 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, on which such payment falls to be made and rounded in accordance with Condition 3.2.4(e).

4.3 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 4.1 shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month 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.

- Delay in publication of Index if sub-paragraph (i) of the definition of Index Figure 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, 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 4.3(i)) before the date for payment.
- (iii) Delay in publication of Index if sub-paragraph (ii) and/or (iii) of the definition of Index Figure 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, 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 4.3(i)) before the date for payment.

4.4 Application of Changes

Where the provisions of Condition 4.3(ii) or Condition 4.3(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 4.3(ii)(2) or Condition 4.3 (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 4.3(ii)(2) or Condition 4.3(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

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

4.5 Cessation of or Fundamental Changes to the Index

- (i) If (1) the Trustee has been notified by the Calculation Agent that the Index has ceased to be published or (2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of (A) the Issuer be materially prejudicial to the interests of the Issuer, or (B) the Trustee (acting solely on the advice of the Indexation Adviser), be materially prejudicial to the interests of the Instrumentholders, the Trustee will give written notice of such occurrence to the Issuer in the case of (B), and 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 or the relevant fundamental change not been made.
- (ii) 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 (i), 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 or the relevant fundamental change 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.
- The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Trustee (acting (iii) solely on the advice of the Indexation Adviser) or as determined by the Expert 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

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> adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Issuer, the Trustee and the Instrumentholders, and the Issuer shall give notice to the Instrumentholders in accordance with Condition 14 of such amendments as promptly as practicable following such notification.

4.6 **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 4.3(ii)(2) 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, and (in either case) no amendment or substitution of the Index shall have been advised by the Indexation Adviser 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 in accordance with Condition 14, 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 4.2).

5 Redemption, Purchase and Options

Final Redemption

Unless previously redeemed, purchased and cancelled as provided below, this Instrument will be redeemed at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) on the Maturity Date specified in the relevant Final Terms provided, however, that if this Instrument is a Perpetual Instrument it will only be redeemable and repayable in accordance with the following provisions of this Condition 5.

5.2 **Redemption for Taxation Reasons**

If, on the occasion of the next payment in respect of the Instruments the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that it would be unable to make such payment without having to pay additional amounts as described in Condition 7, and such requirement to pay such additional amounts arises by reason of a change in the laws of the United Kingdom or any political sub-division of the United Kingdom or taxing authority in the United Kingdom or any political sub-division of the United Kingdom or in the interpretation or application of the laws of the United Kingdom or any political sub-division of the United Kingdom or in any applicable double taxation treaty or convention, which change becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Instruments, and such requirement cannot be avoided by the Issuer taking reasonable measures (such measures not involving any material additional payments by, or expense for, the Issuer), the Issuer may, at its option, at any time, having given not less than 30 nor more than 45 days' notice to the Instrumentholders in accordance with Condition 14, redeem all, but not some only, of the Instruments at their Early Redemption Amount together with interest accrued to the date of redemption provided that the date fixed for redemption shall not be earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts or make such withholding or deduction, as the case may be, were a payment in respect of the Instruments then due. Prior to the publication of any notice of redemption pursuant to this Condition 5.2, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the requirement referred to above cannot be avoided by the Issuer taking reasonable measures available to it and the

Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out above in which event it shall be conclusive and binding on Instrumentholders and Couponholders.

5.3

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

5.4 **Early Redemption**

5.4.1 Zero Coupon Instruments

- The Early Redemption Amount payable in respect of any Zero Coupon Instrument, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Instrument pursuant to Condition 5.2 or upon it becoming due and payable as provided in Condition 9 shall be the Amortised Face Amount (calculated as provided below) of such Instrument unless otherwise specified in the relevant Final
- Subject to the provisions of sub-paragraph (c) below, the Amortised Face Amount of any such Instrument shall be the scheduled Final Redemption Amount of such Instrument on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is specified in the relevant Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Instruments if they were discounted back to their issue price on the Issue Date) compounded annually.
- If the Early Redemption Amount payable in respect of any such Instrument upon its redemption pursuant to Condition 5.2 or, if applicable, Condition 5.5 or 5.6 or upon it becoming due and payable as provided in Condition 9, is not paid when due, the Early Redemption Amount due and payable in respect of such Instrument shall be the Amortised Face Amount of such Instrument as defined in sub-paragraph (b) above, except that such sub-paragraph shall have effect as though the reference in that sub-paragraph to the date on which the Instrument becomes due and payable was replaced by a reference to the Relevant Date as defined in Condition 7. The calculation of the Amortised Face Amount in accordance with this subparagraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Instrument on the Maturity Date together with any interest that may accrue in accordance with Condition 3.2.

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

5.4.2 Other Instruments

The Early Redemption Amount payable in respect of any Instrument (other than Instruments described in Condition 5.4.1), upon redemption of such Instrument pursuant to this Condition 5.4 or upon it becoming due and payable as provided in Condition 9, shall be the Final Redemption Amount unless otherwise specified in the relevant Final Terms.

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

- If (i) Residual Holding Call Option is specified in the relevant Final Terms, and (ii) if at any time the Residual Holding Percentage or more of the aggregate nominal amount of Instruments originally issued shall have been redeemed or purchased and cancelled, the Issuer shall have the option to redeem such outstanding Instruments in whole, but not in part, at their Residual Holding Redemption Amount. Unless otherwise specified in the relevant Final Terms, the Residual Holding Redemption Amount will be calculated by the Calculation Agent by discounting the outstanding nominal amount of the Instruments and the remaining interest payments (if applicable) to the Maturity Date by a rate per annum (expressed as a percentage to the nearest one hundred thousandth of a percentage point (with halves being rounded up)) equal to the Benchmark Yield, being the yield on the Benchmark Security at the close of business on the third Business Day prior to the date fixed for such redemption, plus the Benchmark Spread. Where the specified calculation is to be made for a period of less than one year, it shall be calculated using the Benchmark Day Count Fraction. The Issuer will give not less than 15 nor more than 30 days' irrevocable notice to the Instrumentholders and the Trustee of any such redemption pursuant to this Condition 5.5.1.
- 552 If Call Option is specified in the relevant Final Terms, the Issuer may, 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 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 the date fixed for redemption. Any such redemption or exercise must relate to Instruments of a nominal amount at least equal to the minimum nominal amount (if any) permitted to be redeemed specified hereon and no greater than the maximum nominal amount (if any) permitted to be redeemed specified on this Instrument.

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.

5.6 Redemption at the Option of Instrumentholders following a Restructuring Event

*[Redemption of Instruments issued by National Grid at the option of Instrumentholders

If at any time whilst any of the Instruments issued by National Grid remains outstanding, there occurs the National Grid Restructuring Event, a Public Announcement shall be made and if, within the National Grid Restructuring Period, either:

Only applicable where National Grid is the Issuer.

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(a) (if at the time that the National Grid Restructuring Event occurs there are Rated Securities) a Rating Downgrade in respect of the National Grid Restructuring Event occurs; or

(b) (if at the time that the National Grid Restructuring Event occurs there are no Rated Securities) a Negative Rating Event in respect of the National Grid Restructuring Event occurs,

(the National Grid Restructuring Event and Rating Downgrade or the National Grid Restructuring Event and Negative Rating Event, as the case may be, occurring within the National Grid Restructuring Period, together called a "Put Event"),

then the holder of each Instrument issued by National Grid will have the option upon the giving of a Put Notice (as defined in Condition 5.6.4) to require National Grid to redeem or, at the option of National Grid, purchase (or procure the purchase of) such Instrument on the Put Date (as defined in Condition 5.6.4) at its principal amount together with accrued interest to the Put Date.

Promptly upon National Grid becoming aware that a Put Event has occurred, National Grid shall, or at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Instruments then outstanding or if so directed by an Extraordinary Resolution of the Instrumentholders, the Trustee shall, give notice (a "**Put Event Notice**") to the Instrumentholders in accordance with Condition 14 specifying the nature of the Put Event and the procedure (as set out in Condition 5.6.4) for exercising the option contained in this Condition 5.6.1.

National Grid shall, forthwith upon becoming aware of the occurrence of the National Grid Restructuring Event (a) provide the Trustee with the relevant Directors' Report and (b) provide or procure that the Reporting Accountants provide the Trustee with the Accountants' Report. The Directors' Report and the Accountants' Report shall, in the absence of manifest error, be conclusive and binding on all concerned, including the Trustee and the Instrumentholders. The Trustee shall be entitled to act, or not act, and rely on without being expected to verify the accuracy of the same (and shall have no liability to Instrumentholders for doing so) any Directors' Report and/or any Accountants' Report (whether or not addressed to it).

5.6.2 For the purposes of this Condition

"Accountants' Report" means a report of the Reporting Accountants stating whether the amounts included in the calculation of the Operating Profit and the amount for Consolidated Operating Profit as included in the Directors' Report have been accurately extracted from the accounting records of National Grid and its Subsidiaries and whether the Disposal Percentage included in the Directors' Report has been correctly calculated which will be prepared pursuant to an engagement letter to be entered into by the Reporting Accountants, National Grid and the Trustee.

National Grid shall use reasonable endeavours to procure that there shall at the relevant time be Reporting Accountants who have (a) entered into an engagement letter with National Grid and the Trustee which shall (i) not limit the liability of the Reporting Accountants to the Trustee by reference to a monetary cap and (ii) be available for inspection by Instrumentholders at the principal office of the Trustee or (b)

agreed to provide Accountants' Reports on such other terms as National Grid and the Trustee shall approve. If National Grid, having used reasonable endeavours, is unable to procure that there shall at the relevant time be Reporting Accountants who have entered into an engagement letter complying with (i) above, the Trustee may rely on an Accountants' Report which contains a limit on the liability of the Reporting Accountants by reference to a monetary cap or otherwise.

Investors should be aware that the engagement letter may contain a limit on the liability of the Reporting Accountants which may impact on the interests of Instrumentholders.

National Grid shall give notice to the Trustee of the identity of the Reporting Accountants;

"Consolidated Operating Profit" means the consolidated operating profit on ordinary activities before tax and interest and before taking account of depreciation and amortisation of goodwill and regulatory assets (for the avoidance of doubt, exceptional items, as reflected in the Relevant Accounts shall not be included) of National Grid and its subsidiaries (including any share of operating profit of associates and joint ventures) determined in accordance with International Financial Reporting Standards ("IFRS") by reference to the Relevant Accounts;

"Directors' Report" means a report prepared and signed by two directors of National Grid addressed to the Trustee setting out the Operating Profit, the Consolidated Operating Profit and the Disposal Percentage and stating any assumptions which the Directors of National Grid have employed in determining the Operating Profit;

"Disposal Percentage" means, in relation to a sale, transfer, lease or other disposal or dispossession of any Disposed Assets, the ratio of (a) the aggregate Operating Profit to (b) the Consolidated Operating Profit, expressed as a percentage;

"Disposed Assets" means, where National Grid and/or any of its Subsidiaries sells, transfers, leases or otherwise disposes of or is dispossessed by any means (but excluding sales, transfers, leases, disposals or dispossessions which, when taken together with any related lease back or similar arrangements entered into in the ordinary course of business, have the result that Operating Profit directly attributable to any such undertaking, property or assets continues to accrue to National Grid or, as the case may be, such Subsidiary), otherwise than to a wholly-owned Subsidiary of National Grid or to National Grid, of the whole or any part (whether by a single transaction or by a number of transactions whether related or not) of its undertaking or (except in the ordinary course of business of National Grid or any such Subsidiary) property or assets, the undertaking, property or assets sold, transferred, leased or otherwise disposed of or of which it is so dispossessed;

"Negative Rating Event" shall be deemed to have occurred if either (a) National Grid does not, either prior to or not later than 21 days after the relevant National Grid Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Instruments or any other unsecured and unsubordinated debt of National Grid having an initial maturity of five years or more ("Rateable Debt") from a Rating Agency or (b) if National Grid does so seek and use such endeavours, it is unable, as a result of such National Grid Restructuring Event, to obtain such a rating of at least investment grade (BBB- or Baa3 or their respective equivalents for the time being),

provided that a Negative Rating Event shall not be deemed to have occurred in respect of a particular National Grid Restructuring Event if the Rating Agency declining to assign a rating of at least investment grade (as described above) does not announce or publicly confirm that its declining 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, or in respect of, the applicable National Grid Restructuring Event (whether or not the National Grid Restructuring Event shall have occurred at the time such investment grade rating is declined);

"National Grid Restructuring Event" shall be deemed to have occurred at any time (whether or not approved by the Board of Directors of National Grid) that the sum of Disposal Percentages for National Grid within any period of 36 months commencing on or after the issue date of the first Tranche of the Instruments is greater than 50 per cent.;

"National Grid Restructuring Period" means the period ending 90 days after a Public Announcement (or such longer period in which the Rated Securities or Rateable Debt, as the case may be, is or are under consideration (announced publicly within the first mentioned period) for rating review or, as the case may be, rating by a Rating Agency):

"Operating Profit", in relation to any Disposed Assets, means the operating profits on ordinary activities before tax and interest and before taking account of depreciation and amortisation of goodwill and regulatory assets (for the avoidance of doubt, exceptional items, as reflected in the Relevant Accounts, shall not be included) of National Grid and its Subsidiaries directly attributable to such Disposed Assets as determined in accordance with IFRS by reference to the Relevant Accounts and, if Relevant Accounts do not yet exist, determined in a manner consistent with the assumptions upon which the Directors' Report is to be based. Where the Directors of National Grid have employed assumptions in determining the Operating Profit, those assumptions should be clearly stated in the Directors' Report;

"Public Announcement" means an announcement by National Grid or the Trustee, of the occurrence of the National Grid Restructuring Event published in a leading national newspaper having general circulation in the United Kingdom (which is expected to be the *Financial Times*);

"Rated Securities" means the Instruments, if and for so long as they shall have an effective rating from a Rating Agency and otherwise any Rateable Debt which is rated by a Rating Agency; provided that if there shall be no such Rateable Debt outstanding prior to the maturity of the Instruments, the holders of not less than one-quarter in principal amount of outstanding Instruments may require National Grid to obtain and thereafter update on an annual basis a rating of the Instruments from a Rating Agency. In addition, National Grid may at any time obtain and thereafter update on an annual basis a rating of the Instruments from a Rating Agency, provided that, except as provided above, National Grid shall not have any obligation to obtain such a rating of the Instruments;

"Rating Agency" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and its successors or Moody's Investors Service, Inc. and its successors or any rating agency substituted for either of them (or any permitted

substitute of them) by National Grid from time to time with the prior written approval of the Trustee;

"Rating Downgrade" shall be deemed to have occurred in respect of the National Grid Restructuring Event if the then current rating whether provided by a Rating Agency at the invitation of National Grid or by its own volition assigned to the Rated Securities by any Rating Agency is withdrawn or reduced from an investment grade rating (BB+ or Baa3 or their respective equivalents for the time being or better) to a non-investment grade rating (BB+ or Ba1 or their respective equivalents for the time being or worse) or, if a Rating Agency shall already have rated the Rated Securities below investment grade (as described above), the rating is lowered one full rating category; provided that a Rating Downgrade otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular National Grid Restructuring Event if the Rating Agency making the reduction in rating to which this definition would otherwise apply does not announce or publicly confirm that the reduction was the result, in whole or part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable National Grid Restructuring Event (whether or not the applicable National Grid Restructuring Downgrade);

"Relevant Accounts" means the most recent annual audited consolidated financial accounts of National Grid and its Subsidiaries preceding the relevant sale, transfer, lease or other disposal or dispossession of any Disposed Asset;

"Reporting Accountants" means the auditors of National Grid (but not acting in their capacity as auditors) or such other firm of accountants as may be nominated by National Grid and approved in writing by the Trustee for the purpose or, failing which, as may be selected by the Trustee for the purpose; and

"Subsidiary" means a subsidiary within the meaning of Section 736 of the Companies Act 1985 and "Subsidiaries" shall be construed accordingly.

- 5.6.3 The Trustee shall not be responsible for ascertaining or monitoring whether or not the National Grid Restructuring Event, a Negative Rating Event or a Rating Downgrade in relation to National Grid has occurred and, unless and until it has actual knowledge to the contrary, shall be entitled to assume that no such event has occurred.
- To exercise the option of redemption of an Instrument under Condition 5.6.1 the Instrumentholder must deliver each Instrument to be redeemed 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") and, in which the Instrumentholder may specify an account to which payment is to be made under this Condition 5.6 to the specified office of any Paying Agent on any business day falling within the period (the "Put Period") of 45 days after a Put Event Notice is given. The Instrument should be delivered together with all Receipts and Coupons (and Talons) appertaining thereto maturing after the date (the "Put Date") falling seven days after the expiry of the Put Period, failing which (unless Condition 6.5.2 applies) the Paying Agent will require payment of an amount equal to the face value of any such missing Receipt, Coupon and/or Talon. Any amount so paid will be reimbursed in the manner provided in Condition 6 against presentation and surrender of the relevant missing Receipt, Coupon and/or Talon, subject to Condition 8. The Paying Agent to

which such Instrument and Put Notice are delivered will issue to the Instrumentholder concerned a non-transferable receipt in respect of the Instrument so delivered. Payment in respect of any Instrument so delivered will be made, if the Instrumentholder duly specified a bank account in the Put Notice to which payment is to be made, on the Put Date by transfer to that bank account and, in every other case, on or after the Put Date in the manner provided in Condition 6 against presentation and surrender (or, in the case of part payment, endorsement) of such receipt at the specified office of any Paying Agent. A Put Notice, once given, shall be irrevocable. For the purposes of the Conditions and the Trust Deed, receipts issued pursuant to this Condition 5.6 shall be treated as if they were Instruments. National Grid shall redeem the relevant Instruments on the Put Date unless previously redeemed or purchased.]

5.6.1 *[Redemption of Instruments issued by NGET at the option of Instrumentholders

If NGET Restructuring Put Option is specified in the relevant Final Terms and at any time whilst any of the Instruments issued by NGET remains outstanding there occurs an NGET Restructuring Event and in relation to that NGET Restructuring Event, a Negative Certification is made and, within the NGET Restructuring Period either:

- (a) (if at the time that an NGET Restructuring Event occurs there are Rated Securities) a Rating Downgrade in respect of the relevant NGET Restructuring Event occurs; or
- (b) (if at the time that an NGET Restructuring Event occurs there are no Rated Securities) a Negative Rating Event in respect of the relevant NGET Restructuring Event occurs,

(the NGET Restructuring Event and Rating Downgrade or the NGET Restructuring Event and Negative Rating Event, as the case may be, occurring within the NGET Restructuring Period, together with a Negative Certification, shall be called a "**Put Event**"),

then the holder of each Instrument of NGET will have the option upon the giving of a Put Notice (as defined in Condition 5.6.4) to require NGET to redeem or, at the option of NGET, purchase (or procure the purchase of) such Instrument on the Put Date (as defined in Condition 5.6.4) at its principal amount together with accrued interest to the Put Date.

Promptly upon NGET becoming aware that a Put Event has occurred, and in any event no later than 14 days after the occurrence of a Put Event, NGET shall, or at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Instruments then outstanding or if so directed by an Extraordinary Resolution of the Instrumentholders, the Trustee shall, give notice (a "**Put Event Notice**") to the Instrumentholders in accordance with Condition 14 specifying the nature of the Put Event and the procedure (as set out in Condition 5.6.4) for exercising the option contained in this Condition 5.6.1.

Only applicable where NGET is the Issuer.

5.6.2 For the purposes of this Condition

"Electricity Act" means the Electricity Act 1989 as amended or re-enacted from time to time and all subordinate legislation made pursuant thereto;

"Electricity Transmission Licence" means the transmission licence, as subsequently amended from time to time, originally granted by the Secretary of State for Energy to NGET under the Electricity Act;

"Negative Certification" means, on the occurrence of an NGET Restructuring Event, such event or events being certified in writing by an independent financial adviser appointed by NGET and approved by the Trustee (or, if NGET shall not have appointed such an adviser within 21 days after becoming aware of the occurrence of such NGET Restructuring Event, appointed by the Trustee (following consultation with NGET)) as being in its opinion materially prejudicial to the interests of the Instrumentholders. Any Negative Certification by an independent financial adviser as to whether or not, in its opinion, any event defined as an NGET Restructuring Event is materially prejudicial to the interests of the Instrumentholders shall, in the absence of manifest error, be conclusive and binding upon NGET, the Trustee, the Instrumentholders and the Couponholders;

"Negative Rating Event" shall be deemed to have occurred if NGET is unable as a result of an NGET Restructuring Event to obtain a rating of the Instruments or of any other comparable unsecured and unsubordinated debt of NGET (or of any Subsidiary of NGET and which is guaranteed on an unsecured and unsubordinated basis by NGET) having an initial maturity of five years or more ("Rateable Debt") from a Rating Agency of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being), which rating NGET shall use all reasonable endeavours to obtain, provided that a Negative Rating Event shall not be deemed to have occurred in respect of a particular NGET Restructuring Event if the Rating Agency making the relevant reduction or declining to assign a rating of at least investment grade (as described above) does not announce or publicly confirm or otherwise inform the Trustee that the reduction or its declining 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, or in respect of, the applicable NGET Restructuring Event;

"NGET Restructuring Event" means the occurrence of any one or more of the following events:

- (a) the Secretary of State for Trade and Industry or any official succeeding to his functions gives NGET written notice of revocation of the Electricity Transmission Licence in accordance with the terms as to revocation set out in Schedule 2 of the Electricity Transmission Licence, such revocation to become effective not later than the Maturity Date of the Instruments or NGET agrees in writing with the Secretary of State for Trade and Industry or any official succeeding to his functions to any revocation or surrender of the Electricity Transmission Licence or any legislation (whether primary or subordinate) is enacted terminating or revoking the Electricity Transmission Licence; or
- (b) any modification is made to the terms and conditions of the Electricity Transmission Licence other than such a modification which the Trustee, in its

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opinion, considers to be not materially prejudicial to the interests of the Instrumentholders and has so confirmed in writing to NGET; or

(c) any legislation (whether primary or subordinate) is enacted removing, reducing or qualifying the duties or powers of the Secretary of State for Trade and Industry or any official succeeding to his functions and/or the Gas and Electricity Markets Authority under Section 3A of the Electricity Act as compared with those in effect on the issue date of the first Tranche of the Instruments other than such legislation which the Trustee, in its opinion, considers to be not materially prejudicial to the interests of the Instrumentholders and has so confirmed in writing to NGET;

"NGET Restructuring Period" means:

- (a) if at the time at which the NGET Restructuring Event occurs there are Rated Securities, the period of 90 days starting from and including the day on which an NGET Restructuring Event occurs or such longer period in which the Rated Securities are under consideration (announced publicly within such 90 day period) for rating review by a Rating Agency; or
- (b) if at the time at which an NGET Restructuring Event occurs there are no Rated Securities, the period starting from and including the day on which an NGET Restructuring Event occurs and ending on the day 90 days following the date on which a Negative Certification shall have been given to NGET in respect of that NGET Restructuring Event;

"Rated Securities" means (a) the Instruments or (b) such other comparable unsecured and unsubordinated debt of NGET (or of any Subsidiary of NGET and which is guaranteed on an unsecured and unsubordinated basis by NGET) having an initial maturity of five years or more selected by NGET from time to time for the purpose of this definition with the approval of the Trustee and which possesses an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) by any Rating Agency (whether at the invitation of NGET or by its own volition);

"Rating Agency" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., or any of its Subsidiaries and their successors or Moody's Investors Service, Inc., or any of its Subsidiaries and their successors or any rating agency substituted for either of them (or any permitted substitute of them) by NGET from time to time with the prior written approval of the Trustee;

"Rating Downgrade" shall be deemed to have occurred in respect of an NGET Restructuring Event if the rating assigned to the Rated Securities by any Rating Agency which is current immediately prior to the occurrence of an NGET Restructuring Event (whether provided by a Rating Agency at the invitation of NGET or by its own volition) 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 have already rated the Rated Securities below investment grade (as described above), the rating is lowered one full rating category (from BB+/Ba1 to BB/Ba2 or such similar lowering) provided that a Rating Downgrade shall not be deemed to have occurred in respect of or as a result of a particular NGET Restructuring Event if the Rating Agency making the relevant reduction in rating or

declining to assign a rating of at least investment grade as provided in these Conditions does not announce or publicly confirm, or otherwise inform the Trustee, that the reduction or declining was the result, in whole or part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable NGET Restructuring Event;

"Subsidiary" means a subsidiary within the meaning of Section 736 of the Companies Act 1985 and "Subsidiaries" shall be construed accordingly.

- 5.6.3 The Trustee shall not be responsible for ascertaining whether or not an NGET Restructuring Event, a Negative Rating Event or a Rating Downgrade in relation to NGET has occurred and, unless and until it has actual knowledge to the contrary, shall be entitled to assume that no such event has occurred.
- To exercise the option of redemption of an Instrument under Condition 5.6.1 the Instrumentholder must deliver each Instrument to be redeemed 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") and, in which the Instrumentholder may specify an account to which payment is to be made under this Condition 5.6 to the specified office of any Paying Agent on any business day falling within the period (the "Put Period") of 45 days after a Put Event Notice is given. The Instrument should be delivered together with all Receipts and Coupons (and Talons) appertaining thereto maturing after the date (the "Put Date") falling seven days after the expiry of the Put Period, failing which (unless Condition 6.5.2 applies) the Paying Agent will require payment of an amount equal to the face value of any such missing Receipt, Coupon and/or Talon.

Any amount so paid will be reimbursed in the manner provided in Condition 6 against presentation and surrender of the relevant missing Receipt, Coupon and/or Talon, subject to Condition 8. The Paying Agent to which such Instrument and Put Notice are delivered will issue to the Instrumentholder concerned a non-transferable receipt in respect of the Instrument so delivered.

Payment in respect of any Instrument so delivered will be made, if the Instrumentholder duly specified a bank account in the Put Notice to which payment is to be made, on the Put Date by transfer to that bank account and, in every other case, on or after the Put Date in the manner provided in Condition 6 against presentation and surrender (or, in the case of part payment, endorsement) of such receipt at the specified office of any Paying Agent. A Put Notice, once given, shall be irrevocable. For the purposes of the Conditions and the Trust Deed, receipts issued pursuant to this Condition 5.6 shall be treated as if they were Instruments. NGET shall redeem the relevant Instruments on the Put Date unless previously redeemed or purchased.]

5.7 Redemption at the Option of Instrumentholders

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

To exercise such option (which must be exercised on an Option Exercise Date) the holder must deposit 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 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.

5.8 Partly Paid Instruments

Partly Paid Instruments will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified in the relevant Final Terms.

5.9 Redemption by Instalments

Unless previously redeemed, purchased and cancelled as provided in this Condition 5, each Instrument which provides for Instalment Dates and Instalment Amounts will be partially redeemed on each Instalment Date at the Instalment Amount specified in the relevant Final Terms. The outstanding nominal amount of each such Instrument shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Instrument, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused on presentation of the related Receipt, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

5.10 Cancellation

All Instruments redeemed pursuant to any of the foregoing provisions will be cancelled forthwith together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto. All Instruments purchased by or on behalf of the Issuer or any of its Subsidiaries may, at the option of the Issuer be held by or may be surrendered together with all unmatured Receipts and Coupons and all unexchanged Talons attached to them to a Paying Agent for cancellation, but may not be resold and when held by the Issuer or any of its respective Subsidiaries shall not entitle the holder to vote at any meeting of Instrumentholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Instrumentholders or for the purposes of Condition 11.

6 Payments and Talons

6.1 Payments

Payments of principal and interest in respect of Instruments will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Instrument), Instruments (in the case of all other payments of principal and, in the case of interest, as specified in Condition 6.5.6) or Coupons (in the case of interest, save as specified in Condition 6.5.6), 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.

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6.2 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.

6.3 Payments subject to Fiscal Laws etc.

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 7. No commission or expenses shall be charged to the Instrumentholders or Couponholders in respect of such payments.

6.4 Appointment of Agents

The Issuing and Paying Agent, the Paying Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent or the Calculation Agent and to appoint additional or other Paying Agents, provided that the Issuer shall at all times maintain (a) an Issuing and Paying Agent, (b) a Paying Agent having its specified office in a major European city, which shall be London so long as the Instruments are admitted to the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market, (c) a Calculation Agent where the Conditions so require one, (d) so long as the Instruments are listed on any stock exchange or admitted to listing by any other relevant authority, a Paying Agent having a specified office in such place as may be required by the rules and regulations of any other relevant stock exchange or other relevant authority and (e) to the extent that the Issuer is able to do so and not provided for by the foregoing provisions of this Condition 6.4, a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. 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 6.2.

Notice of any such change or any change of any specified office shall promptly be given to the Instrumentholders in accordance with Condition 14.

6.5 Unmatured Coupons and Receipts and unexchanged Talons

- 6.5.1 Unless the Instrument provides that the relevant Coupons are to become void upon the due date for redemption of those Instruments, Instruments should be surrendered for payment together with all unmatured Coupons (if any) appertaining to them, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) will be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 8).
- 6.5.2 If the relevant Instrument so provides, 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
- 6.5.3 If the relevant Instrument so provides, 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.
- 6.5.4 Upon the due date for redemption of any Instrument which is redeemable in instalments, all Receipts relating to such Instrument having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- 6.5.5 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 any unexchanged Talon relating to it, 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.
- 6.5.6 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.

6.6 Non-business Days

If any date for payment in respect of any Instrument, Receipt 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 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:

6.6.1 (in the case of a payment in a currency other than Euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which

foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

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

6.7 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 8).

7 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Instruments, the Receipts and the Coupons will be made without withholding or deduction for or on account of, any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the United 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 compelled by law. In that event, the Issuer will pay such additional amounts of principal and interest as will result in the payment to the Instrumentholders, Receiptholders or, as the case may be, the Couponholders of the amounts which would otherwise have been receivable in respect of the Instruments, Receipts or Coupons had no withholding or deduction been made, except that no such additional amounts shall be payable in respect of any Instrument, Receipt or Coupon presented for payment:

- (a) by or on behalf of, a person who is liable to such taxes or duties in respect of such Instrument, Receipt or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Instrument, Receipt or Coupon; or
- (b) by or on behalf of a person who would not be liable or subject to such deduction or withholding by making a declaration of non-residence or other claim for exemption to a tax authority; or
- (c) more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to such additional amounts on presenting the same for payment on such 30th day; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000; or
- (e) by or on behalf of a holder who would have been able to avoid such withholding or deduction (i) by presenting the relevant Instrument, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or (ii) by satisfying any statutory or procedural requirements (including, without limitation, the provision of information).

As used in these Conditions, "Relevant Date" in respect of any Instrument, Receipt 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 14 that, upon further presentation of the Instrument, Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment

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is in fact made upon such presentation. References in these Conditions to (a) "principal" shall be deemed to include any premium payable in respect of the Instruments, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 5 or any amendment or supplement to it, (b) "interest" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 3 or any amendment or supplement to it and (c) "principal" and/or "interest" shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

8 Prescription

Instruments, Receipts 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.

9 Events of Default

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

- (a) **Non-Payment:** there is default for more than 30 days in the payment of any principal or interest due in respect of the Instruments; or
- (b) **Breach of Other Obligations:** there is default in the performance or observance by the Issuer of any other obligation or provision under the Trust Deed or the Instruments (other than any obligation for the payment of any principal or interest in respect of the Instruments) which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not remedied within 90 days after notice of such default shall have been given to the Issuer by the Trustee; or
- (c) Cross-Acceleration: if (i) any other present or future Relevant Indebtedness of the Issuer [(or a Principal Subsidiary)]* becomes due and payable prior to its stated maturity by reason of any actual event of default or (ii) any amount in respect of such Relevant Indebtedness is not paid when due or, as the case may be, within any applicable grace period, provided that the aggregate amount of the Relevant Indebtedness in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds £50,000,000, for the period up to 31 March 2017, and thereafter, £100,000,000.

[For the purposes of this Condition 9, "**Principal Subsidiary**" means National Grid Gas plc, NGET and National Grid USA, and includes any successor entity thereto or any member of the group of companies comprising National Grid and each of its subsidiary undertakings (the "**National Grid Group**") which the Auditors have certified to the Trustee as being a company to which all or substantially all of the assets of a Principal Subsidiary are transferred. In the event that all or substantially all of the assets of a Principal Subsidiary are transferred to a

^{*} Only applicable where National Grid is the Issuer.

member of the National Grid Group as described above, the transferor of such assets shall cease to be deemed to be a Principal Subsidiary for the purposes of this Condition.]*; or

- (d) **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 be wound up or dissolved; or
- (e) **Enforcement Proceedings:** attachment is made of the whole or substantially the whole of the assets or undertakings of the Issuer and such attachment is not released or cancelled within 90 days or an encumbrancer takes possession or an administrative or other receiver or similar officer is appointed of the whole or substantially the whole of the assets or undertaking of the Issuer or an administration or similar order is made in relation to the Issuer and such taking of possession, appointment or order is not released, discharged or cancelled within 90 days; or
- (f) **Insolvency:** the Issuer ceases to carry on all or substantially all of its business or is unable to pay its debts within the meaning of Section 123(1)(e) or Section 123(2) of the Insolvency Act 1986; or
- (g) **Bankruptcy:** the Issuer is adjudged bankrupt or insolvent by a court of competent jurisdiction in its country of incorporation.

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

10 Enforcement

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

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

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

11 Meetings of Instrumentholders, Modifications and Substitution

11.1 Meetings of Instrumentholders

The Trust Deed contains provisions for convening meetings of Instrumentholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. An Extraordinary Resolution duly passed at any such meeting shall be binding on Instrumentholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders, except that any Extraordinary Resolution proposed, *inter alia*, (a) to amend the dates of maturity or redemption of the Instruments, any Instalment Date or any date for payment of interest on the Instruments, (b) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Instruments, (c) to reduce the rate or rates of interest in respect of the Instruments or to vary the method or basis of calculating the rate or rates or amount of

interest or the basis for calculating any Interest Amount in respect of the Instruments, (d) if a Minimum and/or a Maximum Rate of Interest is shown on the face of the Instrument, to reduce any such Minimum and/or Maximum Rate of Interest, (e) to vary any method of calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, (f) to take any steps that as specified in this Instrument may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, and (g) to modify the provisions concerning the quorum required at any meeting of Instrumentholders or the majority required to pass the Extraordinary Resolution will only be binding if passed at a meeting of the Instrumentholders (or at any adjournment of that meeting) at which a special quorum (as defined in the Trust Deed) is present. A resolution in writing signed by the holders of not less than 95 per cent. in nominal amount of the Instruments will be binding on all Instrumentholders and Couponholders. 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).

11.2 Modification of the Trust Deed

The Trustee may agree, without the consent of the Instrumentholders or Couponholders, to (a) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error, and (b) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Instrumentholders. Any such modification, authorisation or waiver shall be binding on the Instrumentholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Instrumentholders as soon as practicable.

11.3 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 any other company in place of the Issuer or of any previous substituted company, as principal debtor under the Trust Deed and the Instruments. In the case of such a substitution the Trustee may agree, without the consent of the Instrumentholders or the Couponholders, to a change of the law governing the Instruments, the Receipts, 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.

11.4 Entitlement of the Trustee

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

12 Replacement of Instruments, Receipts, Coupons and Talons

If an Instrument, Receipt, 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 for the purpose and notice of whose designation is given to Instrumentholders in accordance with Condition 14 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, Receipt, 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 on demand the amount payable by the Issuer in respect of such Instruments, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Instruments, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13 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 and so that such further issue shall be consolidated and form a single series with such Instruments.

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

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

14 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 shall 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 Indemnification of Trustee

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

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any other securities issued by the Issuer or any of its subsidiary undertakings, parent undertakings, joint ventures or associated undertakings.

16 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.

17 Governing Law and Jurisdiction

- 17.1 The Instruments and all matters arising from or connected with the Instruments are governed by, and shall be construed in accordance with, English law.
- 17.2 The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**"), arising from or connected with the Instruments.
- 17.3 The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- 17.4 Nothing in this Condition 17 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.

SUMMARY OF PROVISIONS RELATING TO THE INSTRUMENTS WHILE IN GLOBAL FORM

Initial Issue of Instruments

Upon the initial deposit of a Global Instrument with a common depositary for Euroclear and Clearstream, Luxembourg (the "Common Depositary"), Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Instruments equal to the nominal amount of those Instruments for which it has subscribed and paid.

If the Global Instruments are stated in the applicable Final Terms to be issued in NGN form, they are intended to be eligible collateral for Eurosystem monetary policy and the Global Instruments will be delivered on or prior to the original issue date of the Tranche to a 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.

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

If the Global Instrument is a CGN, upon the initial deposit of a Global Instrument with the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Instruments equal to the nominal amount of those Instruments for which it has subscribed and paid. If the Global Instrument is an NGN, the nominal 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 nominal 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 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 as the holder of an Instrument represented by a Global Instrument must look solely to Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be) for his share of each payment made by an Issuer or the Issuers 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 clearing systems (as the case may be). Such persons shall have no claim directly against either of the Issuers in respect of payments due on the Instruments for so long as the Instruments are represented by such Global Instrument and such obligations of such Issuer or Issuers 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:

- 1.1 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 "Summary of the Programme Selling Restrictions"), in whole, but not in part, for the Definitive Instruments defined and described below; and
- 1.2 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 other clearing system (an "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.

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 (a) if principal in respect of any Instruments is not paid when due or (b) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms) relating to Partly Paid Instruments.

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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 relevant Issuer will (a) 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 nominal 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 (b) in the case of a Global Instrument exchangeable for Definitive Instruments, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Instruments or if the Global Instrument is a 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 and Receipts in respect of interest or Instalment Amounts 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 relevant 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.

6 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:

7 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 in the form set out in the Agency Agreement. All payments in respect of Instruments represented by a Global Instrument 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. If the Global Instrument is a CGN, a record of each payment so made will be endorsed on each

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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 a 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 nominal 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.

Prescription

Claims against an 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 7).

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.

10 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 nominal amount of the relevant permanent Global Instrument.

11 Purchase

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

12 Issuer's Option

Any option of an Issuer provided for in the Conditions of any Instruments while such Instruments are represented by a permanent Global Instrument shall be exercised by such 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 such Issuer is exercised in respect of some but not all of the Instruments of any Series, the rights of accountholders with a clearing system or Approved Intermediary in respect of the Instruments will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

13 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

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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 stating the nominal 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 nominal amount of the Instruments recorded in those records will be reduced accordingly.

14 NGN nominal amount

Where the Global Note is a 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 nominal amount of the Instruments represented by such Global Instrument shall be adjusted accordingly.

15 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.

16 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 nominal amount of the Instruments then outstanding or if so directed by an Extraordinary Resolution, shall cause such Global Instrument to become due and repayable in the circumstances described in Condition 9 by stating in the notice to the relevant 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 such Issuer under the terms of the Trust Deed unless the Trustee, having become bound to proceed, fails to do so within a reasonable time and such failure is continuing.

17 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.

18 Partly Paid Instruments

The provisions relating to Partly Paid Instruments are not set out in this Prospectus, but will be contained in the relevant Final Terms and so in the Global Instruments. While any instalments of the subscription moneys due from the holder of Partly Paid Instruments are overdue, no interest in a Global Instrument representing such Instruments may be exchanged for an interest in a permanent Global Instrument or for Definitive Instruments (as the case may be). If any Instrumentholder fails to

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CRC: 60869 EDGAR 2 pay any instalment due on any Partly Paid Instruments within the time specified, the relevant Issuer may forfeit such Instruments and shall have no further obligation to their holder in respect of them.

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USE OF PROCEEDS

The net proceeds of the issue of each Series of Instruments will be used by the relevant Issuer for its general corporate purposes. If in respect of any particular issue of Instruments, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

DESCRIPTION OF NATIONAL GRID PLC

Overview

National Grid plc ("National Grid") is the name of the holding company of the group of companies (the "National Grid Group") which was the product of a recommended merger between National Grid Group plc ("NGG") and Lattice Group plc ("Lattice"). This merger was implemented by way of a court sanctioned scheme of arrangement under the Companies Act 1985 between Lattice and its shareholders and was completed on 21 October 2002. Following the closing of the merger, NGG was renamed National Grid Transco plc and on 27 July 2005 it changed its name to National Grid plc.

National Grid was incorporated in England and Wales on 11 July 2000 as a public company limited by shares under the Companies Act 1985. The address of National Grid's registered office is 1-3 Strand, London, WC2N 5EH and the telephone number of the registered office is +44 20 7004 3000.

National Grid is, directly or indirectly, the ultimate holding company of all the companies in the National Grid Group and its assets are substantially comprised of shares in such companies. National Grid does not conduct any other business and is accordingly dependent on the other members of the National Grid Group and revenues received from them.

Introduction

National Grid's principal operations are in regulated networks and comprise the transmission and distribution of electricity and gas based mainly in the U.K. and the U.S. National Grid also has interests in related markets, including metering services, liquefied natural gas storage facilities and property in the U.K., as well as electricity interconnectors in the U.K. and U.S.

Business overview

Principal activities and markets

National Grid's principal businesses are:

- Transmission;
- Gas distribution;
- · Electricity distribution; and
- Non-regulated businesses.

The performance of these businesses are reported by National Grid by segment reflecting the management responsibilities and economic characteristics of each activity. These segments are:

- Transmission U.K.;
- Transmission U.S.;
- Gas Distribution U.K.;
- Gas Distribution U.S.;
- Electricity Distribution U.S.; and

U.S. stranded cost recoveries.

Its remaining non-regulated businesses are not treated as a segment but are instead classified and reported as non-regulated and other operations. Further information about each of these segments and other operations is set out below.

National Grid's principal subsidiaries are: National Grid Electricity Transmission plc, which owns its U.K. electricity transmission business; National Grid Gas plc, which owns its U.K. gas transmission and U.K. gas distribution businesses; and National Grid USA, the holding company for its U.S. electricity and gas distribution and electricity transmission businesses. National Grid's U.S. subsidiary companies include Niagara Mohawk Power Corporation, Massachusetts Electric Company and New England Power Company.

Transmission

National Grid's transmission business operates in both the U.K. and the U.S. As a consequence of the respective economic and regulatory environments, National Grid reports the results of its transmission business as two segments; Transmission -U.K. and Transmission - U.S.

Transmission - U.K.

National Grid owns the electricity transmission system in England and Wales. Its electricity assets comprise approximately 8,671 miles of overhead line, about 420 miles of underground cable and 337 substations at 244 sites. National Grid is the Great Britain System Operator responsible for managing the operations of both the England and Wales transmission system that it owns and also the two high-voltage electricity transmission networks in Scotland.

Day-to-day operation of the Great Britain electricity transmission system involves the continuous real-time matching of demand and generation output, ensuring the stability and security of the power system and the maintenance of satisfactory voltage and

National Grid also owns the gas transmission network in Great Britain. This comprises 4,326 miles of high pressure pipe and 26 compressor stations, connecting to eight regional distribution networks and third party independent systems for onward transportation of gas to end consumers. National Grid operates the gas transmission network, which includes balancing supply and demand, maintaining satisfactory system pressures and ensuring gas quality standards are met.

National Grid owns and operates the U.K. assets, and a portion of the sub-sea cables that comprise the electricity connector between England and France, as part of a joint arrangement with the French transmission operator, RTE. National Grid also owns and operates four liquefied natural gas storage facilities in the U.K.

Transmission – U.S.

In the U.S., National Grid owns and operates an electricity transmission network of approximately 8,600 miles spanning upstate New York, Massachusetts, Rhode Island, New Hampshire and Vermont. Its U.S. transmission facilities operate at voltages ranging from 69 kV to 345kV, utilising nearly 8,500 miles of overhead lines, 89 miles of underground cable and 501 substations. National Grid is the largest electricity transmission service provider in the northeastern U.S. by reference to the length of these high-voltage transmission lines. In addition, it owns and operates a 139-mile direct current transmission line rated at 450 kV that is a key section of an interconnector between New England and Canada.

Gas Distribution

National Grid's gas distribution business operates in the U.K. and the U.S. As with its transmission business, as a consequence of the differences in the respective economic and regulatory environments, National Grid reports the results of this business as two segments; Gas Distribution – U.K. and Gas Distribution – U.S.

Gas Distribution - U.K.

National Grid's U.K. gas distribution segment comprises four of Great Britain's eight regional gas distribution networks, and is the largest gas distribution network in the country, consisting of approximately 82,000 miles of distribution pipelines. National Grid transports gas on behalf of 34 active gas shippers from the gas transmission network through its four regional gas distribution networks to around 11 million consumers. National Grid is responsible for the safety, development, maintenance and daily operation of its U.K. gas distribution networks. It also manages the national emergency number for all of Great Britain's gas distribution networks.

Gas Distribution - U.S.

National Grid's gas distribution operations in New York and Rhode Island provide services to 571,000 customers in 216 communities across upstate New York, and 248,000 customers in 33 communities in Rhode Island. Its networks in these two states total 11,800 miles of gas pipelines and cover approximately 5,460 square miles.

Electricity Distribution

National Grid's electricity distribution business operates in the U.S. For reporting purposes it is split into two segments; Electricity Distribution – U.S. and U.S. stranded cost recoveries.

Electricity Distribution - U.S.

National Grid is one of the leading electricity distribution service providers in the northeastern U.S., as measured by energy delivered, and one of the largest utilities in the U.S., as measured by the number of electricity distribution customers. Its U.S. electricity distribution business serves approximately 3.4 million electricity customers over a network of 71,000 circuit miles in New England and New York. National Grid's electricity distribution system spans upstate New York, Massachusetts, Rhode Island and New Hampshire with customers that include domestic homes, small and large commercial and industrial enterprises.

U.S. stranded cost recoveries

The U.S. stranded cost recoveries segment captures the recovery of National Grid's historical investments in generating plants that were "stranded" when National Grid divested its generation business as part of the industry restructuring and wholesale power deregulation process in New England and New York. In addition, this segment includes the recovery of certain above-market costs of commodity purchase contracts that were in place at the time of restructuring and deregulation.

Other activities

National Grid Metering Limited and Utility Metering Services Limited ("Onstream") provide installation, maintenance and meter reading services to gas and electricity suppliers in the regulated and unregulated markets respectively. These businesses provide services for an asset base of around 20 million domestic, industrial and commercial gas meters. National Grid Grain LNG Limited ("Grain LNG") is an LNG import terminal and storage facility constructed and operated in

the U.K. National Grid Property Limited is responsible for the management of all National Grid's major occupied property in the U.K. and the management, clean-up and disposal of surplus properties (largely comprising former gas works). Fulcrum Connections Limited provides gas connections and associated design services on behalf of gas distribution networks in the U.K.

Regulatory environment

National Grid's securities are listed on the London Stock Exchange and on the New York Stock Exchange and, as a consequence, National Grid is subject to regulation by the Financial Services Authority in the U.K., and by the Securities and Exchange Commission ("SEC") in the U.S.

National Grid operates in a highly regulated environment, which means that good relationships with economic and safety regulators, in addition to its other stakeholders, are essential because they set the frameworks within which its businesses operate.

Transmission

U.K. electricity and gas transmission

In the U.K., electricity transmission is regulated under the Electricity Act 1989 (the "Electricity Act"), under which NGET is licensed to participate in the transmission of electricity. This license permits NGET to act both as an owner of electricity transmission assets in England and Wales, and to act as Great Britain's System Operator (separate and unrelated companies are licensed to own electricity transmission assets in Scotland).

Gas transportation is regulated under the Gas Act 1986 (the "Gas Act"), under which National Grid Gas plc ("NGG"), a subsidiary of National Grid, is licensed to transport gas. NGG holds two gas transporter licences, one in respect of its national transmission system and one in respect of the four gas distribution networks which it owns and operates.

National Grid's participation in the operation of the Anglo-French electricity interconnector is also regulated by an interconnector licence granted under the Electricity Act.

Supervision of NGET's and NGG's compliance with these Acts and licences is conducted by the Gas and Electricity Markets Authority ("**GEMA**"), through its executive arm, the Office of Gas and Electricity Markets ("**Ofgem**").

U.S. electricity transmission

The transmission activities of each of National Grid's U.S. public utilities is regulated by the relevant state utility commission in the states in which it operates (including New York, Massachusetts, Rhode Island, Vermont, and New Hampshire) and by the Federal Energy Regulatory Commission ("**FERC**").

In relation to electricity transmission, the FERC, amongst other things, sets service standards for the transmission business of these U.S. public utilities, approves reliability standards set by the North American Electric Reliability Council ("NERC") (an industry self regulatory body), determines the potential levels of return on regulated transmission service and approves wholesale electricity market rules. Although FERC has siting authority over transmission lines in certain limited circumstances, the siting of transmission lines, as well as the ultimate recovery of transmission rates from retail customers is principally regulated by the relevant state utility commission (in addition to the other matters regulated by these commissions).

Gas Distribution

U.K. gas distribution

As stated above in relation to electricity and gas transmission, in the U.K., gas distribution is regulated under the Gas Act, under which NGG is licensed to transport gas. NGG is the holder of a single gas distribution transporter licence which authorises it to operate the four distribution networks that it owns, although each of these networks has its own separate price control.

As with its U.K. electricity and gas transmission activities, supervision of National Grid's compliance with the relevant legislation and the gas transporter licence applicable to the distribution networks which it owns is the responsibility of GEMA acting through Ofgem.

U.S. gas distribution

The U.S. gas distribution activities of two of National Grid's U.S. public utilities, Niagara Mohawk Power Corporation and The Narragansett Electric Company, are regulated by the relevant state utility commission in the states in which these operate.

In relation to gas distribution, the U.S. state utility commissions, amongst other things, set distribution service standards for the jurisdictional U.S. public utilities, set retail rates for end use customers, and determine the public utility company's potential levels of return on distribution service.

Electricity Distribution

The U.S. electricity distribution activities of each of National Grid's U.S. public utilities are regulated by the relevant state utility commission in the states in which these operate.

As with gas distribution, the U.S. state utility commissions, amongst other things, set distribution service standards, retail rates for end use customers and determine the potential levels of return on distribution service. However, FERC regulates wholesale electricity sales by National Grid's U.S. public utilities, to the extent that any sales are made.

U.S. stranded cost recoveries

The recovery of historical investments and costs under commodity contracts following industry restructuring in New England and New York is done pursuant to applicable state legislation and approvals from the utility commissions in the states in which National Grid operates.

Other

National Grid Metering Limited is regulated by Ofgem and is subject to price controls imposed through National Grid's gas transporter licences. Grain LNG has been granted exemptions by Ofgem from the provisions of the Gas Act which would otherwise regulate the terms on which it would have had to offer third parties access to phases 1, 2 and 3 of the project. Generally, however, National Grid's other businesses tend to be affected to a lesser extent or only indirectly by related regulatory regimes.

Regulatory developments

Transmission

U.K. electricity and gas transmission

National Grid's U.K. electricity and gas transmission businesses are subject to regulation of their revenues (otherwise known as price controls) under their respective transmission licences. The

previous price control arrangements for these businesses ceased on 31 March 2007 and have been replaced by new price controls covering the period from 1 April 2007 to 31 March 2012. National Grid has accepted Ofgem's final proposals in respect of the price controls covering its role as owner of electricity and gas transmission networks. The key elements of these proposals are a 4.4 per cent. post-tax real rate of return on its regulatory asset value, a £3.8 billion baseline five year capital expenditure allowance (at 2004/2005 prices) and a £2 billion five year operating expenditure allowance (at 2004/2005 prices). Following its acceptance in principle of the final proposals, National Grid has been working with Ofgem to agree the necessary amendments to its licences. The amendments to the electricity transmission licence of National Grid Electricity Transmission plc to enact the price control were implemented from 1 April 2007, while the amendments to the gas transporter licence applicable to National Grid Gas plc's gas transmission business were implemented in part in April 2007, with the remaining elements of the price control expected to be implemented in the second half of 2007 with retrospective effect from 1 April 2007.

National Grid has also accepted Ofgem's final proposals for the system operator schemes for both gas and electricity transmission:

- (i) covering the external costs of its system operation roles to apply for one year from 1 April 2007; and
- (ii) the internal costs of system operation to apply for the five years from 1 April 2007.

These proposals have been implemented through licence changes to the relevant licences.

U.S. electricity transmission

In the U.S., consistent with FERC's transmission pricing policy, National Grid has applied for an increased rate of return on its investment in transmission assets in New England. FERC approved this application in October 2006, but has yet to determine its response to several parties which have sought to appeal this approval.

National Grid has been pursuing a regional planning process with the New York Independent System Operator ("ISO") to identify regional reliability and economic transmission needs. Progress has been made and the New York ISO is in the second year of its reliability planning process implementation. National Grid has proposed a regulated transmission solution to reliability needs identified by the New York ISO. In addition, as part of FERC's recent open access transmission tariff reform, the New York ISO is developing a process to address economic planning.

Gas distribution

U.K. gas distribution

Ofgem has extended the current five-year gas distribution price controls for a further year through extension price control to cover the year ending on 31 March 2008. The outcome of the formal review was an average increase of 11 per cent. in allowed revenues for 2007/08. In addition, in 2007/08 our revenue allowance will no longer be dependent on delivery volumes, and our pricing formula now includes a reduced delivery volume component, a move that will improve stability in our revenues. The next full price control period will now cover the period from 1 April 2008 to 31 March 2013. Initial proposals were published at the end of May 2007 and final proposals are expected in December 2007.

Electricity Distribution.

National Grid has reached an agreement for a five year rate plan for its electricity distribution operations in New Hampshire. This was approved by the New Hampshire Public Utilities

Commission on 12 July 2007. The rate plan includes a 9 per cent. reduction in distribution rates. Over the term of the plan, earnings in excess of the allowed return of 9.67 per cent. are retained by National Grid up to 11 per cent. Any earnings over 11 per cent. would be shared with customers. In addition, the plan allows for incremental increases in rates for capital expenditure incurred under National Grid's reliability enhancement programme.

Other

In June 2005, Ofgem announced that it was going to investigate certain aspects of National Grid's domestic gas metering business under the Competition Act 1998. Information requested as part of the investigation has been provided to Ofgem. No findings have been issued with respect to this investigation. However, a supplemental statement of objections was issued by Ofgem in April 2007 to which National Grid has responded.

Board of Directors

The Directors of National Grid and their functions and principal activities outside the National Grid Group, are as follows:

Name	Title	Principal activities outside the National Grid Group
Sir John Parker	Chairman (Non-Executive)	Non-Executive Director of Carnival plc and Carnival Corporation (US), Joint Non-Executive Chairman of Mondi plc (UK) and Mondi Ltd (S. Africa). Director of Port and Free World Zone (Dubai) and Senior Non-Executive Director of the Court of the Bank of England, Member of the Business Council for Britain and Chancellor of the University of Southampton.
Steven Holliday	Chief Executive	Non-Executive Director of Marks and Spencer Group plc.
Steve Lucas	Finance Director	Non-Executive Director of Compass Group PLC. Director of American European Business Association Ltd.
Edward Astle	Executive Director	No appointments held outside the National Grid Group.
Mark Fairbairn	Executive Director	No appointments held outside the National Grid Group.
Nick Winser	Executive Director	No appointments held outside the National Grid Group.
Linda Adamany	Non-Executive Director	Senior Employee of BP plc
John Allan	Non-Executive Director	Member of the management board of Deutsche Post. Director of Exel Limited and Samsonite Corporation. Member of the CBI Presidents' Committee, Member of the International Advisory Council of

Name	Title	Principal activities outside the National Grid Group
		the Singapore Economic Development Board and Member of the University of Edinburgh Campaign Board.
Kenneth Harvey	Non-Executive Director (Senior Independent Director)	Non-Executive Chairman of Pennon Group plc.
Stephen Pettit	Non-Executive Director	Non-Executive Director of Halma plc. and Chairman of ROK Property Solutions plc. Member of BT plc's Equality of Access Board.
Maria Richter	Non-Executive Director	Director of Pro Mujer International, The Pantry Inc. and The Vitec Group plc.
George Rose	Non-Executive Director	Director of BAe Systems plc, Non-Executive Director of SAAB AB and a member of the Financial Reporting Review Panel.

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

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

Recent Developments

In February 2006, National Grid announced the proposed acquisition of KeySpan Corporation for \$7.3billion together with the assumption of \$4.5billion of debt. The completion of this transaction is subject to a number of conditions precedent of which only the approval of the New York Public Service Commission remains outstanding. This transaction is expected to be before the NYPSC for a vote on 22 August 2007 and completion of the acquisition is expected shortly thereafter.

On 3 April 2007, National Grid sold its U.K. wireless infrastructure operations to Macquarie UK Broadcast Ventures Limited for £2.5billion. In April 2007, National Grid also agreed the sale of its wireless infrastructure operations in the U.S. to WGN Acquisition LLC, a company jointly owned by M/C Venture Partners and Wachovia Capital Partners, for \$290million. This transaction is expected to complete later in 2007.

On 12 July 2007, National Grid announced the appointment of Tom King as an Executive Director with effect from 13 August 2007. Mr King will be based in the U.S. and will have responsibility for the electricity distribution and generation businesses of National Grid.

On 31 July 2007, National Grid entered into an agreement to sell Basslink, its Australian sub-sea electricity interconnector between the states of Victoria and Tasmania, to CitySpring Infrastructure Management Pte Ltd for A\$1.175bn. The sale is subject to a number of contractual and governmental consents and is expected to complete by the end of September 2007.

DESCRIPTION OF NATIONAL GRID ELECTRICITY TRANSMISSION PLC

Overview

National Grid Electricity Transmission plc ("National Grid Electricity Transmission" or "NGET"), a wholly-owned subsidiary of National Grid, is the owner of the electricity transmission system in England and Wales and operator of the electricity transmission system throughout Great Britain.

NGET is the holder of an electricity transmission licence (the "Transmission Licence") under the Electricity Act. The Electricity Act requires all persons who participate in the transmission of the electricity to hold a licence to do so (if not exempted from such requirement)

The Transmission Licence permits NGET to:

- own electricity transmission assets in England and Wales (there are separate licensees in respect of transmission assets in Scotland); and
- operate (since the introduction of the British Electricity Trading and Transmission Arrangements ("BETTA") on 1 April 2005) the electricity transmission system throughout Great Britain (that is, including the transmission systems owned by the electricity transmission licensees in Scotland).

NGET was incorporated in England and Wales on 1 April 1989 as a public company limited by shares under the Companies Act 1985. The address of NGET's registered office is 1-3 Strand, London, WC2N 5EH and the telephone number of the main switchboard at the registered office is +44 20 7004 3000.

Business of NGET

NGET derives the vast majority of its turnover and profits from charges for services provided by its transmission business (the "Transmission Business") to, inter alia, generators, interconnector owners and users, distributors, suppliers and directlyconnected customers.

As the electricity transmission asset owner in England and Wales, NGET:

- owns and maintains assets comprising 8,671 miles of high-voltage overhead lines, 420 miles of underground cables and 337 substations at 244 sites;
- develops the network to accommodate new connections and disconnections; and
- manages a programme of asset replacement and investment to ensure the long term reliability of the system.

Revenue from charges for using the transmission network and charges for connections made before March 1990 is controlled by revenue restriction conditions set out in the Transmission Licence. This revenue restriction, known as a price control, takes into account, among other factors, operating expenditure, capital expenditure and cost of capital (which for the current five-year price control which commenced on 1 April 2007, is at a post-tax real rate of 4.4 per cent. on its regulatory asset value). In addition, the costs of non-domestic rates and the fees payable by NGET to the Gas and Electricity Markets Authority ("GEMA") under the Transmission Licence are passed directly through to NGET's customers through its charges.

NGET is permitted to set charges for connections to the transmission system in Great Britain made since March 1990 to recover the costs directly or indirectly incurred in providing connections, together with a reasonable rate of return on such costs.

As Great Britain System Operator ("GBSO"), NGET is responsible for the residual balancing of generation and demand in the Great Britain electricity market and ensuring the secure, reliable and efficient delivery of electricity in real-time. As GBSO, NGET is the counterparty for all connection and use of system agreements in Great Britain with generators, suppliers, distributors and interconnector owners and users. It levies charges to fund balancing activities and transmission services which are provided by NGET in England and Wales and by the transmission system owners in Scotland.

Revenue from charges for provision of balancing services is usually regulated under an annual incentive scheme, where benefits of external cost savings in system operation compared to targets are shared with customers. NGET is also incentivised over the five years of the price control in relation to its internal costs of providing balancing services and is subject to wider statutory and licence obligations in relation to the external costs of providing those services.

National Grid Electricity Transmission has four wholly-owned subsidiaries, NG Leasing Limited, NGET Finance (No 1) plc, NGC Employee Shares Trustee Limited (dormant) and Elexon Limited (solely as nominee shareholder).

Board of Directors

The Directors of NGET and their principal activities outside the NGET Group are as follows:

Name	Title	Principal Activities outside NGET Group
Nick Winser	Chief Executive	Executive Director of National Grid plc. Director of National Grid USA and National Grid Gas plc.
Andy Chapman	Finance Director	Director of National Grid Gas plc and Director of National Grid Interconnectors Ltd.
Malcolm Cooper	Director	Group Tax and Treasury Director of National Grid plc, Director of British Transco Capital Inc., British Transco Finance Inc, National Grid Commercial Holdings Ltd, National Grid Holdings One plc, National Grid International Limited, Lattice Group plc, National Grid Insurance Company (Isle of Man) Ltd and The Association of Corporate Treasurers.
Mark Fairbairn	Director	Executive Director of National Grid plc, Director of National Grid Gas Holdings plc and National Grid Gas plc.
Paul Whittaker	Director	UK Director of Regulation for National Grid plc, and Director of National Grid Gas plc.

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

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

Regulation

The electricity industry in Great Britain is regulated under the Electricity Act, as modified by the Utilities Act 2000 and Energy Act 2004. This legislation establishes the GEMA as the specialist economic sectoral regulator with responsibility for both the electricity industry and the onshore gas industry and provides that various activities may not be conducted unless the person carrying on those activities is either exempted from the requirement to hold a licence, or holds the relevant licence. The licenseable activities established under the Electricity Act are the generation, participation in transmission, distribution and supply of electricity together with participation in the operation of an electricity interconnector.

The Electricity Act (together with the Transmission Licence) requires NGET to:

- develop, operate and maintain an efficient, co-ordinated and economical system of electricity transmission; and
- facilitate competition in the supply and generation of electricity.

GEMA is responsible for the supervision and enforcement of the licensing regime (although the Secretary of State does retain some limited functions). Under the Electricity Act, GEMA's (and the Secretary of State's) principal objective in carrying out its functions is to protect the interests of consumers in relation to electricity conveyed by distribution systems or transmission systems, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission, distribution or supply of electricity or the provisions or use of electricity interconnectors.

GEMA must, in carrying out its functions, have regard to:

- the need to secure that all reasonable demands for electricity are met; and
- the need to secure that licence holders are able to finance their activities.

The Transmission Licence can only be amended in accordance with the Electricity Act. The Transmission Licence came into effect on privatisation and, unless revoked, will continue in force until determined by not less than 25 years' notice by the Secretary of State. The Transmission Licence may also be revoked by the Secretary of State on shorter notice (immediately or not less than 30 days) in specified circumstances, including non-payment of fees or penalties, insolvency, cessation of the Transmission Business and non-compliance with enforcement orders made by GEMA and non-compliance with orders issued under certain provisions of general competition legislation.

The Transmission Licence also contains conditions which have the effect of "ring fencing" NGET's business. These include:

- prohibiting NGET from carrying on activities other than those permitted by the Transmission Licence;
- requiring that the business has sufficient managerial and financial resources available to it to conduct its licensed activities;
- requiring NGET to maintain an investment grade issuer credit rating;

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- prohibiting NGET from creating indebtedness (except in limited circumstances) other than on an arm's length basis on normal commercial terms for one of its permitted purposes;
- prohibiting the creation of "cross-default" obligations; and
- prohibiting NGET from giving or receiving any cross-subsidy to or from any other group business.

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

NGET is prohibited by the Transmission Licence from purchasing or otherwise acquiring electricity on its own account for the purpose of sale to third parties. Since the introduction of the New Electricity Trading Arrangements ("NETA") in April 2001, the exceptions to the prohibition have changed so that NGET may purchase electricity where required as part of the activity of procuring balancing services in its role as GBSO or where the purchase or acquisition has the consent of GEMA.

Recent Developments

The previous price control arrangements for NGET's electricity network ceased on 31 March 2007 and the next price control arrangements cover the period from 1 April 2007 to 31 March 2012. NGET accepted Ofgem's final proposals in respect of its role as owner of the electricity transmission network and the necessary licence amendments to enact the final proposals have been implemented with effect from 1 April 2007. The key elements of these proposals are a 4.4 per cent. post-tax real rate of return on its regulatory asset value, a £3 billion baseline five year capital expenditure allowance (in 2004/2005 prices) and a £1.3 billion five year operating expenditure allowance (in 2004/2005 prices). NGET has also accepted Ofgem's final proposals for the system operator schemes:

- covering the external costs of its system operation role to apply for one year from 1 April 2007; and
- the internal costs of system operation to apply for the five years from 1 April 2007. (ii)

These proposals have been implemented through licence changes to NGET's Transmission Licence.

NGET continues to work with the U.K. Government and Ofgem to make possible the necessary investments in the electricity transmission network to support the development of renewable energy projects. In addition to the increase in capital investment allowances agreed in the transmission price control, NGET also has a separate allowance of £107 million (in 2004/2005 prices) for the upgrade of the Anglo-Scottish interconnector and associated works. As at 31 March 2007, access is being sought by approximately 12 GW of renewable generation consisting of 165 projects, each with connection agreements in Scotland. For England and Wales, connection offers have been made to an additional 5 GW of renewable generation.

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. 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 and should be treated with appropriate caution. 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.

1 U.K. Withholding Tax on U.K. Source Interest

The Instruments issued by an 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. Section 1005 Income Tax Act 2007 provides that securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange. Whilst the Instruments are and continue to be quoted Eurobonds, payments of interest 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 may fall to be paid under deduction of United Kingdom income tax at the savings rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply. However, this withholding 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 are not issued under arrangements the effect of which is to render such Instruments part of a borrowing with a total term of a year or more.

2 Provision of Information

Instrumentholders should note that where any interest on Instruments or amounts due on redemption of any Instruments which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 is paid to them (or to any person acting on their behalf) by the relevant Issuer or any person in the United Kingdom acting on behalf of such Issuer (a "paying agent"), or is received by any person in the United Kingdom acting on behalf of the relevant Instrumentholder (other than solely by clearing or arranging the clearing of a cheque) (a "collecting agent"), then the relevant Issuer, the paying agent or the

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collecting agent (as the case may be) may, in certain cases, be required to supply to HM Revenue and Customs details of the payment and certain details relating to the Instrumentholder (including the Instrumentholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Instrumentholder is resident in the United Kingdom for United Kingdom taxation purposes. Where the Instrumentholder is not so resident, the details provided to HM Revenue and Customs may, in certain cases, be passed by HM Revenue and Customs to the tax authorities of the jurisdiction in which the Instrumentholder is resident for taxation purposes. However, in relation to amounts payable on the redemption of such Instruments HM Revenue & Customs published practice* indicates that HM Revenue & Customs will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2008.

3 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 will not generally be subject to any United Kingdom withholding tax pursuant to the provisions mentioned above, but may be subject to reporting requirements as outlined 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. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as 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 and an appropriate claim is submitted to HM Revenue & Customs by the recipient of the interest.
- The references to "interest" above mean "interest" as understood in United Kingdom tax law. 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.
- The above description of the United Kingdom withholding tax position assumes that there will be no substitution of an Issuer and does not consider the tax consequences of any such substitution.

4 EU Savings Directive

Under EU Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual or to certain other persons resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

^{*} See paragraph 4.5 of HM Revenue & Custom's Section 18 Guidance Notes. (http://www.hmrc.gov.uk/esd-guidance/s18-guidance-note-07.pdf).

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Also, a number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

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PLAN OF DISTRIBUTION

Summary of Agreement

Subject to the terms and on the conditions contained in a dealer agreement dated 11 August 2006 (as amended or supplemented from time to time), between the Issuers, the Permanent Dealers and the Arranger (the "Dealer Agreement"), the Instruments will be offered on a continuous basis by each of the Issuers to the Permanent Dealers. However, the Issuers have reserved the right to issue Instruments directly on their own behalf to dealers which are not Permanent Dealers. The Instruments may also be issued by each of the Issuers through the Dealers, acting as agents of the Issuers. 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 commissions in respect of an issue of Instruments on a syndicated basis will be stated in the relevant Final Terms. Each of the Issuers have agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Instruments.

Selling Restrictions

United States

The Instruments have not been and will not be registered under the United States Securities Act of 1933 as amended (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations under it.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver the Instruments of any identifiable Tranche, (a) as part of their distribution at any time or (b) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the relevant Issuer, by the Issuing and Paying Agent, or in the case of Instruments issued on a syndicated basis, the Lead Manager, 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, 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 represents, warrants and agrees 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

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and will not make an offer of Instruments which are the subject of the offering contemplated by the 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 Instruments to the public in that Relevant Member State:

- (a) in the final terms in relation to the Instruments, which specify that an offer of those Instruments is being made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "Non-Exempt Offer"), in the period beginning on the date of publication of a prospectus in relation to those Instruments which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt offer, in accordance with the Prospectus Directive, and ending on the date specified in such prospectus in final terms, as applicable;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (d) at any time to fewer than 100 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:
- (e) at any time if the denomination per Instrument being offered amounts to at least €50,000; or
- (f) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive
- (g) provided that no such offer of Instruments referred to in (a) to (f) 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 in that Member State.

United Kingdom

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

(a) in relation to any Instruments which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Instruments other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect

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CRC: 13075 EDGAR 2 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 relevant 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 relevant Issuer; and
- (c) it has complied and will comply with all applicable provisions of 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 Securities and Exchange Law of Japan (the "Securities and Exchange Law"). Accordingly, each of the Dealers has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Instruments in Japan or to, or for the benefit of, any resident of Japan 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 Securities and Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

General

These selling restrictions may be modified by the agreement of the relevant Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Instruments to which it relates or in a supplement to this Prospectus.

No action has been or will be taken in any country or jurisdiction by the Issuers 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 Issuers 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 purchases, offers, sells or delivers Instruments or has in its possession or distributes this Prospectus, any other offering material or any Final Terms and neither the Issuers nor any other Dealer shall have responsibility for such material.

FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Instruments will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Instruments and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated [•]

[NATIONAL GRID PLC/NATIONAL GRID ELECTRICITY TRANSMISSION PLC]*

Issue of [Aggregate Nominal Amount of Tranche] [Title of Instruments] under the Euro 15,000,000,000 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 2 August 2007 [and the supplemental Prospectus dated [•]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Prospectus. [The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing [at [website] [and] during normal business hours at [address] [and copies may be obtained from [address]].

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [•]]. This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive") and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [•]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Prospectus dated [original date] [and the supplemental Prospectus dated [•]] and are attached hereto. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Prospectuses dated [original date] and [current date] [and the supplemental Prospectuses dated [•] and [•]]. [The Prospectuses [and the supplemental Prospectuses] are available for viewing [at [website] [and] during normal business hours at [address] [and copies may be obtained from [address]].

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

Delete as applicable.

1.	(i)	Issuer:	ſΝati	onal Grid plc/National Grid Electricity Transmission plc]†	
			-	-	
2.	(i)	Series Number:	[1	
	(ii)	Tranche Number:	[1	
	that	ngible with an existing Series, details of Series, including the date on which the uments become fungible).]			
3.	Spec	cified Currency or Currencies:	[1	
4.	Aggr	regate Nominal Amount:	[1	
	[(i)]	Series:	[1	
	[(ii)	Tranche:	[]]	
5.	Issue	e Price:	[[inse] per cent of the Aggregate Nominal Amount [plus accrued interest from rt date] (if applicable)]	
6.	(i)	Specified Denominations:	[[] [‡]]	
				e – where multiple denominations above €50,000 (or equivalent) are being the following sample wording should be followed:	
			[\in 50,000] and integral multiples of [\in 1,000] in excess thereof [up to and including [\in 99,000]. No instruments in definitive form will be issued with a denomination above [\in 99,000]].]		
	(ii)	Calculation Amount:	than Ther	only one Specified Denomination, insert the Specified Denomination. If more one Specified Denomination, insert the highest common factor] [Note: e must be a common factor in the case of two or more Specified ominations]	
7.	[(i)]	Issue Date:	[1	
	[(ii)]	Interest Commencement Date	[Spe	cify/Issue Date/Not Applicable]	
8.	Matu	rrity Date:		cify date or (for Floating Rate Instruments) Interest Payment Date falling in earest to the relevant month and year]	

Delete as applicable

Instruments which have a maturity of less than one year must have a minimum denomination of £100,000 (or it equivalent in other currencies)

Interest Payment Date(s):

Fixed Coupon Amount[(s)]:

(ii)

9.	Intere	est Basis:	[[•] per cent. Fixed Rate] [[specify reference rate] +/- [•] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (specify)] (further particulars specified below)
10.	Rede	emption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (specify)]
			[N.B. If the Final Redemption Amount is less than 100 per cent. of the nominal value, the Instruments will constitute derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation No.809/2004 will apply and the Issuer will prepare and publish a supplement to the Prospectus.]
11.	Char Basis	•	[Specify details of any provision for convertibility of Instruments into another interest or redemption/ payment basis]
12.	Put/C	Call Options:§	[Investor Put]
			[Issuer Call] [(further particulars specified below)]
13.	(i)	Status of the Instruments:	Senior
		Date [Board] approval for issuance of Instruments obtained:	[] [and [], respectively]] (N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Instruments)]
14.	Meth	od of distribution:	[Syndicated/Non-syndicated]
PR	ovisi	ONS RELATING TO INTEREST (IF AN	Y) PAYABLE
15.	Fixed	d Rate Instrument Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i)	Rate[(s)] of Interest:	[] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] i arrear]

[•] per Calculation Amount

] in each year

[

If Instruments are issued by National Grid, only insert any additional put/call option other than the National Grid Restructuring Put contained in Condition 5.6 and the call option contained in Condition 5.5.1. This does not include the National Grid or NGET Restructuring Put in Condition 5.6.

	(iv)	Broken Amount(s):	[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on][•]
	(v)	Day Count Fraction (Condition 3.2.5):	[30/360 / Actual/Actual ([ICMA]/ISDA)/other]
	(vi)	Determination Dates (Condition 3.2.5):	[] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual ([ICMA]))
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Instruments:	[Not Applicable/give details]
16.	Floa	ting Rate Instrument Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i)	Interest Period(s):	[]
	(ii)	Specified Interest Payment Dates:	[]
	(iii)	Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/ other (<i>give details</i>)]
	(iv)	First Interest Payment Date:	[]
	(v)	Business Centre(s) (Condition 3.2.5):	[]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (give details)]
	(vii)	Interest Period Date(s):	(Not Applicable unless different from Interest Payment Date)
	(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[]
	(ix)	Screen Rate Determination (Condition 3.2.3(b)):	
		- Reference Rate:	[]
		Interest Determination Date(s):	[[][TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual

Period/each Interest Payment Date]] - Relevant Screen Page:] - Reference Banks (if Primary Source [Specify five] is "Reference Banks"): ISDA Determination (Condition 3.2.3 (x) (a)): - Floating Rate Option: [] - Designated Maturity:] - Reset Date:] - [ISDA Definitions: (if different from [2000/2006]] those set out in the Conditions) (xi) Margin(s): [+/-][] per cent. per annum (xii) Minimum Rate of Interest:] per cent. per annum (xiii) Maximum Rate of Interest:] per cent. per annum (xiv) Day Count Fraction (Condition 3.2.5): (xv) Fall back provisions, rounding] provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Instruments, if different from those set out in the Conditions: 17. Zero Coupon Instrument Provisions [Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph) Amortisation Yield (Condition 5.4): (i)] per cent. per annum Day Count Fraction (Condition 3.2.5): (ii)] Any other formula/basis of determining [] amount payable:

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18.	Inde	x-Linked Interest Instrument		olicable/Not Applicable] ot applicable, delete the remaining sub-paragraphs of this paragraph
	(i)	Index/Formula/other variable:	[give	e or annex details]
	(ii)	Interest Rate:	[]
	(iii)	Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Calculation Agent):	[
	(iv)	Provisions for determining Coupon calculated by reference to Index and/or Formula and/or other variable:	[]
	(v)	Interest Determination Date(s)	[]
	(vi)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted	[]
	(vii)	Interest Payment Dates:	[]
	(viii)	First Interest Payment Date:	[]
	(ix)	Interest Period(s):	[]
	(x)	Business Day Convention:		owing Business Day Convention/Modified Following Business Day vention/Preceding Business Day Convention/other (give details)]
	(xi)	Minimum Indexation Factor:	[Not	Applicable/specify]
	(xii)	Business Centre(s) (Condition 3.2.5):	[]
	(xiii)	Maximum Indexation Factor:	[Not	Applicable/specify]
	(xiv)	Limited Indexation	[] per cent per annum

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		Month(s) or Period for calculation of Limited Indexation Factor:		
	(xv)	Base Index Figure:	[]
	(xvi)	Day Count Fraction (Condition 3.2.5):	[]
	(xvii)	"Index" or "Index Figure" (Condition 4.1):		-paragraph [(i)/(ii)/(iii)] of the definition of "Index" or "Index Figure" as set ondition 4.1 shall apply
	(xviii)	Reference Gilt:	[•]	
19.	Dual	Currency Instrument Provisions		olicable/Not Applicable] ot applicable, delete the remaining sub-paragraphs of this paragraph)
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[give	e details]
	(ii)	Calculation Agent, if any, responsible for calculating the principal and/or interest due:]]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:]]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:]	1
	(v)	Day Count Fraction (Condition 3.2.5):	[]
PR	ovisi	ONS RELATING TO REDEMPTION		
20.	Resid	dual Holding Call Option		olicable/Not Applicable] ot applicable, delete the remaining sub-paragraphs of this paragraph)
	(i)	Residual Holding Percentage:	[•]	per cent.
	(ii)	Party responsible for calculating the Residual Holding Redemption Amount (if not the Calculation Agent):]]

	(iii)	Benchmark Security:	[Spe	cify Government Security/swap benchmark]
	(iv)	Benchmark Spread:	[] per cent. per annum
	(v)	Benchmark Day Count Fraction:	[]
	[(vi)	Other relevant provisions:	[
21.	Call	Option**		licable/Not Applicable] ot applicable, delete the remaining sub-paragraphs of this paragraph)
	(i)	Optional Redemption Date(s):	[]
	(ii)	Optional Redemption Amount(s) of each Instrument and method, if any, of calculation of such amount(s):	[] per Calculation Amount
	(iii)	If redeemable in part:		
		(a) Minimum nominal amount to be redeemed:	[] per Calculation Amount
		(b) Maximum nominal amount to be redeemed:	[] per Calculation Amount
	(iv)	Option Exercise Date(s):	[]
	(v)	Notice period (if other than as set out in the Conditions)	[]
22.	Put	Option ^{††}		licable/Not Applicable] ot applicable, delete the remaining sub-paragraphs of this paragraph)
	(i)	Optional Redemption Date(s):	[]
	(ii)	Optional Redemption Amount(s) of each Instrument and method, if any, of calculation of such amount(s):	[] per Calculation Amount
	(iii)	Option Exercise Date(s):	[]

[&]quot; This does not include the tax call in Condition 5.2 or the call option contained in Condition 5.5.1

 $^{^{\}dagger\dagger}$ $\,$ This does not include the National Grid or NGET Restructuring Put in Condition 5.6.

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	(iii)	Notice period (if other than as set out in the Conditions)	[]
23.	NGE	T Restructuring Put Option:	[App	licable/Not Applicable]
24.		l Redemption Amount of each ument:	[] per Calculation Amount
	(i)	Index/Formula:	[give	or annex details]
	(ii)	Calculation Agent responsible for calculating the Final Redemption Amount:]	1
	(iii)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[give	or annex details]
	(iv)	Determination Date(s):	[]
	(v)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[1
	(vi)	Payment Date:		
	(vii)	Minimum Final Redemption Amount:	[] per Calculation Amount
	(viii)	Maximum Final Redemption Amount:	[] per Calculation Amount
25.	Early	Redemption Amount		
	(i)	Early Redemption Amount(s) of each Instrument payable on redemption for taxation reasons (Condition 5.2) or on Event of Default (Condition 9) or other early	[1

redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):

Redemption for taxation reasons permitted on days other than Interest Payment Dates (Condition 5.2)

[Yes/No]

Unmatured Coupons to become void upon early redemption (Condition 6.5) [Yes/No/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

26. Form of Instruments: **Bearer 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 in the limited circumstances specified in the temporary Global Instrument]

[permanent Global Instrument exchangeable for Definitive Instruments in the limited circumstances specified in the permanent Global Instrument] [Yes] [No]^{‡‡}

27. New Global Note

28. Financial Centre(s) or other special provisions relating to Payment Dates (Condition 6.6):

[Not Applicable/give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items 16(iv) and 18(vii) relate]

29. Applicable TEFRA exemption:

[C Rules/D Rules/Not Applicable]

30. Talons for future Coupons or Receipts to be [Yes/No. If yes, give details] attached to Definitive Instruments (and dates on which such Talons mature):

31. Details relating to Partly Paid Instruments: amount of each payment comprising the Issue Price and date on which each payment is to be made and

[Not Applicable/give details]

You should only elect "yes" opposite "New Global Note" if you have elected "yes" to the Section in Part B under the heading "Operational Information" entitled "Intended to be held in a manner which would allow Eurosystem eligibility".

consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Instruments and interest due on late payment:

32.	Details relating to Instalment Instruments:	[No	ot Applicable/give details]
	- Amount of each instalment:	[]
	 Date on which each payment is to be made: 	[1
	- Maximum Instalment Amount:	[]
	- Minimum Instalment Amount:	[]
33.	Redenomination, renominalisation and reconventioning provisions:	[No	ot Applicable/ give details]
34.	Consolidation provisions:	[No	ot Applicable/ give details]
35.	Other final terms:	[No	ot Applicable/give details]
		wh trig	then adding any other final terms consideration should be given as to ether such terms constitute a "significant new factor" and consequently ager the need for a supplement to the Prospectus under Article 16 of the ospectus Directive.)
DIS.	TRIBUTION		

36. (i) If syndicated, names of Managers: [Not Applicable/give names] (ii) Stabilising Manager(s) (if any): [Not Applicable/give name] If non-syndicated, name of Dealer: [Not Applicable/give name] 37. Additional selling restrictions: [Not Applicable/give details]

[PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Instruments described herein pursuant to the Euro Medium Term Note Programme of National Grid plc and National Grid Electricity Transmission plc.]

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RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[•] has been extracted from [•]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By:

Duly authorised

PART B - OTHER INFORMATION*

1	_	LI	S	TΙ	Ν	G

(i) Listing: [London/other (specify)/None]
 (ii) Admission to trading: [Application has been made for the Instruments to be admitted to trading on the London Stock Exchange plc's Gilt-Edged and Fixed Interest Market with effect from [].] [Not Applicable.]
 (iii) Estimate of total expenses related to admission to trading:

2. RATINGS

Ratings: The Instruments to be issued have been rated:

[S & P: []] [Moody's: []] [[Fitch: []] [[Other]: []]

(The above disclosure should reflect the rating allocated to Instruments of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. NOTIFICATION

The Financial Services Authority [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the update of the Programme and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.

4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

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

If an issue of Instruments is (i) NOT admitted to trading on a regulated market within the European Economic Area and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the Issuer may elect to amend and/or delete certain of the above paragraphs of Part B.

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[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

[5.	REASONS FOR THE OFFER, ESTIMA	ATED NET PROCEEDS AND TOTAL EXPENSES
	[(i)Reasons for the offer	[] (See ["Use of Proceeds"] wording in Prospectus – if reasons for offer different from general corporate purposes will need to include those reasons here.)]
	[(ii)] Estimated net proceeds:	[] (If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)
	[(iii) Estimated total expenses:	[] [Include breakdown of expenses.]
		([If the Instruments are derivative securities for which Annex XII of the Prospectus Directive Regulation applies it is] only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]*
6.	[Fixed Rate Instruments only – YIELI	D
	Indication of yield:	

7. [Index-Linked Instruments only – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING

indication of future yield.]

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an

[(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

^{*} Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained] [does not intend to provide post-issuance information]*.

8. [Dual Currency Instruments only - PERFORMANCE OF RATE[S] OF EXCHANGE

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]*

[(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

OPERATIONAL INFORMATION	
ISIN Code:	[]
Common Code:	[]
Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking société anonyme and the relevant identification number (s):	[Not Applicable/give name(s) and number(s) [and address(es)]]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	[]
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes][No] [Note that the designation "Yes" simply means that the Instruintended upon issue to be deposited with Euroclear or Clearstream, Lux Common Safekeeper and does not necessarily mean that the Instrume

[Yes][No] [Note that the designation "Yes" simply means that the Instruments are intended upon issue to be deposited with Euroclear or Clearstream, Luxembourg 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 satisfaction of the Eurosystem eligibility criteria.] [Include this text if "Yes" selected in which case the Instruments must be issued in NGN form]

10 GENERAL

9.

The aggregate principal amount of Instruments issued has been translated into Euro at the rate of [•], producing a sum of (for

[Not Applicable/[[Euro]][•]]

Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID Y59930.SUB, DocName: EX-2.B.5.1, Doc: 4, Page: 102

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Instruments not denominated in Euro):

Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 11.1:

[Not Applicable/give details]

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CRC: 59383 EDGAR 2 **GENERAL INFORMATION**

1. The admission of the Programme to listing on the Official List of the U.K. Listing Authority and to trading on the Market is expected to take effect on or about 7 August 2007. The listing of the Instruments on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). Any Tranche of Instruments intended to be admitted to listing on the Official List of the U.K. Listing Authority and admitted to trading on the Market will be so admitted to listing and trading upon submission to the U.K. Listing Authority and the Market (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 Market, subject in each case to the issue of the relevant Instruments. Prior to official listing, dealings will be permitted by the Market in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

However, Instruments may be issued pursuant to the Programme which will not be admitted to listing and/or trading by the U.K. Listing Authority or the Market or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing, trading and/or quotation by such listing authority, stock exchange and/or quotation system as the relevant Issuer and the relevant Dealer(s) may agree.

- 2. National Grid has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the issue and performance of the Instruments.
- 3. NGET has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the issue and performance of the Instruments.
- 4. The establishment of the Programme was authorised by a resolution of the Finance Committee of the Board of Directors of National Grid (which was established by a resolution of the Board of Directors of National Grid passed on 21 October 2002) passed on 23 October 2002.
- 5. The establishment of the Programme was authorised by resolutions of the Finance Committee of the Board of Directors of NGET (which was established by a resolution of the Board of Directors of NGET passed on 19 November 2002) passed on 19 November 2002.
- 6. The update of the Programme was authorised by a resolution of the Finance Committee of the Board of Directors of National Grid (which was established by a resolution of the Board of Directors of National Grid passed on 21 October 2002) passed on 28 October 2004. The increase of the Programme limit to €15,000,000,000 was authorised by a resolution of the Finance Committee of the Board of Directors of National Grid passed on 23 April 2007.
- 7. The update of the Programme was authorised by a resolution of the Finance Committee of the Board of Directors of NGET (which was established by a resolution of the Board of Directors of NGET passed on 19 November 2002) passed on 28 October 2004. The increase of the Programme limit to €15,000,000,000 was authorised by a resolution of the Finance Committee of the Board of Directors of NGET passed on 23 April 2007.
- 8. The Instruments have been accepted for clearance through the Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Instruments of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system(s) as shall

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have accepted the relevant Instruments for clearance together with any further appropriate information.

- 9. Neither National Grid nor any of it subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which National Grid is aware) during the 12 months preceding the date of this Prospectus which may have, or have in such period had, significant effects on the financial position or profitability of National Grid or of the National Grid Group.
- 10. Neither NGET nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which NGET is aware) during the 12 months preceding the date of this Prospectus which may have, or have in such period had, significant effects on the financial position or profitability of NGET or of the NGET Group.
- 11. Save as disclosed in the section entitled "Description of National Grid plc Recent Developments" on page 76, there has been no significant change in the financial or trading position of National Grid or the National Grid Group since 31 March 2007 and no material adverse change in the prospects of National Grid since 31 March 2007.
- 12. Save as disclosed in the section entitled "Description of National Grid Electricity Transmission plc Recent Developments" on page 80, there has been no significant change in the financial or trading position of NGET or the NGET Group since 31 March 2007 and no material adverse change in the prospects of NGET since 31 March 2007.
- 13. Pricewaterhouse Coopers LLP, Chartered Accountants and Registered Auditors of 1 Embankment Place, London, WC2N 6RH (members of the Institute of Chartered Accountants in England and Wales), have audited, and rendered unqualified audit reports on, the consolidated financial statements prepared under IFRS of National Grid for the two years ended 31 March 2007.
- 14. Pricewaterhouse Coopers LLP, Chartered Accountants and Registered Auditors of 1 Embankment Place, London, WC2N 6RH (members of the Institute of Chartered Accountants in England and Wales), have audited, and rendered unqualified audit reports on, the consolidated financial statements prepared under IFRS of NGET for the two years ended 31 March 2007.
- 15. Each Instrument, Receipt, 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".
- 16. For so long as the Programme remains in effect or any Instruments are outstanding, copies of the following documents may be inspected during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), at the registered offices of the relevant Issuer and the specified office in London of the Issuing and Paying Agent:
 - (a) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus;
 - (b) the Memorandum and Articles of Association of National Grid;
 - (c) the Memorandum and Articles of Association of NGET;

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- (d) the audited consolidated accounts of National Grid for the financial years ended 31 March 2006 and 31 March 2007, respectively, together with the audit report thereon and any consolidated interim accounts of National Grid published subsequently to such accounts; and
- (e) the audited consolidated accounts of NGET for the two financial years ended 31 March 2006 and 31 March 2007, respectively, together with the audit report thereon.

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, 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/en-gb/pricesnews/marketnews.

REGISTERED OFFICE OF EACH OF THE ISSUERS

1-3 Strand London WC2N 5EH

THE ARRANGER

HSBC Bank plc 8 Canada Square London E14 5HQ

THE DEALERS

ABN AMRO Bank N.V.

250 Bishopsgate London EC2M 4AA

Barclays Bank PLC

5 The North Colonnade Canary Wharf London E14 4BB

Deutsche Bank AG, London Branch

Winchester House
1 Great Winchester Street
London EC2N 2DB

HSBC Bank plc

8 Canada Square London E14 5HQ

Royal Bank of Canada Europe Limited

71 Queen Victoria Street London EC4V 4DE **Banc of America Securities Limited**

5 Canada Square London E14 5AQ

Citigroup Global Markets Limited

Citigroup Centre Canada Square Canary Wharf London E14 5LB

Dresdner Bank AG London Branch

30 Gresham Street London EC2P 2XY

National Australia Bank Limited

88 Wood Street London EC2V 7QQ

The Royal Bank of Scotland plc

135 Bishopsgate London EC2M 3UR

Mitsubishi UFJ Securities International plc

6 Broadgate London EC2M 2AA

LEGAL ADVISERS

To the Dealers and to the Trustee

Clifford Chance LLP

10 Upper Bank Street London E14 5JJ

To the Issuers

Linklaters LLP

One Silk Street London EC2Y 8HQ

THE TRUSTEE

The Law Debenture Trust Corporation p.l.c.

Fifth Floor 100 Wood Street London EC2V 7EX

ISSUING AND PAYING AGENT

The Bank of New York
One Canada SquareLondon E14 5AL

PAYING AGENT

Kredietbank S.A. Luxembourgeoise

43 Boulevard Royal L-2955 Luxembourg

REGISTERED AUDITORS TO EACH OF THE ISSUERS

PricewaterhouseCoopers LLP

1 Embankment Place London WC2N 6RH

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: * Validation: N * Lines: * CRC: *

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EXHIBIT 2(b).5.2

SUPPLEMENTARY PROSPECTUS DATED 4 FEBRUARY 2008



National Grid plc

(incorporated with limited liability in England and Wales on 11 July 2000 under registered number 4031152)

National Grid Electricity Transmission plc (incorporated with limited liability in England and Wales on 1 April 1989 under registered number 2366977)

Euro 15,000,000,000 **Euro Medium Term Note Programme**

This Supplement (the "Supplement") to the Prospectus dated 2 August 2007 (the "Prospectus"), which comprises a base prospectus for each of National Grid plc and National Grid Electricity Transmission plc (together, the "Issuers"), constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the "FSMA"). This Supplement is prepared in connection with the Euro Medium Term Note Programme (the "Programme") established by the Issuers. Terms defined in the Prospectus have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Prospectus and any other supplements to the Prospectus issued by the Issuers.

Each of the Issuers accepts responsibility for the information contained in this Supplement. To the best of the knowledge of each Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Prospectus by this Supplement and (b) any other statement in, or incorporated by reference in, the Prospectus, the statements in this Supplement will prevail.

On 31 January 2008, National Grid plc published its Interim Management Statement for the period 1 October 2007 to 30 January 2008 (the "Interim Management Statement"). A copy of the Interim Management Statement has been filed with the Financial Services Authority and, by virtue of this Supplement, the first two paragraphs of the text under the heading "DIVIDEND POLICY UPDATE" in the Interim Management Statement is incorporated in, and forms part of, the Prospectus. Copies of all documents incorporated by reference in the Prospectus can be obtained from the registered office of the Issuers and the specified office of the Paying Agent for the time being in London, as set out in the Prospectus.

Save as disclosed in this Supplement, no significant new factor, material mistake or inaccuracy relating to information included in the Prospectus has arisen or been noted, as the case may be, in relation to any of the Issuers since the publication of the Prospectus.

An investor should be aware of its rights arising pursuant to Section 87Q(4) of the FSMA.

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EXHIBIT 2(b).6.1

PROSPECTUS



National Grid USA

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

Euro 4,000,000,000 Euro Medium Term Note Programme

Under the Euro Medium Term Note Programme (the "Programme") described in this prospectus (the "Prospectus"), National Grid USA (the "Issuer"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue debt instruments (the "Instruments") denominated in any currency agreed between the Issuer, the Trustee and the relevant Dealer (as defined below). The aggregate nominal amount of Instruments outstanding will not at any time exceed Euro 4,000,000,000 (or its equivalent in other currencies). The Instruments will only be issued in bearer form.

Application has been made to the Financial Services Authority in its capacity as competent authority (the "U.K. Listing Authority") under 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 ple (the "London Stock Exchange") for such Instruments to be admitted to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market (the "Market"). References in this Prospectus to Instruments being "listed" (and all related references) shall mean that such Instruments have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of the Directive 2004/39/EG of the European Parliament and of the Council on markets in financial instruments. The Programme also permits Instruments to be issued on an unlisted basis or to be admitted to listing, authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer. The relevant Final Terms (as defined on page 6) 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 any other listing authority, stock exchange and/or quotation system).

The Instruments have not been and will not be registered under the United States Securities Act of 1933 (the "Securities Act"), and will be issued in bearer form. The Instruments are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S of the Securities Act and the United States Internal Revenue Code of 1986, as amended, and regulations thereunder) except pursuant to an exemption from, or in a transaction not subject to, registration under the Securities Act. For a description of certain restrictions on offers and sales of Instruments and on distribution of this Prospectus or any Final Terms, see "Plan of Distribution".

Each Series (as defined on page 6) of Instruments will be represented by a temporary global instrument in bearer form (each a "temporary Global Instrument") or a permanent global instrument global instrument, the "Global Instruments", and together with the temporary Global Instruments will be delivered on or prior to the original issue date of the relevant Tranche to a common safekseper (the "Common Safekseper") for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") (the "Common Depositary"). 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. Beneficial interests in a temporary Global Instrument will be exchangeable for either (i) a permanent Global Instrument (ii) Definitive Instruments (as defined on page 47), in each case not earlier than 40 days after the issue date upon certification of non-U.S. beneficial ownership. The provisions governing the exchange of interests in any Global Instrument for interests in any other Global Instrument and Definitive Instruments are described in "Summary of Provisions Relating to the Instruments while in Global Form".

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

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 a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the relevant Directive 2003/71/EC (the "Prospectus Directive"), the minimum denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Instruments).

Programme Arranger and Dealer

HSBC

The date of this Prospectus is 3 December 2007

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IMPORTANT NOTICES

This Prospectus comprises a base prospectus (the "Base Prospectus") for the purposes of Article 5.4 of the Prospectus Directive and relevant implementing measures in the United Kingdom and for the purpose of giving information with regard to the Issuer and each of its subsidiaries (together, the "Group") and the Instruments which, according to the particular nature of the Issuer and the Instruments to be issued by it, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the rights attaching to such Instruments.

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

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

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

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

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

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

None of the Dealers, the Arranger or the Trustee have independently verified the information contained in this Prospectus. None of the Dealers, the Arranger or the Trustee makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. Neither this Prospectus nor any other financial statement is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Trustee, the Arranger or the Dealers that any recipient of this Prospectus or any other financial statements should purchase the Instruments. Each potential purchaser of Instruments should determine for itself the relevance of the information contained in this Prospectus and its purchase of Instruments should be based upon such investigation as it deems necessary. None of the Dealers, the Arranger or the Trustee undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus or to advise any investor or potential investor in the Instruments of any information coming to the attention of any of the Dealers, the Arranger or the Trustee.

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

In connection with the issue of any Tranche (as defined in "Overview of the Programme - Method of Issue"), the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") in the applicable Final Terms (or any person acting on behalf of any Stabilising Manager(s)) may over-allot Instruments or effect transactions with a view to supporting the market price of the Instruments at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) or person(s) acting on behalf of any Stabilising Manager(s) in accordance with all applicable laws and rules.

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SUPPLEMENTAL PROSPECTUS

If at any time the Issuer shall be required to prepare a supplemental prospectus pursuant to Section 87G of FSMA ("Supplemental Prospectus"), the Issuer will prepare and make available to the public an appropriate amendment or supplement to this Prospectus or a further prospectus which, 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 FSMA.

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OVERVIEW OF THE PROGRAMME

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

Issuer National Grid USA

Description Euro Medium Term Note Programme

Up to Euro 4,000,000,000 (or its equivalent in other currencies at the date of issue) Size

aggregate nominal amount of Instruments outstanding at any one time.

Arranger HSBC Bank plc Dealer HSBC Bank plc

> The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Prospectus to the "Permanent Dealers" are to the person listed above as Dealer and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and 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

Other Paying Agent Kredietbank S.A. Luxembourgeoise

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 nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final

terms document (the "Final Terms").

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

their nominal amount. Partly Paid Instruments may be issued, the issue price of

which will be payable in two or more instalments.

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. The Temporary

Global Instrument may be deposited on the relevant issue date with

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Clearing Systems

Initial Delivery of Instruments

Currencies

Maturities

a common depositary for Euroclear and Clearstream, Luxembourg and/or any other agreed clearance system. Temporary Global Instruments will be exchangeable, only in the manner and upon compliance with the procedures described herein, (i) for permanent Global Instruments or (ii) for Definitive Instruments, in each case not earlier than 40 days after the issue date, upon certification of non-U.S. beneficial ownership. No interest will be payable in respect of a temporary Global Instrument except as described under "Summary of Provisions Relating to the Instruments while in Global Form". Any permanent Global Instrument shall only be exchanged for Instruments in definitive form in the limited circumstances set out in the permanent Global Instrument.

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

On or before the issue date for each Tranche, if the relevant Global Instrument is intended to be eligible collateral for Eurosystem monetary policy and intra-day credit operations, 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 not intended to be eligible collateral for Eurosystem monetary policy and intra-day credit operations, 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 Issuing and Paying Agent, the Trustee and the relevant Dealer.

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

Subject to compliance with all relevant laws, regulations and directives, 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 FSMA by the Issuer.

Definitive Instruments will be in such denominations as may be specified in 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 a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum denomination shall be €50,000 (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 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 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, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) 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.

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

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Instruments will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Final Terms.

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

Denominations

Fixed Rate Instruments

Floating Rate Instruments

Zero Coupon Instruments

Dual Currency Instruments

Interest Periods and Rates of Interest

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Description: EXH 2(B).6.1 EDGAR 2 Instruments to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.

The relevant Final Terms will specify the basis for calculating the redemption amounts payable, which may be by reference to a formula or as otherwise provided in the relevant Final Terms.

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

The Final Terms issued in respect of each issue of Instruments that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Instruments may be redeemed.

Terms applicable to high interest Instruments, low interest Instruments, step-up Instruments, step-down Instruments, Dual Currency Instruments, reverse Dual Currency Instruments, optional Dual Currency Instruments, Partly-Paid Instruments and any other type of Instrument that the Issuer, the Trustee and any Dealer(s) may agree to issue under the Programme, subject to compliance with all relevant laws, regulations and directives, will be set out in the relevant Final Terms and (if applicable) the relevant Supplemental Prospectus.

The Final Terms issued in respect of each issue of Instruments will state whether such Instruments may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the Instrumentholders, and if so the terms applicable to such redemption.

The Issuer may elect to redeem all, but not some only, of the Instruments of any Series at their Residual Holding Redemption Amount at any time if the Residual Holding Percentage or more of the aggregate nominal amount of such Instruments originally issued shall have been redeemed or purchased and cancelled.

The Instruments will constitute unsubordinated and unsecured obligations of the Issuer, all as described in "Terms and Conditions of the Instruments — Status".

The Instruments will have the benefit of a negative pledge as described in "Terms and Conditions of the Instruments — Status and Negative Pledge".

The Instruments will have the benefit of a cross acceleration provision as described in "Terms and Conditions of the Instruments — Events of Default".

The other events of default under the Instruments are as specified below under "Terms and Conditions of the

Redemption

Redemption by Instalments

Other Instruments

Optional Redemption

Status of Instruments

Negative Pledge

Cross Acceleration

Other Events of Default

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Instruments — Events of Default".

Early Redemption

Except as provided in "Optional Redemption" and "Redemption" above, Instruments will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See "Terms and Conditions of the Instruments — Redemption, Purchase and Options".

Withholding Tax

All payments of principal and interest in respect of the Instruments, Receipts and Coupons will be made free and clear of withholding taxes of the United States of America or any political sub-division of the United States of America or any authority in or of the United States of America having power to tax, unless compelled by law. In that event, the Issuer will, subject to customary exceptions (including the standard EU exceptions), pay such additional amounts as will result in the payment to the Instrumentholders, Receiptholders or Couponholders of the amounts which would otherwise have been received in respect of the Instruments, Receipts and Coupons had no withholding or deduction been made, all as described in "Terms and Conditions of the Instruments — Taxation".

Governing Law

Listing

English

Ratings

Each Series may be admitted to the Official List and admitted to trading on the Market and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed between the Issuer and the relevant Dealer(s) and specified in the relevant Final Terms or may be unlisted.

Selling Restrictions

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

United States, United Kingdom, European Economic Area (in the case of unlisted Instruments) and Japan. See "Plan of Distribution".

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

The Instruments will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2) (i)(D) (the "D Rules") unless the Instruments are issued other than in compliance with the D 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.

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

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Terms and Conditions

The Terms and Conditions applicable to each Series will be as agreed between the Issuer, the Trustee and the relevant Dealer(s) or other subscriber at or prior to the time of issuance of such Series and will be specified in the relevant Final Terms. The Terms and Conditions applicable to each Series will therefore be those as set out in "Terms and Conditions of the Instruments" below as supplemented, modified or replaced by the relevant Final Terms.

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RISK FACTORS

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

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

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

Factors that may affect the Issuer's ability to fulfil its obligations under Instruments issued under the Programme Risks relating to the Issuer and its businesses

Holding company status and changes in law or regulation in the geographies in which the Group operates could have an adverse effect on its results of operations.

The Issuer is a holding company with no business operations of its own and depends on the earnings and cash flow of, and dividends or distributions from, its subsidiaries. The Issuer conducts all of its businesses through its subsidiaries. Each of the Issuer's public utility subsidiaries are subject to various dividend restrictions contained in federal and state regulatory approvals, financing instruments and organisational documents which, under certain circumstances, may limit the ability of these subsidiaries to pay dividends; none of these subsidiaries are currently prohibited from paying a dividend. Many of the Issuer's businesses are utilities that are subject to regulation by governments and other authorities; these businesses' legal authority to pay dividends or make other distributions to the Issuer is subject to regulation by the utility regulatory commissions of the states in which it operates. A significant portion of the Group's revenues in its utility businesses is directly dependent on rates established by federal or state regulatory authorities, and any change in these rates and regulatory structure could significantly impact the Group's financial results. Increases in utility costs, not otherwise offset by increases in revenues or reductions in other expenses, could have an adverse effect on earnings due to the time lag associated with obtaining regulatory approval to recover such increased costs and expenses in rates. Changes in federal law, or in state or local law in the jurisdictions in which the Group operates, could adversely affect it. Regulatory decisions concerning, for example, whether licences or approvals to operate are granted or are renewed, whether there has been any breach of the terms of a licence or approval, the level of permitted revenues for the Group's businesses and proposed business development activities could have an adverse impact on its results of operations, cash flows, the financial condition of its businesses and the ability to develop those businesses in the

Breaches of, or changes in, environmental or health and safety laws or regulations could expose the Group to claims for financial compensation and adverse regulatory consequences, as well as damaging the reputation of the Group.

Aspects of the Group's activities are potentially dangerous, such as the operation and maintenance of electric generation facilities, electricity lines and the transmission and distribution of gas. Electricity and gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of the Group's operations that are not

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currently regarded or proved to have adverse effects but could become so; for example, the effects of electric and magnetic fields. The Group's operations are subject to extensive federal, state and local laws and regulations relating to pollution, the protection of the environment, and how the Group uses and disposes of hazardous substances and waste materials. The Group is also subject to laws and regulations governing health and safety matters protecting the public and its employees. These environmental laws and regulations expose the Group to costs and liabilities relating to its operations and its current and formerly owned properties. Compliance with these legal requirements requires the Group to commit significant capital toward environmental monitoring, installation of pollution control equipment and permits at the Group's facilities. Costs of compliance with these laws and regulations could have a material impact on the Group's businesses and its results of operations and financial position, especially if these laws or regulations are modified to impose additional or more extensive requirements or the number and type of facilities that the Group operates increases. Any breach of these obligations, or even incidents that do not amount to a breach, could adversely affect the Group's results of operations and its reputation.

In addition, a number of the Issuer's businesses are responsible for the clean-up of contamination at certain manufactured gas plant ("MGP") sites and at other sites and the Issuer is aware of additional MGP sites where it may have responsibility for clean-up costs. While some of the Issuer's subsidiaries have rate plans generally allowing for recovery of the costs of investigation and remediation of MGP sites, these rate recovery mechanisms may change in the future. To the extent rate recovery mechanisms change in the future, or if additional environmental matters arise in the future at the Group's currently or historically owned facilities, at sites the Group may acquire in the future or at third-party waste disposal sites, costs associated with investigating and remedying these sites could have a material adverse effect on the Group's results of operations, cash flows and financial condition.

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

The Group may suffer a major network failure or may not be able to carry out critical non-network operations. Operational performance could be adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand or inadequate record keeping. This could cause the Group to fail to meet agreed standards of service or to be in breach of a licence or approval, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming the Group's reputation. In addition to these risks, the Group may be affected by other potential events that are largely outside the Group's control such as the impact of weather or unlawful acts of third parties. Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure will adversely affect operational and potentially business performance. Terrorist attack, sabotage or other intentional acts may also physically damage the Group's businesses or otherwise significantly affect corporate activities and as a consequence have an adverse impact on the results of operations. The cost of repairing damage to the Issuer's operating subsidiaries' facilities and the potential disruption of their operations or supplier operations due to storms, natural disasters, wars, terrorist acts and other catastrophic events could be substantial. The occurrence or risk of occurrence of future terrorist attacks or related acts of war or violence may lead to increased political, economic and financial market instability and volatility in prices which could materially adversely affect the Group in ways it cannot predict at this time. A lower level of economic activity for these or other reasons could result in a decline in energy consumption, which could adversely affect the Group's net revenues.

The Group's results of operations depend on a number of factors relating to business performance including performance against regulatory targets, recovery of incurred expenditure and the delivery of anticipated cost and efficiency savings.

Earnings maintenance and growth from the Group's regulated gas and electricity businesses will be affected by its ability to meet or better efficiency targets set by or agreed with regulators, including, but

not limited to, the levels of synergy and efficiency savings contemplated in connection with the Group's recent acquisition of KeySpan Corporation ("KeySpan"). Under the Group's state rate plans, earnings from its regulated businesses will be affected by its ability to deliver integration and efficiency savings. Earnings from the Group's regulated businesses will be affected by its ability to recover incurred expenditure. Levels of earnings also depend on meeting service quality standards set by regulators. In addition, from time to time, the Group publishes cost and efficiency savings targets for its businesses. The Group has also substantially completed reorganising its operations along lines of business. To meet these targets and standards, the Group must continue to improve operational performance, service reliability and customer service. If the Group does not meet these targets and standards, it is not able to recover incurred expenditure or it does not complete implementation of this reorganisation as envisaged, the Group may not achieve the expected benefits, its business may be adversely affected and its performance, results of operations and its reputation may be harmed.

Business development activity risks.

Business development activities, including acquisitions and disposals, may be based on incorrect assumptions or conclusions; significant liabilities may be overlooked or there may be other unanticipated or unintended effects. The Group has recently completed the acquisition of KeySpan and plans to achieve certain levels of synergy and efficiency savings from this acquisition, but these may not subsequently be achievable. The risks and uncertainties to which KeySpan's operations are subject have been assumed by the Group. Many of these risks and uncertainties are similar to those that are faced by the Group's pre-existing businesses; however, there are some that are not, including, without limitation, risks related to KeySpan's Ravenswood Generating Station.

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

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

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

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

The Group's financial position may be adversely affected by a number of factors including restrictions in borrowing

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

Future funding requirements of Issuer's pension plans could adversely affect the results of operations of the Issuer.

The Issuer participates in a number of pension plans that together cover substantially all of the Issuer's subsidiaries' employees. The principal plans are defined benefit plans where the program assets are held independently of the Issuer's own financial resources. Estimates of the amount and timing of future funding for these plans are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the plan assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require the Issuer to make additional contributions to these pension plans which, to the extent they are not recoverable (under applicable state rate plans, for example) could adversely affect the results of operations of the Issuer.

New or revised accounting standards, rules and interpretations.

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

The Group's operating results may fluctuate on a seasonal and quarterly basis.

and debt arrangements, changes to credit ratings or outlook and effective tax rates.

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

Customers and counterparties to the Group's transactions may fail to perform their obligations, which could harm the Group's results of operations.

The Group's operations are exposed to the risk that customers and counterparties to the Group's transactions that owe it money or supplies will not perform their obligations. The Issuer's KeySpan businesses, for example, derive a substantial portion of revenues in the electric services segment from two customers: the Long Island Power Authority ("LIPA") and the New York Independent System Operator ("NYISO"). The Issuer's KeySpan businesses manage LIPA's transmission and distribution system and supply the majority of LIPA's customers' electricity needs pursuant to a series of agreements with LIPA; the Issuer also sells the capacity, energy and ancillary services from its Ravenswood

Generating Station facility into the NYISO. Should the counterparties to arrangements with the Issuer fail to perform, the Issuer might be forced to enter into alternative hedging arrangements or honour its underlying commitment at then-current market prices that may exceed the Issuer's contractual prices. In such event, the Issuer might incur additional losses to the extent of amounts, if any, already paid to counterparties. This risk is most significant where the Issuer's subsidiaries have concentrations of receivables from gas and electric utilities and their affiliates, as well as industrial customers and marketers throughout the north-east of the United States.

A substantial portion of revenues are derived from agreements with LIPA and no assurances can be made that these arrangements will not be discontinued at some point in the future.

A substantial portion of the Issuer's KeySpan affiliate's revenues in its electric services segment are derived from a series of agreements with LIPA pursuant to which the Issuer manages LIPA's transmission and distribution system and supply the majority of LIPA's customers' electricity needs. These operating agreements provide LIPA with the right to terminate the agreements upon the occurrence of certain events of default, which may result from the change of control of KeySpan, poor performance under the performance metrics under an amended and restated Management Services Agreement (the "2006 MSA") or the Department of Justice's investigation into competitive issues in the New York City electric capacity market which results in a finding triggering an event of default as described below.

On 19 July 2007, LIPA signed an agreement addressing KeySpan's receipt of a Civil Investigative Demand ("CID") for the United States Department of Justice, Antitrust Division ("DOJ") regarding the DOJ's investigation into competitive issues in the New York City electric capacity market. This agreement amends an existing agreement to add an additional event of default, such that LIPA will have the contractual right to terminate such agreement if, in connection with the DOJ's investigation referenced in the CID, (a) there is a finding (through either a final, non-appealable judgment by a court of competent jurisdiction or final consent decree with the DOJ) that KeySpan or any of its affiliates violated Section 1 or 2 of the Sherman Antitrust Act of 1890 and (b) pursuant to which KeySpan or any of its affiliates is assessed or has agreed to be assessed a monetary or criminal penalty or sanction or is the subject of injunctive relief.

Ravenswood Generating Station.

The Issuer has announced that it will be moving expeditiously to divest the Ravenswood Generating Station (a number of generators totalling approximately 2,450 MW). Divestiture of the Ravenswood Generating Station within three years (with a possible one year extension) is a condition of the New York State Public Service Commission ("NYPSC") order approving the acquisition of KeySpan (the "NYPSC Order"). The Issuer cannot predict the timing, terms, or outcome of this divestiture process or its impact on results. Until Ravenswood Generating Station is divested, the Issuer remains subject to risk factors related to the Station, such as:

- (i) as a condition of the NYPSC Order, by 1 January 2008, 100 per cent. of the energy from the Ravenswood Generating Station must be sold via a short term energy agreement;
- (ii) as a condition of the NYPSC Order, the capacity of the Ravenswood Generating Station must initially be bid at zero, commencing with the spot auction the NYISO holds for March 2008 capacity;
- (iii) revisions to the NYISO market rules and Services Tariff;
- (iv) the financial performance of the Ravenswood Generating Station is subject to competition and general economic conditions having an impact on supply and demand as well as other related risks;
- (v) risks related to available sources and cost of fuel; and

(vi) risks related to certain Federal Energy Regulatory Commission ("**FERC**") proceedings concerning New York City's In-City capacity market as explained below.

In addition, under the terms of the NYPSC Order, if the short term energy agreement is delayed Ravenswood Generating Station would be subject to cost-of-service revenue caps. If divestiture is not completed on time, the NYPSC has the right to consider all options, including cost-of-service revenue caps and the possible requirement that the Group pays U.S.\$15 million per month into a fund for the benefit of certain affected electric customers.

Additional risks include, but are not limited to, the following:

- inflationary trends and increases in prevailing interest rates on the Group's borrowings as well as general economic conditions, especially in the northeast United States;
- creditworthiness of counterparties to derivative instruments and commodity contracts;
- retention of key personnel and the Group's ability to successfully negotiate extensions to collective bargaining agreements;
- potential write-down of the Group's investment in gas properties when gas prices are depressed or if the Group has significant downward revisions in its estimated proved gas reserves;
- the degree to which the Group develops unregulated business ventures as well as federal and state regulatory policies affecting the ability of the Group to retain and operate such business ventures profitably;
- a change in the fair market value of the Group's investments that could cause a significant change in the carrying value of such investments or the carrying value of related goodwill;
- the Group's insurance not adequately providing coverage for certain hazards, such as unexpected outages at critical facilities, damage to pipelines, equipment, properties and people;
- material losses resulting from In-City Unforced Capacity prices being on average less than U.S.\$7.57/kW-month in connection with the financial swap agreement for In-City Unforced Capacity;
- competition facing the Group's unregulated energy services businesses as well as the Group's gas distribution business;
- other risks detailed from time to time in other reports and other documents filed by the Group or its affiliates with the SEC.

For additional background information related to these risk factors, see "Description of National Grid USA" contained herein.

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

Instruments may not be a suitable investment for all investors

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

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Instruments, the merits and risks of investing in the relevant Instruments and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

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

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

Risks related to the structure of a particular issue of Instruments

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

Instruments subject to optional redemption by the Issuer

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

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

Dual Currency Instruments

The Issuer may issue Instruments with principal or interest payable in one or more currencies which may be different from the currency in which the Instruments are denominated. 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 or in a different currency than expected; and
- (iv) the amount of principal payable at redemption may be less than the nominal amount of such Instruments or even zero;

Partly-paid Instruments

The Issuer may issue Instruments where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Instruments with a multiplier or other leverage factor

Instruments with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

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 nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to Instruments generally

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

Modification, waiver and substitution

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

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

European Monetary Union

If the United Kingdom joins the European Monetary Union prior to the maturity of the Instruments, there is no assurance that this would not adversely affect investors in the Instruments. It is possible that prior to the maturity of the Instruments the United Kingdom may become a participating Member State and that the Euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of any Instruments denominated in Sterling may become payable in Euro (ii) the law may allow or require such Instruments to be re-denominated into Euro and additional measures to be taken in respect of such Instruments; and (iii) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on such Instruments or changes in

the way those rates are calculated, quoted and published or displayed. The introduction of the Euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Instruments.

EU Savings Directive

Under EU Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual or certain other persons resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Also, a number of non-EU countries and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

If a payment in respect of an Instrument which is the subject of the Directive were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to such Instrument as a result of the imposition of such withholding tax. However, the Issuer is required, save as provided in Condition 5.4, to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing the Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

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.

Risks related to the market generally

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

The secondary market generally

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

The Clearing Systems

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

Instruments may be represented by one or more temporary Global Instruments or permanent Global Instruments. Such Global Instruments may be deposited with a common depositary 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 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. 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 subsequent changes in market interest rates may 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 an issue of Instruments. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Instruments. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

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Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal 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.

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 and amendment and as supplemented or varied in accordance with the provisions of 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, amended, supplemented or varied (and subject to simplification by the deletion 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**" (as defined below) 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.

National Grid USA (the "Issuer") has established a Euro Medium Term Note Programme (the "Programme") for the issuance of up to Euro 4,000,000,000 in aggregate principal amount of debt instruments (the "Instruments"). The Instruments are constituted by a Trust Deed (as amended or supplemented from time to time, the "Trust Deed") dated 3 December 2007 between the Issuer and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Instrumentholders (as defined below). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Definitive Instruments, Receipts, Coupons and Talons referred to below. An Agency Agreement (as amended or supplemented from time to time, the "Agency Agreement") dated 3 December 2007 has been entered into in relation to the Instruments between the Issuer, the Trustee, The Bank of New York 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 3 December 2007 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") and the holders of the receipts for the payment of instalments of principal (the "Receipts") relating to Instruments of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed 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 provided that 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 a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Instruments).

This Instrument is a Fixed Rate Instrument, a Floating Rate Instrument, a Zero Coupon Instrument, a Perpetual Instrument, an Instalment Instrument, a Dual Currency Instrument or a Partly Paid Instrument, a combination of any of the preceding or any other kind of Instrument, 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, save in the case of Zero Coupon Instruments in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Instalment Instruments are issued with one or more Receipts attached. Title to the Instruments and the Receipts, Coupons and Talons shall pass by delivery and except as ordered by a court of competent jurisdiction or as required by law, the Issuer and the Paying Agents shall be entitled to treat the bearer of any Instrument, Receipt, Coupon or Talon as the absolute owner of that Instrument, Receipt, 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 and the Receipts relating to it, "holder" (in relation to an Instrument, Receipt, Coupon or Talon) means the bearer of any Instrument, Receipt, 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 the Instruments.

2 Status and Negative Pledge

Status 2.1

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

2.2 **Negative Pledge**

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

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

3 Interest

3.1 **Interest on Fixed Rate Instruments**

Each Fixed Rate Instrument bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, payable in arrear on each Interest Payment Date. The amount of Interest payable shall be determined in accordance with Condition 3.8.

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

3.2 **Interest on Floating Rate Instruments**

3.2.1 Interest Payment Dates

Each Floating Rate Instrument bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of Interest payable shall be determined in accordance with Condition 3.8. Such Interest Payment Date(s) is/are either specified in the relevant Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are specified in the relevant Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown on this Instrument as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Business Day Convention 3.2.2

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

3.2.3 Rate of Interest for Floating Rate Instruments

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

ISDA Determination for Floating Rate Instruments: Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For

the purposes of this sub-paragraph (a), "ISDA Rate" for an Interest Accrual Period means a rate equal to the Floating Rate which would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

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

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

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

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

If the Reference Rate from time to time in respect of Floating Rate Instruments is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Instruments will be determined as provided hereon.

(ii) if the Relevant Screen Page is not available or if, sub-paragraph (i)(x) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (i)(y) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation

Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(iii) if paragraph (ii) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

3.3 Zero Coupon Instruments

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

3.4 Dual Currency Instruments

In the case of Dual Currency Instruments, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating a Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified in the relevant Final Terms.

3.5 Partly Paid Instruments

In the case of Partly Paid Instruments (other than Partly Paid Instruments which are Zero Coupon Instruments), interest will accrue as previously stated on the paid-up nominal amount of such Instruments and otherwise as specified in the relevant Final Terms.

3.6 Accrual of Interest

Interest shall cease to accrue on each Instrument on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 3 to the Relevant Date (as defined in Condition 6)

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

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

3.8 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.

Redemption Amounts, Optional Redemption Amounts and Instalment Amounts

3.9 Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early

The Calculation Agent shall as soon as practicable on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Instrumentholders, any other Calculation Agent appointed in respect of the Instruments that is to make a further calculation upon receipt of such information and, if the Instruments are listed on a stock exchange and the rules of such exchange so require, such exchange as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 3.2.3(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Instruments become due and payable under Condition 8, the accrued interest and the Rate of Interest payable in respect of the Instruments shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

3.10 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the preceding provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

3.11 Definitions

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

"Business Day" means:

- (a) in the case of a currency other than Euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (b) in the case of Euro, a day on which the TARGET System is operating (a "TARGET Business Day"); and/or

(c) in the case of a currency and/or one or more Business Centres as specified in the relevant Final Terms, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency or, if no currency is indicated, generally in each of the Business Centres.

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

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

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

where:

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

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

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

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

" 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;

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

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

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where:

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

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

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

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

"D1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

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

where:

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

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

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

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

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

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30; and

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

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

(B) the actual number of days in such Calculation Period falling in the next Determination Period divided by the product of (a) the actual number of days in such Determination Period and (b) the number of Determination Periods in any year,

where:

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

"Determination Date" means the date specified as such in the relevant Final Terms or, if none is so specified, the Interest Payment Date.

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

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

"Interest Amount" means:

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

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

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

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

"Interest Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period

beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

"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., unless otherwise specified in the relevant Final Terms.

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

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

"Reference Banks" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the relevant Final Terms.

"Reference Rate" means the rate specified as such in the relevant Final Terms.

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

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

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor to it.

3.12 Calculation Agent

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the relevant Final Terms and for so long as any Instrument is outstanding. Where more than one Calculation Agent is appointed in respect of the Instruments, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under these Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or 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 Redemption, Purchase and Options

4.1 Final Redemption

Unless previously redeemed, purchased and cancelled as provided below, this Instrument will be redeemed at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) on the Maturity Date specified in the relevant Final Terms provided, however, that if this Instrument is a Perpetual Instrument it will only be redeemable and repayable in accordance with the following provisions of this Condition 4.

4.2 Redemption for Taxation Reasons

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

4.3 Purchases

The Issuer and any of its Subsidiaries may at any time purchase Instruments (provided that all unmatured Receipts and Coupons and unexchanged Talons appertaining to them are attached or surrendered with them) in the open market or otherwise at any price.

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

4.4 Early Redemption

4.4.1 Zero Coupon Instruments

(a) The Early Redemption Amount payable in respect of any Zero Coupon Instrument, the Early Redemption Amount of which is not linked to a formula, upon redemption of such Instrument pursuant to Condition 4.2 or upon it becoming due and payable as provided in Condition 8 shall be the Amortised Face Amount (calculated as provided below) of such Instrument unless otherwise specified in the relevant Final Terms.

(b) Subject to the provisions of sub-paragraph (c) below, the Amortised Face Amount of any such Instrument shall be the scheduled Final Redemption Amount of such Instrument on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is specified in the relevant Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Instruments if they were discounted back to their issue price on the Issue Date) compounded annually.

(c) If the Early Redemption Amount payable in respect of any such Instrument upon its redemption pursuant to Condition 4.2 or, if applicable, Condition 4.5 or upon it becoming due and payable as provided in Condition 8, is not paid when due, the Early Redemption Amount due and payable in respect of such Instrument shall be the Amortised Face Amount of such Instrument as defined in sub-paragraph (b) above, except that such sub-paragraph shall have effect as though the reference in that sub-paragraph to the date on which the Instrument becomes due and payable was replaced by a reference to the Relevant Date as defined in Condition 6. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Instrument on the Maturity Date together with any interest that may accrue in accordance with Condition 3.2.

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

4.4.2 Other Instruments

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

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

- 4.5.1 If (i) Residual Holding Call Option is specified in the relevant Final Terms, and (ii) if at any time the Residual Holding Percentage or more of the aggregate nominal amount of Instruments originally issued shall have been redeemed or purchased and cancelled, the Issuer shall have the option to redeem such outstanding Instruments in whole, but not in part, at their Residual Holding Redemption Amount. Unless otherwise specified in the relevant Final Terms, the Residual Holding Redemption Amount will be calculated by the Calculation Agent by discounting the outstanding nominal amount of the Instruments and the remaining interest payments (if applicable) to the Maturity Date by a rate per annum (expressed as a percentage to the nearest one hundred thousandth of a percentage point (with halves being rounded up)) equal to the Benchmark Yield, being the yield on the Benchmark Security at the close of business on the third Business Day prior to the date fixed for such redemption, plus the Benchmark Spread. Where the specified calculation is to be made for a period of less than one year, it shall be calculated using the Benchmark Day Count Fraction. The Issuer will give not less than 15 nor more than 30 days' irrevocable notice to the Instrumentholders and the Trustee of any such redemption pursuant to this Condition 4.5.1.
- 4.5.2 If Call Option is specified in the relevant Final Terms, the Issuer may, 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

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Issuer's option in relation to, all or, if so provided, some of such Instruments on any Optional Redemption Date 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 the date fixed for redemption. Any such redemption or exercise must relate to Instruments of a nominal amount at least equal to the minimum nominal amount (if any) permitted to be redeemed specified hereon and no greater than the maximum nominal amount (if any) permitted to be redeemed specified on this Instrument.

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

In the case of a partial redemption or a partial exercise of the Issuer's option, the notice to Instrumentholders shall also 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.

4.6 Redemption at the Option of Instrumentholders

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

To exercise such option (which must be exercised on an Option Exercise Date) the holder must deposit 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 Final Terms). No Instrument so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

4.7 Partly Paid Instruments

Partly Paid Instruments will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified in the relevant Final Terms.

4.8 Redemption by Instalments

Unless previously redeemed, purchased and cancelled as provided in this Condition 4, each Instrument which provides for Instalment Dates and Instalment Amounts will be partially redeemed on each Instalment Date at the Instalment Amount specified in the relevant Final Terms. The outstanding nominal amount of each such Instrument shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Instrument, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused on presentation of the related Receipt, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

4.9 Cancellation

All Instruments redeemed pursuant to any of the foregoing provisions will be cancelled forthwith together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto. All Instruments purchased by or on behalf of the Issuer or any of its Subsidiaries may, at the option of the Issuer be held by or may be surrendered together with all unmatured Receipts and Coupons

and all unexchanged Talons attached to them to a Paying Agent for cancellation, but may not be resold and when held by the Issuer or any of its Subsidiaries shall not entitle the holder to vote at any meeting of Instrumentholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Instrumentholders or for the purposes of Condition 10.

5 Payments and Talons

5.1 Payments

Payments of principal and interest in respect of Instruments will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Instrument), Instruments (in the case of all other payments of principal and, in the case of interest, as specified in Condition 5.5.6) or Coupons (in the case of interest, save as specified in Condition 5.5.6), 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.

5.2 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

5.3 Payments subject to Fiscal Laws etc.

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 6. No commission or expenses shall be charged to the Instrumentholders or Couponholders in respect of such payments.

5.4 Appointment of Agents

The Issuing and Paying Agent, the Paying Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent or the Calculation Agent and to appoint additional or other Paying Agents, provided that the Issuer shall at all times maintain (a) an Issuing and Paying Agent, (b) a Paying Agent having its specified office in a major European city, which shall be London so long as the Instruments are admitted to the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market, (c) a Calculation Agent where the Conditions so require one, (d) so long as the Instruments are listed on any stock exchange or admitted to listing by any other relevant authority, a Paying Agent having a specified office in such place as may be required by the rules and regulations of any other relevant stock exchange or other relevant authority and (e) to the extent

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that the Issuer is able to do so and not provided for by the foregoing provisions of this Condition 5.4, a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. 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 5.2.

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

5.5 Unmatured Coupons and Receipts and unexchanged Talons

- 5.5.1 Unless the Instrument provides that the relevant Coupons are to become void upon the due date for redemption of those Instruments, Instruments should be surrendered for payment together with all unmatured Coupons (if any) appertaining to them, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) will be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 7).
- 5.5.2 If the relevant Instrument so provides, 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.
- 5.5.3 If the relevant Instrument so provides, 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.
- 5.5.4 Upon the due date for redemption of any Instrument which is redeemable in instalments, all Receipts relating to such Instrument having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- 5.5.5 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 any unexchanged Talon relating to it, 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.
- 5.5.6 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.

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5.6 Non-business days

If any date for payment in respect of any Instrument, Receipt 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 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:

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

5.7 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 7).

6 Taxation

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

- (a) by or on behalf of, a person who is liable to such taxes or duties in respect of such Instrument, Receipt or Coupon by reason of his having some connection with the United States of America other than the mere holding of such Instrument, Receipt or Coupon; or
- (b) by or on behalf of a person who would not be liable or subject to such deduction or withholding by making a declaration of non-residence or other claim for exemption to a tax authority; or
- (c) more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to such additional amounts on presenting the same for payment on such 30th day; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000; or
- (e) by a holder which is or was a controlled foreign corporation, personal holding company or passive foreign investment company with respect to the United States or a corporation that accumulates earnings to avoid United States federal income tax: or
- (f) if such tax is an estate, inheritance, gift, sales, transfer or personal property tax or any similar tax, assessment, or governance charge; or

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- by a holder which is or has been a "10 per cent. shareholder" of the obligor of the Instruments as defined in Section 871 (g) (h)(3) of the United States Internal Revenue Code or any successor provisions; or
- by or on behalf of a holder who would have been able to avoid such withholding or deduction (i) by presenting the (h) relevant Instrument, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or (ii) by satisfying any statutory or procedural requirements (including, without limitation, the provision of information); or
- in the case of any combination of items (a) to (h) above.

As used in these Conditions, "Relevant Date" in respect of any Instrument, Receipt 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 13 that, upon further presentation of the Instrument, Receipt 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 (a) "principal" shall be deemed to include any premium payable in respect of the Instruments, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 4 or any amendment or supplement to it, (b) "interest" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 3 or any amendment or supplement to it and (c) "principal" and/or "interest" shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

7 Prescription

Instruments, Receipts 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.

8 Events of Default

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

- Non-Payment: there is default for more than 30 days in the payment of any principal or interest due in respect of the (a) Instruments: or
- Breach of Other Obligations: there is default in the performance or observance by the Issuer of any other obligation or (b) provision under the Trust Deed or the Instruments (other than any obligation for the payment of any principal or interest in respect of the Instruments) which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not remedied within 90 days after notice of such default shall have been given to the Issuer by the Trustee; or
- Cross-Acceleration: if (i) any other present or future Relevant Indebtedness of the Issuer or a Principal Subsidiary (c) becomes due and payable prior to its stated maturity by reason of any actual event of default or (ii) any amount in respect of such Relevant Indebtedness is not paid when due or, as the case may be, within any applicable grace period, provided that the aggregate amount of the Relevant Indebtedness in respect of which one or more of the events mentioned above in this

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paragraph (c) have occurred equals or exceeds U.S.\$100,000,000 for the period up to and including 31 March 2017, and thereafter U.S.\$200,000,000 or

- (d) Winding-up: a resolution is passed, or a final order of a court in the United States of America is made and, where possible, not discharged or stayed within a period of 90 days, that the Issuer be wound up or dissolved; or
- Enforcement Proceedings: attachment is made of the whole or substantially the whole of the assets or undertakings of (e) the Issuer and such attachment is not released or cancelled within 90 days or an encumbrancer takes possession or an administrative or other receiver or similar officer is appointed of the whole or substantially the whole of the assets or undertaking of the Issuer or an administration or similar order is made in relation to the Issuer and such taking of possession, appointment or order is not released, discharged or cancelled within 90 days; or
- Insolvency: the Issuer ceases to carry on all or substantially all of its business or is unable to pay its debts; or (f)
- Bankruptcy: the Issuer is adjudged bankrupt or insolvent by a court of competent jurisdiction in the United States of (g) America,

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

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

9 Enforcement

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

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

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

10 Meetings of Instrumentholders, Modifications and Substitution

Meetings of Instrumentholders

The Trust Deed contains provisions for convening meetings of Instrumentholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. An Extraordinary Resolution duly passed at any such meeting shall be binding on Instrumentholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders, except that any Extraordinary Resolution proposed, inter alia,

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(a) to amend the dates of maturity or redemption of the Instruments, any Instalment Date or any date for payment of interest on the Instruments, (b) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Instruments, (c) to reduce the rate or rates of interest in respect of the Instruments or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Instruments, (d) if a Minimum and/or a Maximum Rate of Interest is shown on the face of the Instrument, to reduce any such Minimum and/or Maximum Rate of Interest, (e) to vary any method of calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, (f) to take any steps that as specified in this Instrument may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, and (g) to modify the provisions concerning the quorum required at any meeting of Instrumentholders or the majority required to pass the Extraordinary Resolution will only be binding if passed at a meeting of the Instrumentholders (or at any adjournment of that meeting) at which a special quorum (as defined in the Trust Deed) is present. A resolution in writing signed by the holders of not less than 95 per cent. in nominal amount of the Instruments will be binding on all Instrumentholders and Couponholders. 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).

Modification of the Trust Deed

The Trustee may agree, without the consent of the Instrumentholders or Couponholders, to (a) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error, and (b) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Instrumentholders. Any such modification, authorisation or waiver shall be binding on the Instrumentholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Instrumentholders as soon as practicable.

10.3 Substitution

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Instrumentholders or the Couponholders, to the substitution of any other company in place of the Issuer or of any previous substituted company, as principal debtor under the Trust Deed and the Instruments. In the case of such a substitution the Trustee may agree, without the consent of the Instrumentholders or the Couponholders, to a change of the law governing the Instruments, the Receipts, 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.

Entitlement of the Trustee

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

11 Replacement of Instruments, Receipts, Coupons and Talons

If an Instrument, Receipt, 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 for the purpose and notice of whose designation is given to Instrumentholders in accordance with Condition 13 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, Receipt, 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 on demand the amount payable by the Issuer in respect of such Instruments, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Instruments, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12 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 and so that such further issue shall be consolidated and form a single series with such Instruments.

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

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

13 Notices

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 shall 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.

14 Indemnification of Trustee

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

15 Contracts (Rights of Third Parties) Act 1999

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

16 Governing Law and Jurisdiction

16.1 Governing Law

The Instruments and all matters arising from or connected with the Instruments are governed by, and shall be construed in accordance with, English law.

16.2 Jurisdiction

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

16.3 Process Agent

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

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SUMMARY OF PROVISIONS RELATING TO THE INSTRUMENTS WHILE IN GLOBAL FORM

Initial Issue of Instruments

Upon the initial deposit of a Global Instrument with a common depositary for Euroclear and Clearstream, Luxembourg (the "Common Depositary"), Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Instruments equal to the nominal amount of those Instruments for which it has subscribed and paid.

If the Global Instruments are stated in the applicable Final Terms to be issued in NGN form, they are intended to be eligible collateral for Eurosystem monetary policy and the Global Instruments will be delivered on or prior to the original issue date of the Tranche to a 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.

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

If the Global Instrument is a CGN, upon the initial deposit of a Global Instrument with the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Instruments equal to the nominal amount of those Instruments for which it has subscribed and paid. If the Global Instrument is an NGN, the nominal 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 nominal 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 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 as the holder of an Instrument represented by a Global Instrument must look solely to Euroclear, Clearstream, Luxembourg or such 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 clearing systems (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

clearing system and subsequently found to be forged or not authentic.

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

Exchange

1 Temporary Global Instruments

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

- 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 "Summary of the Programme — Selling Restrictions"), in whole, but not in part, for the Definitive Instruments defined and described below; and
- 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 (i) if the holder of an Instrument gives notice to the Issuing and Paying Agent of its election for such exchange and (ii) otherwise, if the permanent Global Instrument is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an "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.

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 (a) if principal in respect of any Instruments is not paid when due or (b) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms) relating to Partly Paid Instruments.

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 (a) 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 nominal 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 (b) in the case of a Global Instrument exchangeable for Definitive Instruments, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive

Instruments or if the Global Instrument is a 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 and Receipts in respect of interest or Instalment Amounts 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.

6 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:

7 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 in the form set out in the Agency Agreement. All payments in respect of Instruments represented by a Global Instrument 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. 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 a 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 nominal 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.

8 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 6).

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9 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.

10 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 nominal amount of the relevant permanent Global Instrument.

11 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 right to receive all future payments of interest and Instalment Amounts (if any) on those Instruments.

12 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 or Approved Intermediary in respect of the Instruments will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

13 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 stating the nominal 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 nominal amount of the Instruments recorded in those records will be reduced accordingly.

14 NGN nominal amount

Where the Global Note is a 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 nominal amount of the Instruments represented by such Global Instrument shall be adjusted accordingly.

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15 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.

16 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 nominal amount of the Instruments then outstanding or if so directed by an Extraordinary Resolution, shall cause such Global Instrument to become due and repayable in the circumstances described in Condition 8 by stating in the notice to the Issuer the principal amount of such 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 such Issuer under the terms of the Trust Deed unless the Trustee, having become bound to proceed, fails to do so within a reasonable time and such failure is continuing.

17 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.

18 Partly Paid Instruments

The provisions relating to Partly Paid Instruments are not set out in this Prospectus, but will be contained in the relevant Final Terms and so in the Global Instruments. While any instalments of the subscription moneys due from the holder of Partly Paid Instruments are overdue, no interest in a Global Instrument representing such Instruments may be exchanged for an interest in a permanent Global Instrument or for Definitive Instruments (as the case may be). If any Instrumentholder fails to pay any instalment due on any Partly Paid Instruments within the time specified, the Issuer may forfeit such Instruments and shall have no further obligation to their holder in respect of them.

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USE OF PROCEEDS

The net proceeds of the issue of each Series of Instruments will be used by the Issuer for its general corporate purposes. If in respect of any particular issue of Instruments, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

DESCRIPTION OF NATIONAL GRID USA

Overview

National Grid USA is an indirect wholly owned U.S. subsidiary of National Grid plc, a London based international network utility with principal activities in the regulated electric and gas industries. As used in this description, unless the context requires otherwise, National Grid USA or the "Issuer", refer to National Grid USA and its principal public utility subsidiaries. National Grid USA is the U.S. public utility holding company of various U.S. electric and gas subsidiaries in the National Grid plc system. National Grid USA's assets primarily consist of shares of the U.S. public utility companies acquired, over time, pursuant to several merger and acquisition transactions, including, most recently, KeySpan Corporation in August 2007. National Grid USA does not conduct any business other than through its U.S. subsidiaries and is accordingly dependent on revenue received from its U.S. subsidiaries' core businesses, which are the delivery of electricity and gas. National Grid USA, through its subsidiaries and their predecessors, has been serving various portions of New York and New England since the mid-1800s.

National Grid USA was incorporated in the State of Delaware on 10 December 1998 under the General Corporation Laws of the State of Delaware with file number 2977161. The address of National Grid USA is 25 Research Drive, Westborough, MA 01582 and its telephone number is +1-508-389-2000.

Introduction

National Grid USA's principal operations are in regulated networks and comprise the transmission and distribution of electricity and gas based in the United States. The Issuer also owns, leases and operates electric generating facilities in New York State and has interests in electricity interconnectors in the United States.

Business overview

Principal activities and markets

National Grid USA's principal businesses are:

- Electricity Transmission;
- Gas distribution;
- · Electricity distribution; and
- Non-regulated businesses.

National Grid USA's London based parent, National Grid plc, owns businesses that operate in both the United States and the United Kingdom. As a consequence of the respective economic and regulatory environments, performance of these U.S. businesses is reported by National Grid plc by segment reflecting the management responsibilities and economic characteristics of each of these operating activities. National Grid USA's segments as reported by National Grid plc are:

- Electricity Transmission U.S.;
- Gas Distribution U.S.;
- Electricity Distribution U.S.; and
- U.S. stranded cost recoveries.

National Grid USA's principal public utility subsidiaries are as follows:

- KeySpan Corporation (collectively "KeySpan") directly and indirectly owned public utilities consisting of:
 - The Brooklyn Union Gas d/b/a/ KeySpan Energy Delivery New York ("KEDNY") New York;
 - KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island ("KEDLI") New York;
 - Colonial Gas Company New England;
 - Boston Gas Company New England;
 - Essex Gas Company New England; and
 - EnergyNorth Natural Gas, Inc. New England;
- Niagara Mohawk Power Corporation ("NMPC") New York;
- New England Power Company ("NEP") New England;
- Massachusetts Electric Company ("MECO") Massachusetts;
- The Narragansett Electric Company ("Narragansett") Rhode Island
- Granite State Electric Company ("Granite State") New Hampshire
- Nantucket Electric Company ("NEC") Massachusetts
- New England Electric Transmission Corporation ("NEET") Massachusetts and New Hampshire;
- New England Hydro-Transmission Corporation ("N.H. Hydro") New Hampshire; and
- New England Hydro-Transmission Electric Company, Inc. ("Mass. Hydro") Massachusetts.

National Grid USA's principal electric transmission and distribution subsidiaries provide the following services: (i) electricity transmission and distribution in New York through NMPC; (ii) electricity transmission in New England principally through NEP; and (iii) electricity distribution in New England through MECO, Narragansett, Granite State and NEC. National Grid USA's principal gas distribution subsidiaries provide gas distribution in central and eastern New York through NMPC, and in downstate New York and in New England through KeySpan's gas utility affiliates and through Narragansett in Rhode Island. In addition to the Issuer's regulated networks for the transmission and distribution of electricity and gas, National Grid USA's KeySpan affiliates (i) manage the electric transmission and distribution system in Long Island, New York owned by the Long Island Power Authority ("LIPA"); (ii) provide generating capacity and, to the extent required, energy conversion services for LIPA; (iii) own and/or, lease and operate an electric generation facility located in Queens County, New York City collectively known as the Ravenswood Facility or Ravenswood Generating Station which is expected to be divested in accordance with the recent New York Public Service Commission's ("NYPSC") merger order dated 17 September 2007; (iv) provide energy-related and fibre optic services to customers primarily located within the northeast of the United States, with concentrations in the New York City and Boston metropolitan areas; and (v) operate gas exploration and production activities as well as domestic pipelines and gas storage facilities.

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Electricity Transmission

The Issuer owns and operates an electricity transmission network, excluding the managed LIPA facilities, of approximately 8,600 miles spanning upstate New York, Massachusetts, Rhode Island, New Hampshire and Vermont. National Grid USA's U.S. transmission facilities operate at voltages ranging from 69 kV to 345kV, utilising nearly 8,500 miles of overhead lines, 89 miles of underground cable and 501 substations. The Issuer is the largest electricity transmission service provider in the northeast of the United States, by reference to the length of these high-voltage transmission lines. In addition, as referenced below, the Issuer owns and operates a 139-mile direct current transmission line rated at 450 kV that is a key section of an interconnector between New England and Canada.

In New England and New York, the Issuer's transmission business, managed as part of National Grid plc's international transmission business, operates within two independent system operators ("**ISOs**"), ISO – New England and ISO – New York. These non-profit entities are the system operators for the New England and New York transmission networks. The ISOs are responsible for operating organised wholesale markets for energy, operating reserves and capacity; for maintaining the operating reliability of the New England and New York transmission networks; for co-ordinating the activities of the transmission owners; and for managing transparent transmission expansion planning processes.

The Issuer is one of several transmission owners operating within each of these ISOs. The transmission owners are responsible for certain aspects of the operation of the transmission facilities they each own, such as maintenance, equipment restoration and switching operations. The Issuer works closely with the ISOs in New England and New York to support efficient market and network operations and transmission investment.

Gas Distribution

National Grid USA's gas distribution businesses in upstate New York, Massachusetts, and Rhode Island, prior to the acquisition of KeySpan, provided services to 571,000 customers in 216 communities across upstate New York through NMPC and 248,000 customers in 33 communities in Rhode Island through Narragansett. With the recent acquisition of KeySpan, the largest distributor of gas in the northeast of the United States, the Issuer now provides gas distribution services to approximately 2.6 million additional gas customers located in downstate New York, Massachusetts, and New Hampshire. National Grid USA's gas distribution companies network, prior to the KeySpan acquisition, was 11,800 miles of gas pipelines in upstate New York and Rhode Island, which covered approximately 5,460 square miles. The gas distribution, transmission and storage systems owned and operated by KeySpan businesses have increased the Issuer's gas network by approximately 23,336 miles of gas mains and distribution pipelines. Additionally, through assets acquired in the KeySpan acquisition, National Grid USA is now capable of supplementing its winter supply portfolio with peaking supplies that are available on the coldest days of the year to economically meet the increased requirements of its heating customers. These peaking supplies include various liquefied natural gas ("LNG") interests and operations, including local production plants that store LNG and liquid propane until vaporised, which are located strategically across National Grid USA's service territories in New York, New Hampshire, Rhode Island and Massachusetts.

National Grid USA's gas distribution operations provide the core services of operation and emergency response, as well as billing, customer service, and supply services. Except for residential and small business customers in Rhode Island, customers may purchase their supply from independent providers, with the option of having billing services for those purchases provided

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by the Issuer's gas distribution companies. The majority of gas supplied to customers in the United States is still sold by local regulated utilities to their customers. Regulated utilities, such as National Grid USA's gas distribution operations, purchase gas from gas producers and gas transporters, then transport this gas on the independent interstate pipeline system and into regulated utilities' gas distribution networks for delivery to customers. National Grid USA's gas distribution companies receive gas from the inter-state pipeline system at various gate stations of the Issuer's gas distribution companies. The interstate pipeline system and local gas distribution networks are also used to deliver gas on behalf of customers who have purchased gas from independent suppliers or direct from gas producers.

National Grid USA's gas delivery rates comprise a combination of a per customer charge, a demand charge, and a price per additional therm of gas delivered. The allocation between these components varies by size of customer.

New York

In New York, the NYPSC sets gas delivery rates to recover estimates of operating costs, capital investment, and an allowed rate of return inclusive of a return on equity depending on the achievement of certain customer related performance metrics. Gas commodity costs are generally fully recovered from customers, subject to NYPSC review and approval. An adjustment to certain customer bills is made during the months of October to May to cap the Issuer's exposure to sales variations caused by weather. The current gas rate structure of each of the Issuer's KeySpan companies includes a gas adjustment clause pursuant to which variations between actual gas costs incurred and gas costs billed are deferred and subsequently refunded to or collected from firm customers.

The Issuer also has a number of service standards for the Issuer's New York companies, MECo, and Narragansett, which are subject to penalties for non-achievement, including: the maximum rate of customer complaints to the state regulator; minimum satisfaction rates for residential, commercial and industrial customer billing and service transactions; minimum percentage of meters actually read compared to readings scheduled; minimum percentage of customer calls answered within 30 seconds; minimum enrolment of customers into the low income customer assistance programme; maximum number of outstanding gas leaks requiring repair measured on 31 December of each year; maximum number of reportable incidents resulting from the Issuer's failure to respond to a request to mark the Issuer's facilities in 48 hours; and cathodically protecting an agreed-upon mileage of pre-1971 installed wrapped steel gas main.

The Issuer's New York gas distribution operations are also measured on the Issuer's performance in responding to gas emergency calls within 30, 45 and 60 minutes without associated financial penalties.

Gas supplies required to meet the needs of the Issuer's gas customers' winter demands for gas are purchased under long and short-term firm contracts, as well as on the spot market. Gas supplies purchased by the Issuer for its customers are transported by interstate pipelines under long term contracts with interstate pipeline companies from domestic and Canadian supply basins. Gas peaking supplies are also available to meet National Grid USA's system requirements on the coldest days of the winter season. In addition to long term pipeline contracts, the Issuer also has available seasonal firm transportation pipeline contracts and various long-term contracts for underground storage capacity.

Massachusetts and New Hampshire

National Grid USA's Massachusetts gas utility operations are subject to Massachusetts' statutes applicable to gas utilities. Rates for gas sales and transportation service, distribution safety practices, issuance of securities and affiliate transactions are regulated by the Massachusetts Department of Public Utilities ("MDPU"). The MDPU also has service quality standards for both electric and gas utilities. National Grid USA's New Hampshire gas utility operations are subject to New Hampshire's statutes applicable to gas utilities. Rates for gas sales and transportation service, distribution safety practices, issuance of securities and affiliate transactions are regulated by the New Hampshire Public Utilities Commission ("NHPUC").

Gas supplies required to meet the needs of the Issuer's New England customers' winter demands for gas are purchased under long and short-term firm contracts, as well as on the spot market. Gas supplies purchased by the Issuer for its customers are transported by interstate pipelines under long term contracts with interstate pipeline companies from domestic and Canadian supply basins. Gas peaking supplies are also available to meet the Issuer's system requirements on the coldest days of the winter season. In addition to long term pipeline contracts, the Issuer also has available seasonal firm transportation pipeline contracts and various long-term contracts for underground storage capacity. The current gas rate structure of each of the Massachusetts and New Hampshire based gas distribution utilities includes a gas adjustment clause pursuant to which variations between actual gas costs incurred and gas costs billed are deferred and subsequently refunded to or collected from firm customers.

Rhode Island

In Rhode Island, delivery rates are set to recover estimates of operating costs, capital investment and an allowed rate of return. Gas commodity rates are adjusted every November, subject to approval by the state regulator, and they are also adjusted whenever a significant over- or under-collection of gas costs is expected. Gas commodity costs are fully recovered from customers. There is also a surcharge mechanism that allows for the recovery of environmental response costs, any recovery or returns to customers as a result of a weather normalisation clause, a sharing of non-firm margins (non-firm margin earned from interruptible customers with the ability to switch to alternative fuels), and a portion of earnings in excess of an 11.25 per cent. return on equity.

The public utility commission in Rhode Island has established a number of service standards with associated non-achievement penalties, including: a benchmark percentage of abandoned customer calls and a benchmark percentage of calls answered within 60 seconds; a benchmark percentage of meters read during their normal read cycle; testing a predetermined amount of gas meters on an annual basis, as well as a benchmark percentage of meter testing initiated by customer request; meeting a benchmark percentage of customer service appointments; and benchmarks for responding to gas emergency calls within 30 minutes or less during normal working hours and 45 minutes or less after hours.

Electricity Distribution

National Grid USA operates National Grid plc's United States electricity distribution business. The United States electricity distribution business for National Grid plc's financial reporting purposes is split into two segments:

- **Electricity Distribution**
- United States and United States stranded cost recoveries.

National Grid USA's electricity distribution system operates in upstate New York through NMPC and in Massachusetts, Rhode Island and New Hampshire through MECO, Narragansett, Granite State

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and NEC, with customers that include domestic homes and small and large commercial and industrial enterprises. The Issuer is one of the leading electricity distribution service providers in the northeast of the United States, as measured by energy delivered, and one of the largest utilities in the United States, as measured by the number of electricity distribution customers. National Grid USA's United States electricity distribution business, excluding KeySpan's management and operation of LIPA described below, serves approximately 3.4 million electricity customers over a network of 71,000 circuit miles in New England and New York.

National Grid USA's primary business drivers are the long-term rate plans with state regulators for the Issuer's utility subsidiaries. These plans provide incentive returns and shared savings allowances, which allow us an opportunity to benefit from efficiency gains that the Issuer may identify and achieve within the operations of its subsidiaries.

The Issuer recovers its costs of providing electricity to customers through delivery rates approved by applicable regulators, which are based on historical or forecasted costs, and which include a return on the Issuer's assets. The cost of the electricity supplied is passed through to customers. The Issuer's businesses are also subject to service quality standards in New York, Massachusetts, and Rhode Island with respect to reliability and certain aspects of customer service and safety.

Long Island Power Authority

LIPA is a corporate municipal instrumentality and a political subdivision of the State of New York. On 28 May 1998, certain of the Long Island Lighting Company's ("LILCO's") business units were merged with KeySpan and LILCO's common stock and remaining assets were acquired by LIPA. Also effective on that date, KeySpan and LIPA entered into three major long-term service agreements that (i) provide to LIPA all operation, maintenance and construction services and significant administrative services relating to the Long Island electric transmission and distribution ("T&D") system pursuant to a Management Services Agreement (the "1998 MSA"); (ii) supply LIPA with electric generating capacity, energy conversion and ancillary services from the Issuer's Long Island generating units pursuant to a Power Supply Agreement (the "1998 PSA") and other long-term agreements through which the Issuer provides LIPA with approximately one half of its customers' energy needs; and (iii) manage all aspects of the fuel supply for the Issuer's Long Island generating facilities, as well as all aspects of the capacity and energy owned by or under contract to LIPA pursuant to an Energy Management Agreement (the "1998 EMA"). The Issuer also purchases energy, capacity and ancillary services in the open market on LIPA's behalf under the 1998 EMA. The 1998 MSA, 1998 PSA and 1998 EMA all became effective on 28 May 1998 and are collectively referred to as the "1998 LIPA Agreements".

KeySpan sells to LIPA all of the capacity and, to the extent requested, energy conversion services from the Issuer's existing Long Island based oil and gas-fired generating plants. Sales of capacity and energy conversion services are made under rates approved by the FERC in accordance with the 1998 PSA. The original FERC-approved rates, which had been in effect since May 1998, expired on 31 December 2003. On 1 October 2004 the FERC approved a settlement reached between KeySpan and LIPA to reset rates which became effective on 1 January 2004. The settlement agreement reflects a cost of equity of 9.5 per cent., as well as updated operating and maintenance expense levels and recovery of certain other costs as agreed to by the parties.

On 1 February 2006, KeySpan and LIPA entered into (i) the 2006 MSA, pursuant to which KeySpan will continue to operate and maintain the electric T&D System owned by LIPA on Long Island; (ii) a new Option and Purchase and Sale Agreement (the "2006 Option Agreement"), to replace the Generation Purchase Rights Agreement (as amended, the "GPRA"), pursuant to which LIPA had the option, through 15 December 2005, to acquire substantially all of the electric generating



facilities owned by KeySpan on Long Island; and (iii) a Settlement Agreement (the "2006 Settlement Agreement") resolving outstanding issues between the parties regarding the 1998 LIPA Agreements.

Under the above described contractual arrangements, the Issuer's KeySpan subsidiaries provide power, electric transmission and distribution services, billing and other customer services for approximately 1.1 million electric customers of LIPA. These subsidiaries own and operate 5 large generating plants and 13 smaller facilities which consist of 57 generating units in Nassau and Suffolk Counties on Long Island and the Rockaway Peninsula in Queens. These facilities consist of subsidiaries that manage the electric transmission and distribution system ("T&D System") owned by LIPA; provide generating capacity and, to the extent required, energy conversion services for LIPA from the Issuer's approximately 4,200 megawatts ("MW") of generating facilities located on Long Island; and manage fuel supplies for LIPA to fuel the Issuer's Long Island generating facilities.

U.S. Stranded Cost Recoveries

The U.S. stranded cost recoveries segment captures the recovery of the Issuer's historical investments in generating plants that were "stranded" when the Issuer divested its generation business as part of the industry restructuring and wholesale power deregulation process in New England and New York. In addition, this segment includes the recovery of certain above-market costs of commodity purchase contracts that were in place at the time of restructuring and deregulation.

The Issuer is able, with the approval of the utility commissions in the states in which the Issuer's public utility subsidiaries operate, to recover most of these costs through a special rate charged to electricity customers. Pursuant to the settlement and stranded cost recovery agreements in effect in each of the states in which the Issuer operates, revenue from this segment will decline as the recovery of stranded costs is completed.

Other activities

NEET owns and operates an alternating current/direct current converter terminal and related facilities for the first phase of the Hydro-Quebec and New England interconnection (the "Interconnection"), and six miles of high-voltage direct current transmission line in New Hampshire. N.H. Hydro, in which the Issuer holds 54 per cent. of the common stock, owns and operates 139 miles of high-voltage direct current transmission line in New Hampshire for the second phase of the Interconnection, extending to the Massachusetts border. Mass. Hydro, in which the Issuer holds 54 per cent. of the voting stock, owns and operates an alternating current/direct current terminal and related facilities for the second phase of the Interconnection and 12 miles of high-voltage direct current transmission line in Massachusetts. These facilities are made available to customers under ISO-New England's Open Access Transmission Tariff, and are subject to ISO-New England operational control.

Non Regulated Activity

As part of the Issuer's recent KeySpan acquisition the Issuer also has an interest in the following unregulated business activities:

KeySpan subsidiaries that provide energy-related services to customers located primarily within the northeast of the United States, with concentrations in the New York City and Boston metropolitan areas. These subsidiaries provide residential and small commercial customers with service and maintenance of energy systems and appliances, as well as operation and maintenance, design, engineering, consulting and fiber optic services to commercial, institutional and industrial

customers. The Issuer's subsidiaries involved in this type of unregulated activity have over 200,000 service contracts in place to provide home energy services.

KeySpan subsidiaries engaged in gas production and development activities, domestic pipelines, gas storage facilities and LNG facilities and operations. These subsidiaries own an interest in a partnership of affiliates of six U.S. and Canadian energy companies, which partnership is the owner of a 411-mile interstate gas pipeline extending from the U.S.-Canadian border at Waddington, New York through western Connecticut to its terminus in Commack, New York, and from Huntington to the Bronx. The pipeline can transport up to 1,124,500 decatherms ("DTH") per day of Canadian gas supply from the New York-Canadian border to markets in the northeast of the United States. Through such entities, the Issuer is also a shipper and currently transport up to 304,950 DTH of gas per day.

KeySpan subsidiary that was created to pursue the authorization and construction of an interstate pipeline from Connecticut, across Long Island Sound, to a terminus near Shoreham, Long Island. In addition, the Issuer owns an interest in a pipeline project which is anticipated to transport up to 525,000 DTH of gas a day from Corning to Ramapo, New York, interconnecting with the pipeline systems of various other utilities in New York.

Equity investments, in two gas storage facilities in the State of New York which provide up to 4.3 billion cubic feet of storage service to New York and New England, and up to 6.2 billion cubic feet of storage service to New Jersey and Massachusetts, respectively.

Ravenswood Generating Station

The Ravenswood Facility (defined below) is expected to be divested in accordance with the terms of the National Grid/KeySpan NYPSC merger order dated 17 September 2007. At present, one of the Issuer's KeySpan subsidiaries owns, leases and operates the 2,200 MW Ravenswood electric generation facility (the "Ravenswood Facility"), located in Queens County in New York City, and the 250 MW combined cycle generating unit (the "Ravenswood Expansion") which began full commercial operation in May 2004 (collectively, the Ravenswood Facility and the Ravenswood Expansion are referred to as the "Ravenswood Generating Station" and have a total electric capacity of 2,450 MW). The Ravenswood Generating Station located in Queens County, is the largest generating facility in New York City. The Ravenswood Generating Station consists of 3 large steam-generating units, a 250 MW combined cycle generating unit and 17 gas turbine generators. The Ravenswood Generating Station sells capacity, energy and ancillary services into the ISO-New York electricity market at market-based rates, subject to mitigation. The Ravenswood Generating Station Facility has the ability to provide approximately 25 per cent. of New York City's capacity requirements and is a strategic asset that is available to serve residents and businesses in New York City.

The ISO-New York's New York City local reliability rules require that 80 per cent. of the electric capacity needs of New York City be provided by "in-City" generators. National Grid USA's Ravenswood Generating Station is an "in-City" generator. As the electric infrastructure in New York City and the surrounding areas continues to change and evolve and the demand for electric power increases, the in-City generator requirement could be further modified. Construction of new transmission and generation facilities may cause significant changes to the market for sales of capacity, energy and ancillary services from the Issuer's Ravenswood Generating Station. The Issuer's Keyspan subsidiary also operates and maintains a 55 MW gas turbine unit in Greenport, Long Island under an agreement with a third party.

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Regulatory Environment

The securities of the Issuer's London based parent, National Grid plc, are listed on the London Stock Exchange plc and on the New York Stock Exchange and, as a consequence, both National Grid plc and National Grid USA, are subject to regulation by the Financial Services Authority in the UK and by the Securities and Exchange Commission ("SEC") in the U.S. However, because the Issuer, as a public utility holding company with federal and state regulated subsidiaries, operates in a highly regulated environment, good relationships with economic and safety regulators, in addition to other stakeholders, are essential because this establishes the framework within which the Issuer's businesses operate.

U.S. electricity transmission

The transmission activities of each of the Issuer's public utilities is regulated by the relevant state utility commission in the states in which the Issuer operates (including New York, Massachusetts, Rhode Island, Vermont, and New Hampshire) and by the FERC.

In relation to electricity transmission, the FERC, amongst other things, sets service standards for the transmission business of the Issuer's public utilities, approves reliability standards set by the North American Electric Reliability Council ("NERC") (an industry self regulatory body), determines the potential levels of return on regulated transmission service, and approves wholesale electricity market rules. Although FERC has siting authority over transmission lines in certain limited circumstances, the siting of transmission lines, as well as the ultimate recovery of transmission rates from retail customers is principally regulated by the relevant state utility commission (in addition to the other matters regulated by these commissions).

U.S. Gas Distribution

The Issuer's gas distribution activities through the Issuer's various operating subsidiaries, including Niagara Mohawk Power Corporation, The Narragansett Electric Issuer, as well as those entities recently acquired through the acquisition of KeySpan, including The Boston Gas Issuer, The Essex Gas Issuer, the Colonial Gas Issuer, EnergyNorth Natural Gas, Inc., The Brooklyn Union Gas Issuer d/b/a KeySpan Energy Delivery New York and KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island, are regulated by the relevant state utility commissions in the states in which each such subsidiary operates.

In relation to National Grid USA's gas distribution activities, the various state utility commissions, amongst other things, set distribution service standards for the jurisdictional public utilities, set retail rates for end use customers, and determine the public utility potential levels of return on distribution service.

U.S. Electricity Distribution

The electricity distribution activities through the Issuer's various operating subsidiaries are regulated by the relevant state utility commission in the states in which the Issuer operates.

As with the Issuer's gas distribution activity, the various state utility commissions, amongst other things: (i) set distribution service standards and retail rates for end use customers; and (ii) determine the potential levels of return on distribution service. However, FERC regulates wholesale electricity sales by us, to the extent that any sales are made.

The following is a brief overview of the description of the various rate plans in effect in the various states in which the Issuer's subsidiaries operate:

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Overview of Rate Plans

Revenue for the Issuer's transmission business is collected from transmission customers, including the Issuer's electricity distribution businesses, pursuant to tariffs approved by state utility commissions and by the FERC.

In New York, NMPC operates under a long term rate plan expiring in 2011 with a 50 per cent. synergy sharing and earnings sharing mechanism. Over the period of the plan, capital expenditure in the rate plan for transmission and distribution was based on forecasts made at the time of the acquisition of NMPC by National Grid, which are significantly lower than the capital expenditure required to maintain a safe and reliable network. For the past three years, the Issuer's incremental investment in transmission for example has exceeded the investment included in the forecast underlying the rate plan by a factor of at least two.

This coming year, the Issuer's plans are to spend at a level similar to 2006 and 2007. The rate plan includes provisions for the Issuer's upstate New York public utility, NMPC, to petition the NYPSC for recovery of incremental investment. In a recent NYPSC order on the KeySpan transaction, the NYPSC indicated that NMPC would be allowed to recover up to 50 per cent. of the revenue requirements associated with incremental capital expenditures during the balance of NMPC's rate plan. After the expiration of the rate plan, NMPC will reset rates based on its total investment in transmission and distribution plant.

In New England, the Issuer's transmission tariff allows for recovery of, and return on, capital expenditures as new investment enters service, bringing immediate revenue benefits. The distribution operations are covered by long term rate plans that include regular annual adjustments for MECo and a separate factor for incremental investment in New Hampshire. Narragansett also has a long term rate plan for electric operations, and intends to file for new gas distribution rates in 2008.

The electric distribution operations of NMPC, the Issuer's upstate New York public utility, MECo in Massachusetts, and Narragansett in Rhode Island are subject to reliability penalties if the combined performance of National Grid USA's electricity distribution and transmission networks in New York fails to meet targets associated with the number and duration of disturbances that impact customers. In addition, the rate plans for these companies are generally oriented around efficient operations. To the extent that the companies perform necessary activities and spend less than the forecast operating costs set in the rate plan, it equates to increased income for shareholders. Part of the rate plan deals with forecast energy delivery. To the extent that more energy is delivered, the Issuer increases revenue. Conversely, if the Issuer delivers less than forecast, its revenue goes down.

New York

With respect to the Issuer's upstate New York subsidiary, the Issuer's electricity delivery rates for NMPC under a rate plan filed with and approved by the NYPSC are governed by a 10 year rate plan that began on 1 February 2002. Under the rate plan, after reflecting the Issuer's share of savings related to the acquisition of NMPC, the Issuer may earn a threshold return on equity for its electricity distribution business of 10.6 per cent. or 12.0 per cent. if certain customer outreach, education, competition-related and low income incentive targets are met. In the event NMPC earns more than 12 per cent., varying percentages of the excess are shared with customers. The return on equity is measured in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and calculated cumulatively from inception to 31 December 2005 and on a two year rolling basis thereafter. The earnings calculation used to determine the regulated

returns excludes half of the synergy savings from the NMPC acquisition, net of the cost to achieve them, that were assumed in the rate plan.

The NMPC rate plan also allows for subsequent recovery of specified costs and revenue items that have occurred since the rate plan was established, once these amounts involved exceed U.S.\$100 million. These 'deferral account' items include changes from the levels of pension and post-retirement benefit expenses from levels specified in the rate plan, as well as various other items, including storms, environmental remediation costs, and certain rate discounts provided to customers, together with costs and revenues from changes in tax, accounting and regulatory requirements. In 2007, a stipulation of the parties was filed and approved by the NYPSC on 19 July 2007 in which NMPC agreed to a net reduction in the deferral account balances allowed under its rate plan of approximately U.S.\$127 million excluding changes in actuals to that date. The NYPSC authorised the collection of U.S.\$300 million in calendar year 2006 and 2007 already agreed to by the NYPSC, and the continued deferral of the balance above that amount. NMPC, in accordance with its rate plan filed its third deferral account filing on 1 August 2007 for deferral balances as of 30 June 2007 and projected deferrals through 31 December 2009. The deferral account recoveries proposed in the third deferral reset are approximately U.S.\$136 million per year over the two years (approximately U.S.\$272 million over the two year period). This represents a reduction of U.S.\$64 million per year over the U.S.\$200 million per year currently being collected under the second deferral reset. These deferral recoveries are subject to audit by the staff of the NYPSC and further updates and adjustments in the proceeding. Any differences in the deferrals from this approved recovery level would be reflected in the next deferral reset that takes effect after 2009.

As part of the NYPSC National Grid/KeySpan merger order dated 17 September 2007, there are new rate plans, which are being put into place for both KEDNY and KEDLI. Effective on 1 January 2008, the two KeySpan gas utility companies' gas adjustment clauses would be increased to recover, on a prospective basis, estimated gas commodity-related costs of U.S.\$68.6 million and U.S.\$28.7 million, respectively, which would no longer be included in base rates. In addition, base delivery rates would be increased by U.S.\$60 million for KEDLI and would be maintained at current levels for KEDNY. The base delivery rates would then be frozen for five years. The proposed rate plans contemplate an allowed return on equity of 9.6 per cent. for each entity. Cumulative earnings above 10.6 per cent. (including a 10 basis point incentive) would be shared between gas sales customers and the KeySpan companies over the rate plan period.

The Issuer owns the Ravenswood Facility, which operates in the New York City wholesale electricity market. The Issuer believes that the New York City market represents a strong capacity market due to, among other things, its local reliability rules, increasing demand and the time required for new resources to be constructed. The Issuer anticipates that demand will increase and that the high cost to construct capacity in New York City will result in favourable In-City Unforced Capacity prices. Therefore. on 18 January 2006, the Issuer, through its KeySpan subsidiary, entered into an International SWAP Dealers Association Master Agreement for a fixed for float unforced capacity financial swap (the "Capacity Swap Agreement") with Morgan Stanley Capital Group Inc. ("Morgan Stanley Inc."). The Capacity Swap Agreement has a three year term which commenced on 1 May 2006. The notional quantity is 1,800,000kW (the "Notional Quantity") of In-City Unforced Capacity and the fixed price is \$7.57/kW-month (the "Fixed Price"), subject to adjustment upon the occurrence of certain events. Cash settlement will occur on a monthly basis based on the In-City Unforced Capacity price determined by the relevant NYISO Spot Demand Curve Auction Market (the "Floating Price"). For each monthly settlement period, the price difference will equal the Fixed Price minus the Floating Price. If such price difference is less than zero, Morgan Stanley Inc. will pay KeySpan an amount equal to the product of (i) the Notional Quantity and (ii) the absolute value

of such price difference. Conversely, if such price difference is greater than zero (for example, if the demand is less than the Issuer's estimates, additional resources enter the market, or costs are less than forecast) KeySpan will pay Morgan Stanley Inc. an amount equal to the product of (i) the Notional Quantity and (ii) the absolute value of such price difference.

The NYPSC, Consolidated Edison and other load serving entities ("LSEs") complained to the NYISO that In-City capacity market clearing prices during the summer of 2006 did not decline as they had expected with the introduction of additional supply in the New York City market. The NYISO issued a letter to FERC indicating that no tariff violations occurred and that prices were as it expected. Nevertheless, the NYISO stated that if changes to the market are warranted, the NYISO would consider making revisions as necessary. In connection with this proceeding, in July 2007, KeySpan received notice that the FERC Office of Enforcement is conducting a formal investigation into matters regarding the offering practices of generating units serving New York City's In-City capacity market. The Department of Justice is also conducting its own investigation of the competitive issues in the New York City electric energy capacity market. At this time, we are unable to predict the outcome of these proceedings and what effect, if any, they may have on the potential revenue that could be realized from physical sales of In-City capacity or on the Capacity Swap Agreement.

Massachusetts

Under the Issuer's long-term rate plan in Massachusetts there is no cap on earnings and no earnings sharing rates mechanism until 2010. In addition, the Issuer will be allowed to include its share of earned savings, if any, in demonstrating the Issuer's costs of providing service to customers from January 2010 until May 2020. From May 2000 until February 2005 rates were frozen. In March 2005, a settlement credit in the company's rates expired, resulting in an increase of \$10 million in income through to February 2006. From March 2006, rates are adjusted each 1 March until 2009 by the annual percentage change in average electricity distribution rates in the northeast of the U.S. Regulators approved annual increases in the amount of U.S.\$20 million, effective 1 March 2006 and U.S.\$9.4 million effective 1 March 2007. In 2009, actual earned savings will be determined and the Issuer will be allowed to retain 100 per cent. of annual earned savings up to U.S.\$71 million and 50 per cent. of annual earned savings between U.S.\$71 million and U.S.\$109 million before tax. Earned savings represent the difference between a test year's distribution revenue and the Issuer's cost of providing service during the same test year, including a regional average authorised return.

Effective 1 November 2003, the Massachusetts Department of Telecommunications and Energy ("MDTE"), predecessor to the MDPU, approved a U.S.\$25.9 million increase in base revenues for one of the Issuer's KeySpan Massachusetts gas utility companies with an allowed return on equity of 10.2 per cent., reflecting an equal balance of debt and equity. On 27 January 2004, the MDTE issued its order on this entity's Motion for Recalculation, Reconsideration and Clarification that granted an additional U.S.\$1.1 million in base revenues, for a total of U.S.\$27 million. The MDTE also approved a Performance Based Rate Plan (the "Plan") for up to ten years. On 1 November 2006, the MDTE approved a base rate increase of U.S.\$8.6 million under the Plan. In addition, an increase of U.S.\$2.7 million in the local distribution adjustment clause was approved to recover pension and other postretirement costs. The MDTE also approved a true-up mechanism for pension and other postretirement benefit costs under which variations between actual pension and other postretirement benefit costs and amounts used to establish rates are deferred and collected from, or refunded to, customers in subsequent periods. This true-up mechanism allows for carrying charges on deferred assets and liabilities at this entity's weighted-average cost of capital.

There is also a MADTA imposed 10 year base rate freeze for firm customers in place for the Issuer's KeySpan Massachusetts gas utility companies that expire in 2009.

Rhode Island

The Issuer's distribution rates in Rhode Island are also governed by a long-term rate plan. Between May 2000 and the end of October 2004, rates were frozen, and the Issuer was subject to an earnings sharing mechanism. Effective from November 2004 until December 2009 the Issuer has agreed to lower the Issuer's rates by 10 million before tax per year.

From January 2005 onwards the Issuer is able to keep an amount equal to 100 per cent. of the Issuer's earnings up to an allowed return on equity of 10.5 per cent., plus a specific before tax amount, which represents the Issuer's share of demonstrated savings subsequent to the acquisition of Eastern Utilities Associates in 2000. Earnings above that amount up to an additional 1 per cent. return on equity are to be shared equally with the Issuer's customers, while additional earnings will be allocated 75 per cent. to customers and 25 per cent. to the Issuer. The Issuer determines its earned return on equity based on a hypothetical capital structure of 50 per cent. common equity, 5 per cent. preferred equity and 45 per cent. debt.

New Hampshire

In New Hampshire, the Issuer's electricity distribution network serves over 40,000 retail customers, whilst the Issuer also own transmission assets consisting of substations and interconnections with the Issuer's other electricity operations in New England.

The Issuer has reached an agreement for a five year rate plan for the Issuer's electricity distribution operations in New Hampshire. This was approved by the New Hampshire Public Utilities Commission on 12 July 2007. The rate plan includes a 9 per cent. reduction in electric distribution rates. Over the term of the plan, earnings in excess of the allowed return of 9.67 per cent. are retained by the Issuer up to 11 per cent. Any earnings over 11 per cent. would be shared with customers. In addition, the plan allows for incremental increases in rates for capital expenditure incurred under the Issuer's reliability enhancement programme.

National Grid USA's Keyspan New Hampshire gas distribution utility company base rates continue as set by the NHPUC in

Market and Regulatory developments

The recovery of historical investments and costs under commodity contracts following industry restructuring in New England and New York is done pursuant to applicable state legislation and approvals from the various utility commissions in the states in which the Issuer operates.

U.S. electricity transmission

In the United States, consistent with FERC's transmission pricing policy, the Issuer has applied for an increased rate of return on the Issuer's investment in transmission assets in New England. FERC approved this application in October 2006, but has yet to determine its response to several parties which have sought to appeal this approval.

The Issuer has been pursuing a regional planning process with the Independent System Operator in New York ("ISO – New York") to identify regional reliability and economic transmission needs. Progress has been made and the ISO-New York is in the second year of its reliability planning process implementation. The Issuer has proposed a regulated transmission solution to reliability needs identified by the ISO-New York. In addition, as part of FERC's recent open access transmission tariff reform, the ISO-New York is developing a process to address economic planning.

Other Market Developments

Energy Markets

Sharp increases in energy prices have renewed interest in the public policy debate about restructuring the nation's electricity industry and increased the pressure on regulators and politicians to consider taking action to mitigate the effects on customers. As the debate continues, the Issuer has taken a leadership position by advocating a well-managed system as the key to enabling robust, competitive electricity markets that offer customers choice, savings and other benefits. State regulators continue to strongly support current recovery of power supply costs. The Issuer continues to collaborate with regulators, policy makers, and customers to advance the development of the competitive electricity marketplace.

Recent Developments

On 24 August 2007, KeySpan completed its merger (the "Merger") with National Grid plc, as contemplated by the Agreement and Plan of Merger, dated as of 25 February 2006. The aggregate consideration paid by National Grid plc was approximately U.S.\$7.4 billion. The voting securities of KeySpan were previously publicly held and traded on the New York Stock Exchange but are now held 100 per cent. indirectly by National Grid plc.

KeySpan has no independent operations and conducts substantially all of its operations through its subsidiaries. Prior to the Merger, KeySpan's subsidiaries operated in the following four business segments: Gas Distribution, Electric Services, Energy Services and Energy Investments. Following is a summary of certain select net revenue information (in millions of dollars) for each of the KeySpan business segments for calendar years ended 31 December 2006, 2005 and 2004:

Segment	2006	2005	2004
		(Millions of Dollars)	
Gas	U.S.\$1,665.6	U.S.\$1,717.3	U.S.\$1,669.3
Electric*	U.S.\$1,332.3	U.S.\$1,295.9	U.S.\$1,199.1
Energy Services*	U.S.\$ 213.0	U.S.\$ 202.0	U.S.\$ 193.9
Energy Investments	U.S.\$ 40.3	U.S.\$ 43.0	U.S.\$ 58.9

Note:

KeySpan, through its gas distribution segment, operated as the fifth largest gas distribution company in the United States and the largest in the northeast of the United States. The gas distribution segment consists of six regulated gas distribution subsidiaries, which operate in New York, Massachusetts and New Hampshire and serve approximately 2.6 million customers within an aggregate service area covering 4,273 square miles. In New York, The Brooklyn Union Gas Company, doing business as KEDNY, provides gas distribution services to customers in the New York City Boroughs of Brooklyn, Queens and Staten Island; and KeySpan Gas East Corporation, doing business as KEDLI, provides gas distribution services to customers in the Long Island Counties of Nassau and Suffolk and the Rockaway Peninsula of Queens County. In Massachusetts, Boston Gas provides gas distribution services in eastern and central Massachusetts; Colonial Gas

^{*} Following the completion of the merger with KeySpan, the merchant electricity generation business in New York City and the communications operations were classified as discontinued operations in the interim financial statements of National Grid plc for the six months ended 30 September 2007. The revenues relating to these operations were U.S.\$903m in 2006, U.S.\$1,117m in 2005 and U.S.\$820m in 2004.

Name: NATIONAL GRID
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CRC: 48861 **EDGAR 2** provides gas distribution services on Cape Cod and in eastern Massachusetts; and Essex Gas provides gas distribution services in eastern Massachusetts. In New Hampshire, EnergyNorth provides gas distribution services to customers principally located in central New Hampshire. KeySpan's New England gas companies all do business as KeySpan Energy Delivery New England ("**KEDNE**").

In New York, there are two separate, but contiguous service territories served by KEDNY and KEDLI, comprising approximately 1,417 square miles and 1.68 million customers. In Massachusetts, Boston Gas, Colonial Gas and Essex Gas serve three service territories consisting of 1,934 square miles and approximately 792,000 customers. In New Hampshire, EnergyNorth has a service territory that is contiguous to Colonial Gas' and ranges from within 30 to 85 miles of the greater Boston area. EnergyNorth provides service to approximately 80,000 customers over a service area of approximately 922 square miles. Collectively, KeySpan owns and operates gas distribution, transmission and storage systems that consist of approximately 23,336 miles of gas mains and distribution pipelines.

KeySpan, through its electric services segment, operated as the largest electricity generator in New York State. The electric services segment consists of subsidiaries that manage the T&D System owned by LIPA; provide generating capacity and, to the extent required, energy conversion services for LIPA from the approximately 4,200 MW of generating facilities located on Long Island; and manage fuel supplies for LIPA to fuel Long Island generating facilities. These subsidiaries own and operate 5 large generating plants and 13 smaller facilities which consist of 57 generating units in Nassau and Suffolk Counties on Long Island and the Rockaway Peninsula in Queens.

The electric services segment also includes subsidiaries that own, lease and operate the Ravenswood Facility, located in Queens County in New York City, and the Ravenswood Expansion which began full commercial operation in May 2004. The Ravenswood Generating Station is expected to be divested in accordance with the terms of the National Grid/KeySpan New York Public Service Commission merger order dated 17 September 2007 and is treated as discontinued operations for the purposes of the Issuer's financial reporting.

The energy services segment includes companies that provide energy-related services to customers located primarily within the northeast of the United States, with concentrations in the New York City and Boston metropolitan areas. Subsidiaries in this segment provide residential and small commercial customers with service and maintenance of energy systems and appliances, as well as operation and maintenance, design, engineering, consulting and fibre optic services to commercial, institutional and industrial customers. KeySpan subsidiaries in this segment have over 200,000 service contracts in place to provide home energy services, completed over 240,000 service calls during 2006 and completed more than 16,000 installations during 2006.

The energy investments segment includes gas production and development activities, domestic pipelines, gas storage facilities and LNG facilities and operations. KeySpan is engaged in the production and development of domestic gas and oil through two wholly-owned subsidiaries.

Legal Proceedings

On 31 May 2007, KeySpan received a CID from the United States Department of Justice, Antitrust Division, requesting the production of documents and information relating to its investigation of competitive issues in the New York City electric energy capacity market. The CID is a request for information in the course of an investigation and does not constitute the commencement of legal proceedings, and no specific allegations have been made against KeySpan. KeySpan intends to fully co-

operate with this investigation. At this time Keyspan is unable to determine what effect, if any, the outcome may have on the Issuer and/or the Group's financial position or profitability.

Executive Officers

The Executive Officers of the Issuer are as follows:

Name	Title
Colin Buck	Chief Financial Officer and Senior Vice-President
Robert Catell	Executive Chairman
John Cochrane	Executive Vice-President and Treasurer
Malcolm Cooper	Assistant Treasurer
Tom King	President
Cheryl LaFleur	Executive Vice-President
Kwong Nuey	Senior Vice-President
Richard Pettifer	Assistant Treasurer
Larry Reilly	Executive Vice-President and Secretary
Christopher Root	Chief Operating Officer and Senior Vice-President
Masheed Saidi	Senior Vice-President
Bob Seega	Assistant Treasurer

Board of Directors

The Directors of the Issuer and their principal activities outside National Grid USA, are as follows:

Name	Principal activities outside National Grid USA and the National Grid Group*	Business Address
Robert Catell	None	One MetroTech Center Brooklyn NY 11201 United States
John Cochrane	Director of Blue-ng Limited, Blue-ng (Holdings) Limited and Britned Development Limited	25 Research Drive Westborough MA 01582 United States
William Edwards	Director of the New York State Energy Research & Development Authority	Niagara Mohawk Power Corporation 300 Erie Boulevard West Syracuse NY 13202 USA
Steve Holliday	Non-Executive Director of Marks and	1-3 Strand

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WC2N 5EH United Kingdom

Principal activities outside National Grid USA and the National Name Grid Group* **Business Address** Spencers Group plc London WC2N 5EH United Kingdom Tom King 25 Research Drive None Westborough MA 01582 **United States** Cheryl LaFleur None 25 Research Drive Westborough MA 01582 **United States** Non-Executive Director of Compass Group PLC and 1-3 Strand Steve Lucas Director of American European Business Association London Ltd. WC2N 5EH **United Kingdom** Larry Reilly None 25 Research Drive Westborough MA 01582 **United States** Masheed Saidi 25 Research Drive None Westborough MA 01582 **United States** Nick Winser 1-3 Strand None London

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

The "National Grid Group" means National Grid plc and each of its subsidiary undertakings.

TAXATION

United States Taxation

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230 ("CIRCULAR 230"), HOLDERS OF INSTRUMENTS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS OF INSTRUMENTS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS OF INSTRUMENTS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS OF INSTRUMENTS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

* * * * *

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

- (a) Payments of principal, original issue discount ("OID"), and interest by the Issuer or any paying agent to any holder of an Instrument who is a United States Alien (as defined below) will not be subject to U.S. federal withholding tax, provided that, in the case of amounts treated as interest or OID with respect to Instruments with a maturity of more than 183 days, (i) the amount of the payment is not determined by reference to any receipts, sales or other cash flow, income or profits, change in value of any property of, or dividend or similar payment made by, the Issuer or a person related to the Issuer (a "Contingent Payment"), (ii) the holder does not actually or constructively own 10 per cent. or more of the total combined voting power of all classes of stock of the Issuer entitled to vote, (iii) the holder is not for U.S. federal income tax purposes a controlled foreign corporation related to the Issuer through stock ownership, and (iv) the holder is not a bank receiving interest described in Section 881(c)(3)(A) of the Internal Revenue Code of 1986, as amended (the "Code").
- (b) A United States Alien holder of an Instrument or coupon will not be subject to U.S. federal income tax on any gain or income realised upon the sale, exchange, retirement or other disposition of an Instrument or coupon, provided that (i) in the case of Instruments with a maturity of more than 183 days, the Instruments do not provide for any Contingent Payments, and (ii) neither the holder, nor a partner, fiduciary, settler or beneficiary of the holder if the holder is a partnership or an estate or trust, or a person holding a power over an estate or trust administered by a fiduciary holder, is considered as:
 - (i) being or having been present or engaged in a trade or business in the United States or having or having had a permanent establishment therein;
 - (ii) having a current or former relationship with the United States, including a relationship as a citizen or resident thereof;
 - (iii) being or having been for U.S. federal income tax purposes a personal holding company, a passive foreign investment company, a controlled foreign corporation or a corporation that has accumulated earnings to avoid U.S. federal income tax: or

Y59930.SUB, DocName: EX-2.B.6.1, Doc: 6, Page: 69 **E/O**]
<u>Description: EXH 2(B).6.1</u> **EDGAR 2** (iv) in the case of Instruments with a maturity of more than 183 days, (a) actually or constructively owning or having owned 10 per cent. or more of the total combined voting power of all classes of stock of the Issuer entitled to vote or (b) being a controlled foreign corporation related to the Issuer through stock ownership.

- An Instrument or coupon held by an individual who is a United States Alien at the time of death will not be subject to U.S. federal estate tax as a result of the individual's death if (i) at the time of the individual's death payments with respect to the Instrument would not have been effectively connected with a U.S. trade or business of the individual, and (ii) with respect to Instruments with a maturity of more than 183 days, (A) the holder does not own, actually or constructively, 10 per cent. or more of the total combined voting power of all classes of stock of the Issuer entitled to vote, and (B) the Instrument does not provide for any Contingent Payments.
- A beneficial owner of an Instrument or coupon that is a United States Alien will not be required to disclose its nationality, residence, or identity to the Issuer, a paying agent, or any U.S. governmental authority in order to receive payment on the Instrument or coupon from the Issuer or a paying agent outside the United States (although the beneficial owner of an interest in the temporary Global Instrument will be required to provide a Certificate of Non-U.S. Beneficial Ownership to Euroclear or Clearstream, Luxembourg in order to receive a beneficial interest in a Permanent Global Instrument or Definitive Instruments and coupons and interest thereon, as described in "Summary of Provisions Relating to the Instruments while in Global Form — Exchange").

For purposes of this discussion, "United States Alien" means any corporation, partnership, individual or fiduciary estate or trust that, for U.S. federal income tax purposes, is (i) a foreign corporation, (ii) a foreign partnership all of whose partners are United States Aliens, (iii) a non-resident alien individual or (iv) a foreign estate or trust all of whose beneficiaries are United States Aliens .

Backup Withholding and Information Reporting

Payments of principal, OID and interest on Instruments made outside the United States to a United States Alien by a non-U.S. payer will not be subject to information reporting and backup withholding.

In addition, except as provided in the following sentence, if principal, OID or interest payments are collected outside the United States on behalf of a beneficial owner of an Instrument by a foreign office of a custodian, nominee or other agent who is not a U.S. Controlled Person, (as defined below), the custodian, nominee or other agent will not be required to apply backup withholding to these payments when remitted to the beneficial owner and will not be subject to information reporting. However, if the custodian, nominee or other agent is a U.S. Controlled Person, payments collected by its United States or foreign office may be subject to information reporting and backup withholding unless the custodian, nominee or other agent has in its records documentary evidence that the beneficial owner is not a U.S. person or is otherwise exempt from information reporting, and it has no actual knowledge or reason to know that any of the information or certifications associated with this documentation is incorrect.

Payments on the sale, exchange or other disposition of an Instrument made to or through a foreign office of a broker will generally not be subject to information reporting or backup withholding. However, if the broker is a U.S. Controlled Person, payments on the sale, exchange or other disposition of the Instrument made to or through a United States or foreign office of the broker will be subject to information reporting unless the beneficial owner has furnished the broker with documentation upon which the broker can rely to treat the payment as made to a beneficial owner that is a foreign person, and the broker has no actual knowledge or reason to know that any of the information or certifications associated with this documentation is incorrect.

For purposes of this discussion, a "U.S. Controlled Person" means (i) a U.S. person (as defined in the Code), (ii) a controlled foreign corporation for U.S. federal income tax purposes, (iii) a foreign person 50

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per cent. or more of whose gross income was effectively connected with the conduct of a United States trade or business for a specified three-year period, or (iv) a foreign partnership, if at any time during its tax year, one or more of its partners are U.S. persons who, in the aggregate, hold more than 50 per cent. of the partnership's income or capital interest or if, at any time during its tax year, it is engaged in the conduct of a trade or business in the United States.

Any amounts withheld under the backup withholding rules may be allowed as a credit against the holder's U.S. federal income tax liability, and may entitle the holder to a refund, provided that the required information is furnished to the U.S. Internal Revenue Service.

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

A holder of an Instrument with a maturity at issue of 183 days or less and a principal amount of at least U.S.\$500,000 (or its foreign currency equivalent based on the spot rate on the date of issue), by accepting the Instrument, will be deemed to represent and warrant that it is not a United States person (other than an exempt recipient described in section 6049(b)(4) of the Code and the regulations thereunder), and is not acting for or on behalf of any such person.

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

EU Savings Directive

Under EU Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or to certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Also, a number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

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PLAN OF DISTRIBUTION

Summary of Agreement

Subject to the terms and on the conditions contained in a dealer agreement dated 3 December 2007 (as amended or supplemented from time to time), between the Issuer, the Permanent Dealers and the Arranger (the "**Dealer Agreement**"), the Instruments will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to issue Instruments directly on its own behalf to dealers which are not the 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 commissions in respect of an issue of Instruments on a syndicated basis will be stated in the relevant Final Terms. The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Instruments.

Selling Restrictions

United States

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

Any Instruments 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. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations under it.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver the Instruments of any identifiable Tranche, (a) as part of their distribution at any time or (b) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer, by the Issuing and Paying Agent, or in the case of Instruments issued on a syndicated basis, the Lead Manager, 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.

Each issuance of Dual Currency Instruments will be subject to such additional United States selling restrictions as indicated in the applicable Final Terms. Each Dealer has agreed that it shall offer, sell and deliver such Instruments only in compliance with such additional U.S. selling restrictions.

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

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, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, 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 the 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 Instruments to the public in that Relevant Member State:

- (a) if the Final Terms in relation to the Instruments specify that an offer of those Instruments may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "Non-Exempt Offer"), following the date of publication of a prospectus in relation to those Instruments which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Final Terms contemplating such Non-Exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Final Terms, as applicable;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (d) at any time to fewer than 100 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
- (e) 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 (b) to (e) 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 in that Member State.

United Kingdom

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

- (a) in relation to any Instruments which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Instruments other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Instruments would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

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of Section 21 of the FSMA) received by it in connection with the issue or sale of any Instruments in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA 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 Law of Japan (the "Financial Instruments and Exchange Law"). Accordingly, each of the Dealers has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Instruments in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Instruments to which it relates or in a supplement to this Prospectus.

No action has been or will be taken in any country or jurisdiction by the Issuer or the Dealers that would permit a public offering of Instruments, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this 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 purchases, offers, sells or delivers Instruments or has in its possession or distributes this Prospectus, any other offering material or any Final Terms and neither the Issuer nor any other Dealer shall have responsibility for such material.

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FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Instruments will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Instruments and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated [•]

NATIONAL GRID USA

Issue of [Aggregate Nominal Amount of Tranche] [Title of Instruments] under the Euro 4,000,000,000 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 3 December 2007 [and the supplemental Prospectus dated [•]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Prospectus. [The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing [at [website] [and] during normal business hours at [address] [and copies may be obtained from [address]].

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms 1

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

1.	Issuer:		Na	tional Grid USA
2.	(i)	Series Number:	[1
	(ii) Tranche Number:		[1
	(If fungible with an existing Series, details of that Series, including the date on which the Instruments become fungible).]			
3.	Specified	Currency or Currencies:	[1
4.	Aggregate	e Nominal Amount:	[1
	[(i)]	Series:	[1
	[(ii)]	Tranche:	[1
5.	Issue Pric	e:		per cent of the Aggregate Nominal Amount [plus accrued interest m [insert date] (if applicable)]
6.	(i)	Specified Denominations:	[]*

Instruments which have a maturity of less than one year must have a minimum denomination of £100,000 (or it equivalent in other currencies)

(ii)	Calculation Amount:	[If only one Specified Denomination, insert the Specified
		Donomination If more than one Specified Donomination

insert the highest common factor] [Note: There must be a common factor in the case of two or more Specified

Denominations]

7. [(i)] Issue Date: []]

> [Specify/Issue Date/Not Applicable] Interest Commencement Date: [(ii)]

A13.4.

A13.4.

A13.4.

[specify date or (for Floating Rate Instruments) Interest 8. Maturity Date:

Payment Date falling in or nearest to the relevant month and

vear]

Interest Basis: [[•] per cent. Fixed Rate] 9.

[[specify reference rate] +/- [•] per cent. Floating Rate]

[Zero Coupon] [Other (specify)]

(further particulars specified below)

10. Redemption/Payment Basis: [Redemption at par]

[Dual Currency] [Partly Paid] [Instalment] [Other (specify)]

[N.B. If the Final Redemption Amount is less than 100 per cent. of the nominal value, the Instruments will constitute derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the

Prospectus Directive Regulation No. 809/2004 will apply and the Issuer will prepare and publish a supplement to the

Prospectus.]

11. Change of Interest or [Specify details of any provision for convertibility of

Redemption/Payment Basis: Instruments into another interest or redemption/payment

basis]

Put/Call Options: [Investor Put] 12.

[Issuer Call]

[(further particulars specified below)]

13. Status of the Instruments: Senior (i)

> Date [Board] approval for issuance of (ii)

[and [], respectively] Instruments obtained:

(N.B Only relevant where Board (or similar) authorisation is

required for the particular tranche of Instruments)]

14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Instrument Provisions [Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of

this paragraph)

(i) Rate[(s)] of Interest:] per cent. per annum [payable [annually/semi-

annually/quarterly/monthly] in arrear]

	(ii)	Interest Payment Date(s):	[] in each year
	(iii)	Fixed Coupon Amount[(s)]:	[•] per Calculation Amount
	(iv)	Broken Amount(s):	[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]
	(v)	Day Count Fraction (Condition 3.11):	[30/360 / Actual/Actual ([ICMA]/ISDA)/other]
	(vi)	Determination Dates (Condition 3.11):	[] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual ([ICMA]))
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Instruments:	[Not Applicable/give details]
16.	Floatin	g Rate Instrument Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i)	Interest Period(s):	[]
	(ii)	Specified Interest Payment Dates:	[]
	(iii)	Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (<i>give details</i>)]
	(iv)	First Interest Payment Date:	[]
	(v)	Business Centre(s) (Condition 3.11):	[]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (<i>give details</i>)]
	(vii)	Interest Period Date(s):	(Not Applicable unless different from Interest Payment Date)
	(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[]
	(ix)	Screen Rate Determination (Condition 3.2.3(b)):	
		- Reference Rate:	[]
		Interest Determination Date(s):	[[][TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]]
		- Relevant Screen Page:	[]
		 Reference Banks (if Primary Source is "Reference Banks"): 	[Specify five]
	(x)	ISDA Determination (Condition 3.2.3 (a)):	

		Floating Rate Option:	[]
		 Designated Maturity: 	[]
		- Reset Date:	[]
		 [ISDA Definitions: (if different from those set out in the Conditions) 	[2000/2006]]
	(xi)	Margin(s):	[+/-][] per cent. per annum
	(xii)	Minimum Rate of Interest:	[] per cent. per annum
	(xiii)	Maximum Rate of Interest:	[] per cent. per annum
	(xiv)	Day Count Fraction (Condition 3.11):	[]
	(xv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Instruments, if different from those set out in the Conditions:	[]
17.	Zero (Coupon Instrument Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i)	Amortisation Yield (Condition 4.4):	[] per cent. per annum
	(ii)	Day Count Fraction (Condition 3.11):	[]
	(iii)	Any other formula/basis of determining amount payable:	[]
18.	Dual (Currency Instrument Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[give details]
	(ii)	Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[]
	(v)	Day Count Fraction (Condition 3.11):	[]
	PROV	ISIONS RELATING TO REDEMPTION	
19.	Resid	lual Holding Call Option	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i)	Residual Holding Percentage:	[] per cent.
	(ii)	Party responsible for calculating the	[]

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		Residual Holding Redemption Amount (if not the Calculation Agent):	
	(iii)	Benchmark Security:	[Specify Government Security/swap benchmark]
	(iv)	Benchmark Spread:	[] per cent. per annum
	(v)	Benchmark Day Count Fraction:	[]
	(vi)	[Other relevant provisions:	[]]
20.	Call C	Option [†]	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i)	Optional Redemption Date(s):	[]
	(ii)	Optional Redemption Amount(s) of each Instrument and method, if any, of calculation of such amount(s):	[] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum nominal amount to be redeemed:	[] per Calculation Amount
		(b) Maximum nominal amount to be redeemed:	[] per Calculation Amount
	(iv)	Option Exercise Date(s):	[]
	(v)	Notice period (if other than as set out in the Conditions)	[]
21.	Put O	ption	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i)	Optional Redemption Date(s):	[]
	(ii)	Optional Redemption Amount(s) of each Instrument and method, if any, of calculation of such amount(s):	[] per Calculation Amount
	(iii)	Option Exercise Date(s):	[]
	(iv)	Notice period (if other than as set out in the Conditions)	[]
22.		Redemption Amount of each ment:	[] per Calculation Amount
	(i)	Formula:	[give or annex details]
	(ii)	Calculation Agent responsible for calculating the Final Redemption Amount:	[]
	(iii)	Provisions for determining Final Redemption Amount where calculated by reference to Formula and/or other variable:	[give or annex details]

This does not include the tax call in Condition 4.2 or the call option contained in Condition 4.5.1

23.

26.

(iv)	Determination Date(s):	[]
(v)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[1
(vi)	Payment Date:		
(vii)	Minimum Final Redemption Amount:	[] per Calculation Amount
(viii)	Maximum Final Redemption Amount:	[] per Calculation Amount
Early	Redemption Amount		
(i)	Early Redemption Amount(s) of each Instrument payable on redemption for taxation reasons (Condition 4.2) or on Event of Default (Condition 8) or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[]
(ii)	Redemption for taxation reasons permitted on days other than Interest Payment Dates (Condition 4.2)	[Y	es/No]
(iii)	Unmatured Coupons to become void upon early redemption (Condition 5.5)	[Y	es/No/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

24. Form of Instruments: **Bearer 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 in the limited circumstances specified in the temporary Global Instrument]

[permanent Global Instrument exchangeable for Definitive Instruments in the limited circumstances specified in the permanent

Global Instrument]

25. New Global Note [Yes] [No]

Financial Centre(s) or other special provisions relating to Payment Dates (Condition 5.6):

[Not Applicable/give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which item 16 . (iv) relates]

Applicable TEFRA exemption: 27. [D Rules/Not Applicable]

28. Talons for future Coupons or Receipts to be [Yes/No. If yes, give details] attached to Definitive Instruments (and

misleading.]

Signed on behalf of the Issuer:

By:

Duly authorised

	dates	on which such Talons mature):		
29.	amour Issue is to b failure to forfe	s relating to Partly Paid Instruments: nt of each payment comprising the Price and date on which each payment e made and consequences (if any) of to pay, including any right of the Issuer eit the Instruments and interest due on ayment:	[Not	Applicable/give details]
30.	Details	s relating to Instalment Instruments:	[Not	Applicable/give details]
	-	Amount of each instalment:	[]
	-	Date on which each payment is to be made:	[1
	_	Maximum Instalment Amount:		
	_	Minimum Instalment Amount:	[]
31.		nomination, renominalisation and ventioning provisions:	[Not	Applicable/ give details]
32.	Consc	olidation provisions:	[Not	Applicable/ give details]
33.	Other	final terms:	(Whato was	Applicable/give details] sen adding any other final terms consideration should be given as shether such terms constitute a "significant new factor" and sequently trigger the need for a supplement to the Prospectus er Article 16 of the Prospectus Directive.)
	DISTF	RIBUTION		
34.	(i)	If syndicated, names of Managers:	[Not	Applicable/give names]
	(ii)	Stabilising Manager(s) (if any):	[Not	Applicable/give name]
35.	If non-	syndicated, name of Dealer:	[Not	Applicable/give name]
36.	Additio	onal selling restrictions:	[Not	Applicable/give details]
[PURF	OSE O	F FINAL TERMS		
		erms comprise the final terms required on to the Euro Medium Term Note Program		and have admitted to trading the issue of Instruments described f National Grid USA.]
RESP	ONSIBI	LITY		
confirr	ns that	such information has been accurately re	produc	d in these Final Terms. [[•] has been extracted from [•]. The Issuer ced and that, so far as it is aware, and is able to ascertain from which would render the reproduced information inaccurate or

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PART B – OTHER INFORMATION*

(i) Listing: [London/other (*specify*)/None]

(ii) Admission to trading: [Application has been made for the Instruments to be admitted to trading on the London Stock Exchange plc's Gilt-Edged and Fixed Interest Market with effect from [].] [Not Applicable.]

(iii) Estimate of total expenses related to admission o trading:

2 Ratings

Ratings: The Instruments to be issued have been rated:

[S & P: []] [Moody's: []] [[Other]: []]

(The above disclosure should reflect the rating allocated to Instruments of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3 [Notification

The Financial Services Authority [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the update of the Programme and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.] **

4 [Interests of Natural and legal Persons involved in the Issue

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

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

[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

^{&#}x27; If an issue of Instruments is (i) NOT admitted to trading on a regulated market within the European Economic Area and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the Issuer may elect to amend and/or delete certain of the above paragraphs of Part B

[&]quot; Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

5	[Reas	sons for the Offer, Estimated Net Proce	eds a	and Total Expenses		
	(i)	[Reasons for the offer	[]		
			dit	ee ["Use of Proceeds"] wording in Prospectus – if reasons for of fferent from general corporate purposes will need to include thos asons here.)]		
	(ii)	[Estimated net proceeds:	[]		
			an	proceeds are intended for more than one use will need to split of present in order of priority. If proceeds insufficient to fund all opposed uses state amount and sources of other funding.)	วน	
	(iii)	[Estimated total expenses:	[] [Include breakdown of expenses.]		
			Pr ind	f the Instruments are derivative securities for which Annex XII of cospectus Directive Regulation applies it is] only necessary to clude disclosure of net proceeds and total expenses at (ii) and i) above where disclosure is included at (i) above.)]*	' tł	
6	[Fixe	d Rate Instruments only – YIELD				
	Indica	ation of yield:	[]		
				ne yield is calculated at the Issue Date on the basis of the Issue ice. It is not an indication of future yield.]		
7	[Dual	[Dual Currency Instruments only – PERFORMANCE OF RATE[S] OF EXCHANGE				
	Neea	to include details of where past and future	per	formance and volatility of the relevant rate[s] can be obtained.]*		
	"signi			ould be given as to whether such matters described constitute e need for a supplement to the Prospectus under Article 16 of th	ıe	
8	OPEI	RATIONAL INFORMATION				
	ISIN	Code:	[]		
	Comr	mon Code:	[1		
	Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking société anonyme and the relevant identification number(s):		[N	ot Applicable/give name(s) and number(s) [and address(es)]]		
	Delive		De	elivery [against/free of] payment		
		es and addresses of additional Paying t(s) (if any):	[]		
		ded to be held in a manner which would Eurosystem	Ins	es][No] [Note that the designation "Yes" simply means that the struments are intended upon issue to be deposited with Eurocles Clearstream, Luxembourg as Common Safekeeper and does no		

Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

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eligibility:

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.][Include this text if "Yes" selected in which case the Instruments must be issued in NGN form]

9 General

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

 $[Not \ Applicable/[[Euro]][\bullet]] \\$

Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 10.1:

[Not Applicable/give details]

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Description: EXH 2(B).6.1

CRC: 33372 EDGAR 2 e: (212)924-5500 Operator: BNY99999T Date: 17-JUN-2008 03:10:51.35 **BNY Y59930 688.00.00.00 0/1**

GENERAL INFORMATION

1. The admission of the Programme to listing on the Official List of the U.K. Listing Authority and to trading on the Market is expected to take effect on or about 6 December 2007. The listing of the Instruments on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). Any Tranche of Instruments intended to be admitted to listing on the Official List of the U.K. Listing Authority and admitted to trading on the Market will be so admitted to listing and trading upon submission to the U.K. Listing Authority and the Market (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 Market, subject in each case to the issue of the relevant Instruments. Prior to official listing, dealings will be permitted by the Market in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

However, Instruments may be issued pursuant to the Programme which will not be admitted to listing and/or trading by the U.K. Listing Authority or the Market or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing, trading and/or quotation by such listing authority, stock exchange and/or quotation system as the Issuer and the relevant Dealer(s) may agree.

- 2. The Issuer has obtained all necessary consents, approvals and authorisations in the United States of America in connection with the issue and performance of the Instruments.
- 3. The establishment of the Programme was authorised by a resolution of the Executive Committee of the Board of Directors of the Issuer passed on 14 November 2007.
- 4. The Instruments have been accepted for clearance through the Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Instruments of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system(s) as shall have accepted the relevant Instruments for clearance together with any further appropriate information.
- 5. Neither the Issuer nor any of it subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have, or have in such period had, significant effects on the financial position or profitability of the Issuer or of the Group.
- 6. Save as disclosed in "Description of National Grid USA Recent Developments", there has been no significant change in the financial or trading position of the Issuer or the Group since 31 March 2007 and no material adverse change in the prospects of the Issuer since 31 March 2007.
- 7. PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm of 125 High Street, Boston, MA 02110 (members of the American Institute of Certified Public Accountants), have audited, and rendered unqualified audit reports on, the consolidated financial statements prepared under U.S. GAAP of the Issuer for the years ended 31 March 2007 and 31 March 2006.
- 8. Each Instrument having a maturity of more than one year, Receipt, 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".
- 9. For so long as the Programme remains in effect or any Instruments are outstanding, copies of the following documents may be inspected during usual business hours on any weekday (Saturdays,

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

Name: NATIONAL GRID

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Sundays and public holidays excepted), at the registered offices of the Issuer and the specified office in London of the Issuing and Paying Agent:

- (a) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus;
- (b) the constitutional documents of the Issuer; and
- (c) the audited consolidated accounts of the Issuer for the financial years ended 31 March 2006 and 31 March 2007, respectively, and any consolidated interim accounts of the Issuer published subsequently to such accounts.

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, 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/en-gb/pricesnews/marketnews.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS OF NATIONAL GRID USA FOR THE TWO YEARS ENDED 31 MARCH 2007 AND 31 MARCH 2006

2007

1	Report of Independent Registered Public Accounting Firm	F-2
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3	Consolidated Statements of Comprehensive Income for the years ended 31 March 2007 and 2006	F-4
4	Consolidated Statements of Retained Earnings for the years ended 31 March 2007 and 2006	F-4
5	Consolidated Balance Sheets as at 31 March 2007 and 2006	F-5
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The following pages have been extracted from the audited annual report for 2007 for National Grid USA, which have been prepared in accordance with auditing principles generally accepted in the United States of America.



PricewaterhouseCoopers LLP 125 High Street Boston MA 02110 Telephone (617) 530 5000 Facsimile (617) 530 5001

Report of Independent Registered Public Accounting Firm

To the Stockholder and Board of Directors of National Grid USA:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of comprehensive income, of retained earnings and of cash flows present fairly, in all material respects, the financial position of National Grid USA and its subsidiaries at March 31, 2007 and March 31, 2006, and the results of their operations and their cash flows for each of the two years in the period ended March 31, 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note F to the financial statements, the Company adopted a new principle of accounting pension and postretirement benefit plans in accordance with Financial Accounting Standards Board Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. In accordance with the provision of FASB No. 158, the 2007 financial statements include the adjustment to initially apply this new accounting principle as of March 31, 2007.

PricewaterhouseCoopers LLP July 12, 2007

NATIONAL GRID USA AND SUBSIDIARY COMPANIES **Consolidated Statements of Income** (In thousands of dollars)

		For the years ended March 31,	
	2007	2006	
Operating revenues:		A -	
Electric	\$ 6,944,416	\$ 7,141,941	
Gas	1,217,947	1,037,081	
Total operating revenues	8,162,363	8,179,022	
Operating expenses:			
Purchased energy:			
Electricity purchased	3,483,915	3,544,029	
Gas purchased	814,868	741,419	
Contract termination charges and nuclear unit shutdown charges	63,845	73,364	
Other operation and maintenance	1,691,596	1,440,325	
Depreciation and amortization	410,997	387,673	
Amortization of stranded costs and rate plan deferrals	455,632	532,987	
Other taxes Income taxes	342,668 187,966	323,974 319,232	
Total operating expenses	7,451,487	7,363,003	
Operating income	710,876	816,019	
Other deductions, net	(3,891)	(13,542)	
Operating and other deductions	706,985	802,477	
Interest (income) expense:			
Interest on long-term debt	138,573	172,629	
Interest income	(32,254)	(14,476)	
Interest on debt to associated companies	96,479	58,676	
Other interest	42,310	25,959	
Total interest expense, net	245,108	242,788	
Net income from continuing operations	461,877	559,689	
Discontinued operations:			
Income from discontinued operations, net of tax of \$10,641 and \$2,668	11,717	2,376	
Goodwill impairment	(120,204)		
Net income (loss) from discontinued operations	(108,487)	2,376	
Net income	\$ 353,390	\$ 562,065	

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

NATIONAL GRID USA AND SUBSIDIARY COMPANIES **Consolidated Statements of Comprehensive Income** (In thousands of dollars)

	For the years ended March 31,	
	2007	2006
Net income	\$ 353,390	\$ 562,065
Other comprehensive income (loss):		
Unrealized gains on securities, net of taxes	6,003	6,217
Hedging activity, net of taxes	(17,526)	4,009
Change in additional minimum pension liability	(6,278)	182,489
Reclassification adjustment for gains (losses) included in net income, net of taxes	18,464	(24,810)
Total other comprehensive income	663	167,905
Comprehensive income	\$ 354,053	\$ 729,970
Adjustment to initially apply SFAS No. 158	(398,145)	_
Change in accumulated other comprehensive income (loss)	\$ (397,482)	\$ 167,905

Consolidated Statements of Retained Earnings (In thousands of dollars)

		For the years ended March 31,	
	2007	2006	
Retained earnings at beginning of period	\$ 1,484,597	\$ 980,101	
Net income	353,390	562,065	
Dividends on preferred stock	(2,096)	(2,210)	
Dividends on common stock	(286,052)	(55,000)	
Other	139	(359)	
Retained earnings at end of period	<u>\$ 1,549,978</u>	\$ 1,484,597	

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

NATIONAL GRID USA AND SUBSIDIARY COMPANIES **Consolidated Balance Sheets** (In thousands of dollars)

	Marc	ch 31,
	2007	2006
ASSETS		
Utility plant, at original cost:		
Electric plant	\$ 11,518,971	\$ 10,921,706
Gas plant	2,145,412	1,568,845
Common plant	358,124	382,167
Construction work-in-process	259,825	339,644
Total utility plant	14,282,332	13,212,362
Less: accumulated depreciation and amortization	(4,593,150)	(4,238,319)
Net utility plant	9,689,182	8,974,043
Goodwill	3,338,791	3,076,752
Pension intangible	_	36,885
Other property and investments	316,252	321,273
Current assets:		
Cash and cash equivalents	281,895	213,954
Restricted cash	63,051	80,265
Accounts receivable (less reserves of \$165,242 and \$149,492,		
respectively, including \$10,388 and \$11,571 from affiliates, respectively)	1,417,657	1,325,945
Materials and supplies, at average cost:		
Gas storage	20,906	23,576
Other	59,686	48,363
Current portion of accumulated deferred income taxes	176,208	195,476
Current portion of regulatory assets	303,973	393,213
Assets of discontinued operations	305,120	252,964
Other	<u>169,701</u>	108,802
Total current assets	2,798,197	2,642,558
Other non-current assets:		
Regulatory assets	5,101,370	5,264,789
Prepaid employee pension benefits	_	360,183
Other	67,764	49,967
Total non-current assets	5,169,134	5,674,939
Total assets	\$ 21,311,556	\$ 20,726,450

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

NATIONAL GRID USA AND SUBSIDIARY COMPANIES **Consolidated Balance Sheets** (In thousands of dollars)

	March 31,	
	2007	2006
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stockholder's equity:		
Common stock (\$.10 par value)	\$ —	\$ —
Authorized - 3,000 shares		
Issued and outstanding - 1,000 shares		
Additional paid-in capital	7,599,045	7,099,046
Retained earnings	1,549,978	1,484,597
Accumulated other comprehensive loss	(401,738)	(4,256)
Total common stockholder's equity	8,747,285	8,579,387
Minority interest in subsidiaries	16,397	17,712
Cumulative preferred stock	52,317	52,317
Long-term debt	1,968,528	2,125,241
Long-term debt to affiliates	1,200,000	1,200,000
Total capitalization	11,984,527	11,974,657
Current liabilities:		
Accounts payable	698,433	614,725
Customers' deposits	51,294	40,770
Accrued interest	75,136	50,506
Accrued taxes	33,197	169,998
Short-term debt due to affiliates	1,028,866	644,168
Current portion of long-term debt	218,873	302,320
Current portion of accrued Yankee nuclear plant costs	28,527	54,796
Current portion of derivatives and swap contracts	264,497	324,858
Current portion of purchased power obligations	10,949	13,559
Liabilities of discontinued operations	34,887	29,590
Current regulatory liabilities	129,286	67,921
Accrued wages and benefits	96,819	97,322
Other	86,513	55,954
Total current liabilities	2,757,277	2,466,487
Other non-current liabilities:		
Accumulated deferred income taxes	1,988,880	2,223,355
Unamortized investment tax credits	61,347	67,593
Accrued Yankee nuclear plant costs	117,416	140,832

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	Ma	March 31,	
	2007	2006	
Purchased power obligations	14,587	23,688	
Derivatives and swap contracts	254,663	538,882	
Accrued employee pension and other benefits	1,570,696	719,524	
Additional minimum pension liability	_	127,351	
Environmental remediation costs	582,787	569,319	
Nuclear fuel disposal costs	158,195	150,642	
Regulatory liabilities	1,491,118	1,355,595	
Other	330,063	368,525	
Total other non-current liabilities	6,569,752	6,285,306	
Total capitalization and liabilities	\$21,311,556	\$20,726,450	

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

NATIONAL GRID USA AND SUBSIDIARY COMPANIES **Consolidated Statements of Cash Flow** (In thousands of dollars)

	For the years ended March 31,	
	2007	2006
Operating activities:		
Net income	\$ 353,390	\$ 562,065
Adjustments to reconcile net income to net cash provided by operating activities:	_	_
Impairment of goodwill of discontinued operations	120,204	
Net income from discontinued operations	(11,717)	(2,376)
Depreciation and amortization	410,997	387,673
Amortization of stranded costs and rate plan deferrals	455,632	532,987
Provision for deferred federal and state income taxes and investment tax credits, net	108,579	34,880
Net operating activities from discontinued operations	18,166	13,779
Changes in operating assets and liabilities:		
Accounts receivable, net	(19,051)	(213,686)
Materials and supplies	27,446	(25,989)
Prepaids and other current assets	(59,129)	(12,175)
Accounts payable and accrued expenses	105,015	187,653
Accrued interest and taxes	(115,646)	(18,003)
Pension and postretirement regulatory assets	(117,671)	(18,813)
Purchased power obligations	(158)	(9,697)
Keypsan acquisition costs	(28,266)	(942)
Other, net	(78,420)	(65,314)
Net cash provided by operating activities	1,169,371	1,352,042
Investing activities:		
Plant expenditures	(787,174)	(679,785)
Acquisition of gas assets	(496,720)	_
Sale of assets	1,888	2,268
Change in restricted cash	17,214	(64,977)
Other, net	64,812	(32,493)
Net investing activities for discontinued operations	<u>(176,916</u>)	(7,236)
Net cash used in investing activities	(1,376,896)	(782,223)
Financing activities:		
Dividends paid on preferred stock	(2,096)	(2,210)
Dividends paid on common stock	(286,052)	(55,000)
Dividends paid on common stock of minority interests	(2,202)	(3,822)

For the years ended March 31, 2006 2007 500,000 Capital contribution from parent for Rhode Island gas acquisition (632,725)Payment of long-term debt (317, 157)Proceeds from long-term debt 28,000 Buyback of minority interest common stock (1,670)(1,158)Net change in short-term debt to affiliates 384,698 (43,000)Capital contribution to discontinued operations (158,750)Net financing activities for discontinued operations 158,750 (528)Other, net (55) 275,466 Net cash (used in) provided by financing activities (710,443)(140,624)Net increase (decrease) in cash and cash equivalents 67,941 213,954 Cash and cash equivalents, beginning of period 354,578 Cash and cash equivalents, at end of period 281,895 213,954 Supplemental disclosures of cash flow information: \$ Interest paid \$ 255,172 279,224 Taxes paid 252,831 157,250

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

1 Nature of Operations

National Grid USA (the Company) is a public utility holding company with regulated subsidiaries engaged in the transmission, distribution, and sale of electricity and natural gas. The Company is a wholly owned subsidiary of National Grid plc. The Company's electricity and gas distribution subsidiaries serve approximately 4.1 million customers in New York State, Massachusetts, Rhode Island and New Hampshire. The Company's transmission subsidiaries provide electricity transmission in New York through Niagara Mohawk Power Corporation (Niagara Mohawk) and in New England principally through New England Power Company (NEP) and The Narragansett Electric Company (Narragansett). In August 2006, the Company acquired the Rhode Island gas assets of New England Gas Company (see Note L — Acquisitions). For unregulated subsidiaries engaged in construction and leasing of telecommunications infrastructures see Note M — "Discontinued Operations."

2 Basis of Presentation

The Company's accounting policies conform to generally accepted accounting principles in the United States of America (US GAAP), including accounting principles for rate-regulated entities with respect to the Company's transmission, distribution and gas operations (regulated subsidiaries), and are in accordance with the accounting requirements and ratemaking practices of the regulatory authorities having jurisdiction (see below).

The consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries and minority interests. All intercompany transactions and balances between consolidated subsidiaries have been eliminated.

The Company owns approximately 53.7 percent of the outstanding common stock of both New England Hydro-Transmission Electric Company, Inc. and New England Hydro-Transmission Corporation (together, the Hydro-Transmission companies). The Hydro-Transmission companies own and operate an international transmission interconnection between Hydro-Quebec (a generation facility in Quebec, Canada) and New England. The consolidated financial statements include 100 percent of the assets, liabilities, and earnings of the Hydro-Transmission companies. Minority interests in the Hydro-Transmission companies, which represent the minority stockholders' proportionate share of the equity, is separately disclosed on the Company's consolidated balance sheet and the proportionate share of income is included in 'Other deductions, net' on the Company's consolidated statements of income.

NEP has a minority ownership interest in each of three regional nuclear generating companies which own generating facilities that are permanently shut down. NEP accounts for these ownership interests under the equity method.

3 Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the balance sheets, and revenues and expenses for the period. These estimates may differ from actual amounts if future circumstances cause a change in the assumptions used to calculate these estimates.

4 Regulation

The Company's regulated subsidiaries must comply with the rules prescribed by the Federal Energy Regulatory Commission (FERC) and the applicable state utility commissions of New York, Massachusetts, Rhode Island and New Hampshire. See Note B – "Rates and Regulatory." Niagara

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Mohawk files reports with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended.

5 Goodwill

National Grid plc's acquisitions of the Company's subsidiaries including the acquisitions by the Company of Eastern Utilities Associates (EUA), Niagara Mohawk, and the Rhode Island gas assets of New England Gas Company (see Note L – "Acquisitions"), were accounted for by the purchase method, the application of which includes the recognition of goodwill. Goodwill was approximately \$3.3 billion and \$3.1 billion at March 31, 2007 and 2006, respectively. In accordance with the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," the Company reviews its goodwill annually for impairment and when events or circumstances indicate that the asset may be impaired. The Company utilized a discounted cash flow approach incorporating its most recent business plan forecasts in the performance of the annual goodwill impairment test. During fiscal year 2007, goodwill increased by approximately \$262 million. This amount primarily related to (i) an increase to Narragansett goodwill of \$236 million due to the acquisition of the Rhode Island gas assets from Southern Union Company and (ii) an increase to Niagara Mohawk of \$26 million due to an adjustment related to a tax contingency. Included in 'Assets of discontinued operations' is a decrease of \$94 million of goodwill composed of a \$26 million increase related to acquisitions offset by a \$120 million write-down due to impairment of goodwill.

6 Electric and Gas Utility Revenue

The Company's regulated subsidiaries charge customers for electric and gas service in accordance with rates approved by the FERC and the applicable state regulatory commissions.

All of the Company's distribution subsidiaries, except for Granite State Electric, follow the policy of accruing the estimated amount of base rate revenues for electricity delivered but not yet billed (unbilled revenues), to match costs and revenues. The unbilled revenue included in accounts receivable at March 31, 2007 and 2006 was approximately \$351 million and \$291 million, respectively. The distribution subsidiaries record revenues in amounts management believes to be recoverable pursuant to provisions of approved settlement agreements and state legislation. The distribution subsidiaries normalize the difference between revenue and expenses from energy conservation programs, commodity purchases, transmission service and contract termination charges (CTCs).

The Company recognizes changes in unbilled revenues in its results of operations with the exception of Niagara Mohawk's unbilled gas revenue. Pursuant to Niagara Mohawk's 2000 multi-year gas settlement (which ended December 2004, and remains effective until Niagara Mohawk requests a change in rates), changes in accrued unbilled gas revenues are deferred. At March 31, 2007 and 2006, approximately \$18 million and \$6 million, respectively, of unbilled gas revenues remain unrecognized in results of operations. Management cannot predict when unbilled gas revenues will be allowed to be recognized in results of operations.

7 Utility Plant

The cost of additions to utility plant and replacements of retired units of property are capitalized. Costs include direct material, labor, overhead and allowance for funds used during construction (AFUDC) (see below). Replacement of minor items of utility plant and the cost of current repairs and maintenance are charged to expense. Whenever utility plant is retired, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation.

8 AFUDC

The Company capitalizes AFUDC as part of construction costs in amounts equivalent to the cost of funds devoted to plant under construction for its regulated businesses. AFUDC represents the composite

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9 Depreciation and Amortization

Depreciation expense is determined using the straight-line method. The depreciation rates for the regulated subsidiaries are based on periodic studies of the estimated useful lives of the assets and the estimated cost to remove them net of salvage value. The regulated subsidiaries use composite depreciation rates that are approved by the respective federal and state utility commissions. The provision for depreciation as a percentage of weighted average depreciable property (excluding construction work-in-progress) was 3.03% and 3.04% for the fiscal years ended March 31, 2007 and 2006, respectively.

Regulatory assets, including those covered by CTCs, are amortized in accordance with the provisions of the regulated subsidiaries' rate settlement agreements and, therefore, are not necessarily amortized on a straight-line basis. NEP and Niagara Mohawk had deferred certain costs related to deregulation, including purchased power contract buyouts, and losses on the sale of generation assets as a regulatory asset (See Note B — "Rates and Regulatory"). Niagara Mohawk's costs are being amortized unevenly over ten years with larger amounts being amortized in the latter years, consistent with projected recovery through rates.

10 Cash Equivalents

The Company classifies short-term investments with an original maturity of three months or less as cash equivalents.

11 Restricted Cash

Restricted cash consists of margin accounts for commodity and interest rate hedging activity, health care claims deposits, New York State Department of Conservation securitization for certain site cleanup, and workers' compensation premium deposits.

Under the Loan and Trust Agreement for the Massachusetts Development Finance Agency Tax Exempt Electric Utility Revenue Bonds (Nantucket Electric Company Issue), Series 2004A (the Bonds), the Company established a Construction Fund with the Trustee in which the proceeds from the Bonds were deposited. In total, \$38 million was deposited to fund the Second Nantucket Cable Project costs. Disbursements from the Construction Fund may be made by the Trustee to pay directly or to reimburse the Company for eligible project costs as directed by requisitions signed by the Company. This requisition process is the only manner in which project costs may be paid from Bond proceeds. As of March 31, 2007, the Company used the entire \$38 million of the funds deposited. The project was completed at the beginning of the 2007 fiscal year.

12 Federal and State Income Taxes

Federal and state income taxes are recorded under the provisions of SFAS No. 109 "Accounting for Income Taxes." Income taxes have been computed utilizing the asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences. It does this by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

Deferred investment tax credits are amortized over the useful life of the underlying property (see Note G – "Income Taxes").

13 Derivatives

The Company accounts for derivative financial instruments under SFAS No. 133, "Accounting for Derivatives and Hedging Activities," and SFAS No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities," as amended. All derivatives except those qualifying for the normal purchase/normal sale exception are recognized on the balance sheet at their fair value. Fair value is generally determined using current quoted market prices. If a contract is designated as a cash flow hedge, the change in its market value is generally deferred as a component of other comprehensive income until the transaction it is hedging is completed. Conversely, the change in the market value of a derivative not designated as a cash flow hedge is deferred as a regulatory asset or liability. A cash flow hedge is a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. To qualify as a cash flow hedge, the fair value changes in the derivative must be expected to offset 80% to 125% of the changes in fair value or cash flows of the hedged item. The Company also has purchase power agreements with non-affiliates for the purchase of power and capacity for resale to its retail customers. These agreements generally have no notional amounts and do not meet the definition of a derivative under SFAS No. 133.

14 Comprehensive Income (Loss)

Comprehensive income (loss) is the change in the equity of a company, not including those changes that result from shareholder transactions. While the primary component of comprehensive income (loss) is net income, the other components relate to additional minimum pension liability recognition, deferred gains and losses associated with hedging activity, and unrealized gains and losses associated with certain investments held as available for sale (see Note D — "Accumulated Other Comprehensive Income (Loss)").

15 New Accounting Standards

SFAS No. 123R

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." SFAS No. 123R addresses the accounting for transactions in which a company receives employee services in exchange for (a) equity instruments of the company or (b) liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R also eliminates the ability to account for share-based compensation transactions using Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and requires that such transactions be accounted for using a fair-value-based method. The adoption of SFAS No. 123R on April 1, 2006 did not have a material impact on the Company's results of operations or its financial position.

SFAS No. 154

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3." Previously, APB No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," defined the requirements for the accounting for and the reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, SFAS No. 154 requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement.

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SFAS No. 154 becomes effective for fiscal years ending after December 15, 2005. The Company adopted it as of its March 31, 2006 fiscal year and the adoption did not have a material impact on the Company's results of operations or its financial position.

FASB Interpretation No. 48

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The cumulative effect of applying the provision of this interpretation is required to be reported separately as an adjustment to the opening balance of retained earnings in the year of adoption. FIN 48 is effective for fiscal years beginning after December 15, 2006 and will be effective for the Company in its 2008 fiscal year. The Company is currently evaluating the impact the adoption of FIN 48 will have on its financial statements and is not yet in a position to determine such effects.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which provides enhanced guidance for using fair value measurements in financial reporting. While the standard does not expand the use of fair value in any new circumstance, it has applicability to several current accounting standards that require or permit entities to measure assets and liabilities at fair value. This standard defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The Company is currently evaluating SFAS No. 157 and at this time cannot determine impact, if any, that the potential requirements may have on its financial statements.

SFAS No. 158

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." This standard amends SFAS Nos. 87, 88, 106 and 132(R). SFAS No. 158 requires an employer with a defined benefit pension plan or postretirement benefit plan other than pensions to recognize an asset or liability on its balance sheet for the over funded or under funded status of the plan as defined by SFAS No. 158. The Company adopted SFAS No. 158 on March 31, 2007. The pension asset or liability is the difference between the fair value of the pension plan's assets and the projected benefit obligation as of the year end. For postretirement benefit plans other than pensions (PBOPs), the asset or liability is the difference between the fair value of the plan's assets and the accumulated postretirement benefit obligation as of year end. At March 31, 2007, the Company recorded a combined liability of \$1.2 billion in connection with the adoption of SFAS No. 158. While the offset to this entry would normally be a charge to accumulated other comprehensive income (OCI), certain Company subsidiaries have recorded regulatory assets because they will fully recover their costs. See Note F – "Employee Benefits" for the impact of the adoption of the new standard on the Company's consolidated financial statements.

Staff Accounting Bulletin No. 108

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 requires companies to quantify the impact of correcting misstatements using both an income statement (rollover) approach and a balance sheet (iron curtain) approach. If the misstatement of prior year expense is material to the current year, after all of the relevant quantitative and qualitative factors are considered, the prior year financial statements should be corrected. Correcting prior year financial statements for immaterial errors would not require previously filed reports to be amended. The new standard had no impact on the Company's consolidated financial statements.

16 Reclassifications

Certain amounts from prior years have been reclassified on the accompanying consolidated financial statements to conform to the fiscal 2007 presentation.

NOTE B - RATES AND REGULATORY

The Company's regulated subsidiaries generally use the same accounting policies and practices for financial reporting purposes as non-regulated companies under US GAAP. However, actions by the FERC and the state utility commissions can result in accounting treatment that is different from that used by non-regulated companies. The Company applies the provisions of the SFAS No. 71, "Accounting for Certain Types of Regulation." In accordance with SFAS No. 71, the Company's regulated subsidiaries record regulatory assets (expenses deferred for future recovery from customers) and regulatory liabilities (amounts provided in current rates to cover costs to be incurred in the future) on their balance sheets. This permits the regulated subsidiaries to defer certain costs (because they are expected to be recovered through customer billings) and revenues (because they are expected to be refunded to customers), which would otherwise be charged to expense or revenue, when authorized to do so by the regulator. The Company is earning a return on most of its regulatory assets under its rate plans.

The following table details the various categories of regulatory assets and liabilities:

	At Mar	At March 31	
	2007	2006	
Degulatory acceta included in accounts receivables	(In thous	sanas)	
Regulatory assets included in accounts receivable:	Ф 10.66E	ф БО 777	
Rate adjustment mechanisms	\$ 12,665	\$ 53,777	
Regulatory liabilities included in other accrued expenses:	(400.000)	(07.004)	
Rate adjustment mechanisms	(129,286)	(67,921)	
Current portion of regulatory assets:			
Derivative and swap contracts (Note E)	264,497	324,858	
Purchase power obligations	10,949	13,559	
Yankee nuclear decommissioning costs (Note C)	28,527	54,796	
Total net regulatory assets current	187,352	379,069	
Regulatory assets:			
Stranded costs	2,273,238	2,478,018	
Purchase power obligations	119,944	114,829	
Derivative and swap contracts (Note E)	254,663	506,328	
Regulatory tax asset	139,792	148,678	
Deferred environmental restoration costs (Note C)	633,630	563,871	
Pension and post-retirement benefit plans other than pension costs (Note F)	1,248,708	550,179	
Additional minimum pension liability	_	79,923	
Yankee nuclear decommissioning costs (Note C)	117,416	140,832	
Loss on reacquired debt	69,223	78,966	
Long-term portion of standard offer under-recovery	49,864	46,803	
Other	194,892	556,362	

	At Mar	At March 31	
	2007	2006	
	(In thous	sands)	
Regulatory liabilities:			
Cost of removal reserve	(642,198)	(537,526)	
Stranded costs and CTC related	(125,113)	(123,105)	
Pension and post-retirement plans fair value deferred gain (Note F)	(266,485)	(234,754)	
Interest savings deferral	(92,534)	(92,534)	
Environmental response fund and insurance recoveries (Note C)	(91,287)	(81,673)	
Storm costs reserve	(45,551)	(39,391)	
Other	(227,950)	(246,612)	
Total net regulatory assets non-current	3,610,252	3,909,194	
Net regulatory assets	\$ 3,797,604	\$ 4,288,263	

Stranded costs

Certain regulatory assets, referred to as stranded costs, resulted from major fundamental changes occurring in the public utility industry, most notably the divestiture of generation assets pursuant to deregulation. Under deregulation, the generation segment of the utility business was opened to competition in that consumers could choose their generation supplier. Public utilities continued to control the transmission and distribution of electricity and were encouraged to dispose of generation assets such as power plants. The net unrecovered costs from the sale of these generation assets, along with the costs to terminate, restate or amend existing purchase power contracts were deferred for recovery in rates over future periods. A large portion of these stranded costs are being recovered through a special rate being charged to customers. Similarly, the recovery of costs outside of customer rate recovery, but that nevertheless relate to the former generation business, are credited back to customers as well to offset stranded costs. For the New England regulated subsidiaries, this mechanism is called the Contract Termination Charge and for Niagara Mohawk in New York, it is called the Competitive Transition Charge (in both cases, these charges are called the CTC).

Management believes that future cash flows from charges for electric service under existing rate plans, including the CTC, will be sufficient to recover the Company's regulatory assets over the planned amortization period. This assumes that there will be no unforeseen reduction in demand and no bypass of the CTC or exit fees. In the event of revenues that are lower than expected and (or) costs that are higher than expected, if the Company determines that its net regulatory assets are not probable of recovery, it can no longer apply the principles of SFAS No. 71 and would be required to record an after-tax, non-cash charge against income for any remaining unamortized regulatory assets and liabilities. If the Company's subsidiaries could no longer apply SFAS No. 71, the resulting charge would be material to the Company's reported financial condition and results of operations.

Rate Agreements

NEF

New England Regional Transmission Organization (RTO) and Rate Filing: NEP is a participating transmission owner (PTO) in New England's RTO which commenced operations effective February 1, 2005. ISO New England, Inc. has been authorized by FERC to exercise the operations and system planning functions required of RTOs and will be the independent regional transmission provider under the ISO Open Access Transmission Tariff (ISO-OATT). The ISOOATT is designed to provide non-discriminatory open access transmission services over the transmission facilities of the PTOs and

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recover their revenue requirements. FERC issued two orders in 2004 and two in 2005 that approved the establishment of the RTO and resolved certain issues concerning the proposed return on common equity (ROE) for New England PTOs. Other return issues were set for hearing. A number of parties, including NEP, have filed appeals from one or more of those orders with the U.S. Court of Appeals for the District of Columbia Circuit.

Effective on the RTO operations date of February 1, 2005, NEP's transmission rates began to reflect a proposed base ROE of 12.8 percent, subject to refund, plus an additional 0.5 percent incentive return on regional network service (RNS) rates that FERC approved in March 2004. Approximately 70 per cent. of the Company's transmission costs are recovered through RNS rates. An additional 1.0 per cent. incentive adder was also applicable to new RNS transmission investment, subject to refund.

NEP and the other New England Transmission Owners (NETOs) participated in FERC proceedings to determine outstanding ROE issues, including base return on ROE and the proposed 1 percent ROE incentive for new transmission investment. On May 27, 2005, a FERC administrative law judge (ALJ) issued an initial decision which concluded that the base ROE should be 10.72 percent and that NEP and other NETOs are not entitled to the proposed 1 per cent. ROE incentive.

On October 31, 2006, FERC issued an order establishing the ROE for the NETOs, including NEP. Over the dissent of two Commissioners and overturning the initial decision by the ALJ, FERC approved, as an incentive to build new transmission infrastructure, the proposed 1 percent ROE adder for all new transmission investment approved through the regional system planning process. Although FERC lowered the base ROE recommended by the ALJ by 0.5 percent, it also increased the ROE by 0.7 per cent. on a going-forward basis to reflect changing markets since the time that hearings were held in 2005. Thus, the ROE approved by the order differs for the locked-in period (February 2005 to October 2006) and for the prospective period (November 2006 going forward). The ROE also varies depending on whether costs are recovered through RNS rates or local network service (LNS) rates, and whether the costs are for existing or new facilities. For the locked-in period, the resulting ROEs are 10.7 percent (including a 0.5 percent RTO participation adder) for recovery of existing transmission through RNS rates; 11.7 percent (including 0.5 percent and 1 percent adders) for new transmission costs recovered through RNS; and 10.2 percent (base ROE only) for LNS. For the prospective period beginning November 1, 2006, those ROEs increased to 11.4 percent, 12.4 percent and 10.9 percent respectively. Overall, the ROEs approved by FERC represent an increase from NEP's last authorized ROE of 10.25 percent.

The NETOs and opposing parties to the NETOs have requested rehearing of various aspects of the Commission's order. The NETOs have argued that FERC made an error in its analysis, the correction of which would increase transmission owners' base return on equity by 0.3 percent. The opposing parties have challenged the Commission's approval of the 0.7 percent increase on a going forward basis and the additional 1 percent return incentive premium that was approved for new investment.

Niagara Mohawk

Under its Merger Rate Plan (MRP) for electric rates, the Company is authorized to recover actual amounts deferred under the plan for each two-year period, as well as deferrals projected to accrue over the subsequent two-year period that are in excess of a \$100 million threshold. The deferrals are subject to regulatory review and approval. On July 29, 2005, the Company made its biannual deferral account recovery filing for balances in the deferral account as of June 30, 2005 plus projected deferrals. On December 27, 2005, the New York State Public Service Commission (PSC) approved recovery of deferral account amounts of \$100 million in calendar year 2006 and \$200 million in calendar year 2007, and established a timeline for the Department of Public Service Staff (Staff) to perform its audit of the deferral account. For 2006, the deferral surcharge was included in rates beginning in April and the \$100 million was collected over the last nine months of the 2006 calendar year. The Staff filed testimony on August 2, 2006, proposing in excess of \$200 million of initial adjustments to the deferral balance and projected deferrals. After replies from the Staff and the Company, an evidentiary hearing was held on October 5, 2006. Upon the conclusion of the evidentiary hearings, the Company and the Staff agreed to

enter into non-binding mediation discussions before an ALJ from the PSC in an attempt to resolve some or all of the amounts remaining in dispute.

Through the mediation process, the Company, the Staff, and Multiple Intervenors (Parties), reached a resolution of the disputed issues presented in the deferral account case as well as other cases pending before the Commission regarding pension costs, the costs of enhanced inspections of the transmission and distribution system, and the sale of the Nine Mile Point nuclear generating facilities. A Stipulation of the Parties (Stipulation) setting forth the resolution of these issues was executed and filed with the Commission on March 23, 2007. A hearing on the Stipulation of the parties was held before the PSC's ALJ on May 17, 2007.

Under the Stipulation, the Company has agreed to a net reduction of the deferral account balance of approximately \$127.0 million. This includes reclassifications from the deferral account to other balance sheet accounts of approximately \$64 million. It also includes a reduction to the deferral account balance as of February 28, 2007 and decrease to earnings before income taxes of approximately \$63 million. The significant issues resolved under the Stipulation include:

- The Company will cease seeking to recover most disputed station service lost revenues. This resulted in a reduction to the deferral account and pre-tax earnings as of February 28, 2007 of \$68 million. The impact of the settlement on future revenues depends on the usage by generators and prospective adjustments to delivery rates that are dependent in part on commodity prices. The Company estimates a reduction in revenues of about \$9 million to \$12 million per year through December 31, 2011 which is the end of the MRP.
- The Parties agreed to the method of determining incremental major storm costs related primarily to the treatment of third party contractor costs and costs incurred by affiliates during storm restoration efforts. The definition of a major storm was also clarified under the Stipulation. Storm related adjustments resulted in a reduction of \$10 million to the deferral account and pre-tax earnings.
- The Parties agreed to the method of determining deferrable incremental costs associated with the Company's ongoing stray voltage inspection and testing program resulting in a reduction to the deferral account and pre-tax earnings of \$4 million
- The Parties agreed to the method for capitalizing fringe benefit overhead costs associated with the Company's fixed asset construction activities. This resulted in a decrease to utility plant of \$17 million, an increase to the deferral account of \$11 million, and a reduction in pre-tax earnings of \$6 million.
- The Company is allowed to reflect 50 percent of pension settlement losses that it incurred in fiscal years 2007 and 2004. This resulted in an increase to the deferral account and pretax earnings of \$23 million related to fiscal 2007 and 2004 pension settlement losses, respectively.
- Although it has no impact on past or future rates, the Company will exclude goodwill from any future earnings sharing filings and other filings made with the PSC.

Certain deferral account balances as of June 30, 2005 remain subject to audit by the Staff. The Stipulation also clarifies going forward procedures for recording, reporting and auditing of certain other deferrals authorized for recovery. The next biannual deferral account filing will be made by August 1, 2007 for deferral balances as of June 30, 2007 and projected deferrals through December 31, 2009. The Staff will audit future biannual deferral account filings made pursuant to the MRP, however the Parties have agreed that the amount of deferral recoveries in calendar year 2008 and 2009 will not exceed the \$200 million level currently being collected in rates. Any deferrals in excess of this recovery level would be subject to recovery after 2009.

Massachusetts Electric Company and Nantucket Electric Company

Rates for services rendered by the Company for the most part are subject to approval by the Massachusetts Department of Public Utilities (DPU). In March 2000, the DPU approved a long-term rate plan for the Company, which became effective on May 1, 2000. As part of the rate plan, the Company

instituted a \$10 million settlement credit that terminated on March 1, 2005. During this period, known as the Rate Freeze Period, distribution rates (after the reduction for the \$10 million settlement credit) were frozen. During the period from March 1, 2005 through December 31, 2009, the Rate Index Period, subsequent to the increase in distribution rates resulting from the termination of the \$10 million settlement credit, the Company's distribution rates are adjusted annually, upward or downward, based upon the movement of a distribution index rate (in cents per kilowatt-hour) of similarly unbundled distribution utilities in New England, New York, Pennsylvania and New Jersey. The Company determined that its initial relative position against this index of utilities established using distribution rates in effect July 1, 2004 was less than 90 percent, which allowed it to reflect in distribution rates the effect of terminating the entire \$10 million settlement credit. On July 1 of each succeeding year, the Company updates the regional index rate and, based upon the movement, upward or downward, of this regional index rate, adjusts its own distribution rates accordingly effective March 1 of the following year. In the first two such adjustments the Company implemented a 3.5 percent and a 1.6 percent increase in distribution rates pursuant to this mechanism effective March 1, 2006 and March 1, 2007, respectively. During 2009, the Company will file a distribution cost of service to determine the share of earned savings, if any, that it will be able to include in this and future cost of service studies for the purpose of establishing distribution rates to be in effect from January 2010 through May 2020, in accordance with a sharing mechanism defined in the rate plan. The Company will be allowed to retain 100 percent of annual earned savings up to \$70 million and 50 percent of annual earned savings between \$70 million and \$145 million (all figures pre-tax). Earned savings represent the difference between annual distribution revenue based on rates in effect on March 1, 2009 and the Company's cost of providing service, including a regional average authorized return. These efficiency incentive mechanisms provide an opportunity to achieve returns in excess of traditional regulatory allowed returns.

Nantucket Electric's distribution rates are linked to Massachusetts Electric's rates. In addition, Nantucket Electric owns and operates two 46 kilovolt submarine cables that interconnect Nantucket Island to the transmission system on Cape Cod, the costs of which are recovered through a special surcharge to its customers.

The Narragansett Electric Company

Electric segment: In Rhode Island, Narragansett Electric's distribution rates are governed by a long-term rate plan. Under its rate plan, effective from November 2004 until December 2009, Narragansett Electric agreed to reduce its distribution rates by \$10.2 million (pre-tax) per year. Beginning in January 2005, Narragansett has been able to keep an amount equal to 100 percent of its earnings up to an allowed ROE of 10.5 percent, plus \$4.65 million (pre-tax), which represents its share of demonstrated savings subsequent to the acquisition of EUA in 2000. Earnings above that amount up to an additional 1 percent ROE are to be shared equally between Narragansett and its customers, while additional earnings will be allocated 75 percent to customers and 25 percent to Narragansett. This regulatory mechanism offers the potential to achieve returns in excess of traditional regulatory allowed returns.

In addition, Narragansett has implemented a customer credit totalling \$27.6 million on most of its customers' bills from November 2004 through December 2005. This credit was designed to return customers' share of the excess earnings accrued under the merger rate plan approved and implemented in 2000 governing the merger of Narragansett with Blackstone Valley Electric Company and Newport Electric Corporation.

Gas segment: In May 2002, the Rhode Island Public Utility Commission approved a settlement agreement between the New England Gas Company and the Rhode Island Division of Public Utilities and Carriers (the Division). The settlement agreement resulted in a \$3.9 million decrease in base revenues for the New England Gas Company, a unified rate structure ("One State; One Rate") and an integration /merger savings mechanism. The settlement agreement also allows New England Gas Company to retain \$2 million of merger savings and to share incremental earnings with customers when the return on equity exceeds 11.25 percent. Included in the settlement agreement was a conversion to therm billing and the approval of a reconciling Distribution Adjustment Clause (DAC). The DAC allows New England Gas Company to continue its low income assistance and weatherization programs and to

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recover environmental response costs over a ten year period, establishes a new weather normalization clause and allows for the sharing of non-firm margins (which is margin earned from interruptible customers with the ability to switch to alternative fuels). The weather normalization clause is designed to mitigate the impact of weather volatility on customer billings, which assists customers in paying bills and stabilize the revenue stream. New England Gas Company defers the margin impact of weather that is greater than two percent colder-than-normal and will recover the margin impact of weather that is greater than two percent warmer-than-normal. The non-firm margin incentive mechanism allows New England Gas Company to retain 25 percent of all non-firm margins earned in excess of \$1.6 million. In August 2006, National Grid completed the acquisition of the Rhode Island gas assets of New England Gas Company. Pursuant to the Division order approving the acquisition, National Grid agreed to honour the provisions of the former New England Gas Company rate settlement and committed to file a new rate plan within one year of the acquisition date.

Granite State Electric Company

In May 2007, Granite State entered into a settlement agreement with the staff of the New Hampshire Public Utility Commission and the New Hampshire Office of Consumer Advocate related to issues surrounding the merger of National Grid USA and KeySpan Corporation (the 2007 Settlement). Among other things, the 2007 Settlement provides for a \$2.2 million reduction in the Company's base distribution rates in two steps, the first \$1.1 million reduction effective 30 days from the NHPUC approval of the merger and the second \$1.1 million reduction effective January 1, 2008. The 2007 Settlement also contains a distribution rate plan spanning 10 years effective January 1, 2008 (Rate Plan). In the first five years of the Rate Plan distribution rates are frozen except for rate adjustments in the event of certain uncontrollable exogenous events and moderate annual rate adjustments related to specific Reliability Enhancement and Vegetation Management Plans (REP/VMP). The Rate Plan also includes an earnings sharing mechanism based on an imputed capital structure of 50 percent debt and 50 percent equity and a ROE sharing threshold of 11 percent, equal to an allowed ROE of 9.67 percent plus an allowance for merger synergy savings of 1.33 percent. Earnings above 11 percent ROE are shared equally between customers and the Company. The Rate Plan also establishes a storm contingency fund and customer service commitments by the Company. The 2007 Settlement is subject to the approval of the NHPUC and contingent on the closing of the merger. However, the \$2.2 million distribution rate reduction, REP/VMP, storm contingency fund and customer service commitments are subject only to NHPUC approval of the merger and are not contingent on the closing of the Merger.

NOTE C - COMMITMENTS AND CONTINGENCIES

Environmental issues

The normal ongoing operations and historic activities of the Company are subject to various federal, state and local environmental laws and regulations. Like most other industrial companies, the Company's transmission and distribution companies use or generate a broad range of hazardous materials. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without fault, even if the activities were lawful when they occurred.

Federal and state environmental regulators, as well as private parties, have alleged that the Company's transmission and distribution companies are potentially responsible parties under Superfund laws for the remediation of over 180 contaminated sites in New England and New York. The Company's greatest potential Superfund liabilities relate to manufactured gas plant, or MGP, facilities formerly owned or operated by the Company's subsidiaries or their predecessors. MGP by-products included fuel oils, hydrocarbons, coal tar, purifier waste and other waste products that may pose a risk to human health and the environment. The Company is investigating or remediating these sites, or both, as appropriate.

Management believes that ongoing operations and the Company's response to the impact of the Company's historic operations are in substantial compliance with environmental laws, and that the obligations imposed are not likely to have a material adverse impact on the Company's financial

condition or results of operations because the Company recovers a majority of these costs under the Company's rate plans. The Company is pursuing claims against insurance carriers and potentially responsible parties to recover investigation and remediation costs, but management cannot predict the success of such claims. To the extent that prudently incurred costs cannot be recovered through insurance or otherwise, these are recoverable under applicable rate plans. As of March 31, 2007 and 2006, the Company has recorded an obligation of \$583 million and \$569 million, respectively, along with an offsetting regulatory asset, on its balance sheet. The potential high end of the range at March 31, 2007 is presently estimated at approximately \$703 million.

Decommissioning Nuclear Units

NEP has minority interests in three nuclear generating companies: Yankee Atomic Electric Company (Yankee Atomic), Connecticut Yankee Atomic Power Company (Connecticut Yankee), and Maine Yankee Atomic Power Company (Maine Yankee) (together, the Yankees). These ownership interests are accounted for on the equity method. The Yankees own nuclear generating units that have been permanently retired and are conducting decommissioning operations. The three units are as follows:

Nuclear Unit	NEP's Equity Inv March 31		Date Retired	Future Estimated Billings to NEP
	% Ownership	\$ (millions)		\$ (millions)
Yankee Atomic	34.5	0.4	February 1992	32
Connecticut Yankee	19.5	2.7	December 1996	77
Maine Yankee	24.0	2.9	August 1997	37

With respect to each of the units, NEP recorded a liability and a regulatory asset (\$117.4 million long-term and \$28.5 million current) reflecting the estimated future decommissioning billings from the Yankees. In a 1993 decision, the FERC allowed Yankee Atomic to recover its undepreciated investment in the plant, including a return on that investment, as well as unfunded nuclear decommissioning costs and other costs. Maine Yankee and Connecticut Yankee recover their prudently incurred costs, including a return, in accordance with settlement agreements approved by the FERC in May 1999 and July 2000, respectively. The Yankees collect the approved costs from their purchasers, including the Company. NEP's share of the decommissioning costs is accounted for in "Electricity purchased" on the income statement. Under settlement agreements, NEP is permitted to recover prudently incurred decommissioning costs through CTCs.

The Yankees are periodically required to file rate cases, presenting the Yankees' estimated future decommissioning costs for FERC approval. Yankee Atomic and Maine Yankee are currently collecting decommissioning and other costs under FERC Orders issued in their respective rate cases. Connecticut Yankee is also collecting costs, subject to refund under a rate case now pending at the FERC, as described below.

Future estimated billings from the Yankees are based on decommissioning cost estimates. These estimates include the projected costs of decontaminating the units as required by the Nuclear Regulatory Commission (NRC), dismantling the units, security, liability and property insurance and other costs. They also include costs for interim spent fuel storage facilities, which the Yankees have constructed during litigation they brought to enforce the U.S. Department of Energy's (DOE) obligation to remove the fuel as required by the Nuclear Waste Policy Act of 1982. Following a trial at the U.S. Court of Federal Claims to determine the level of damages, on October 6, 2006, the Court awarded the three companies approximately \$143 million for spent fuel storage costs that had been incurred through 2001 and 2002. The three companies had requested \$176 million. On December 4, 2006, the DOE filed a notice of appeal. The Yankees have selected an appeals counsel and will begin the appeals process. If the order is upheld, the damages received by the Yankees, net of litigation expenses and taxes, will be applied to

reduce the decommissioning and other costs collected from their purchasers. The decommissioning costs that are actually incurred by the Yankees may exceed the estimated amounts, perhaps substantially.

Connecticut Yankee rate filing, prudence challenge and other proceedings

On July 1, 2004, Connecticut Yankee asked FERC for a rate increase to reflect increased costs for decommissioning, pensions and other employment benefits, increased security and insurance costs and other expenses. In aggregate, the increase amounts to approximately \$396 million through 2010, NEP's share of which is included in the future estimated billings shown in the table above. The rate case also reflects the impact of the termination of a fixed price contract with Bechtel Power Corporation to perform decommissioning operations and projects a substantial increase in costs over and delay in completion compared with those previously projected.

The Connecticut Department of Public Utility Control and the Connecticut Office of Consumer Counsel (together, the Department) intervened at the FERC requesting that the FERC reject Connecticut Yankee's rate filing, or in the alternative, disallow a portion of the requested rate increase on the ground that \$205 million to \$235 million of these costs were imprudently incurred. Bechtel and three New England states have also intervened, asserting that these costs are imprudent and should be disallowed. FERC authorized Connecticut Yankee to begin charging the proposed new rates effective February 1, 2005, subject to refund. On November 22, 2005, the FERC ALJ found that Connecticut Yankee was prudent in its administration of the decommissioning contract, its termination of Bechtel and its ongoing decommissioning of the plant. The parties have filed exceptions with the FERC.

Prior to Connecticut Yankee's filing, the Department petitioned the FERC to determine that Connecticut Yankee's purchasers, including NEP, were obliged to pay for all of Connecticut Yankee's decommissioning costs, whether or not prudent, and could not pass on any imprudent costs to their retail customers. The FERC denied the petition on August 30, 2005, on the ground that it has no jurisdiction over retail rates. The Department and Bechtel requested clarification and rehearing. FERC denied their requests on October 30, 2005. The Department appealed FERC's determination in the federal court.

Connecticut Yankee and Bechtel litigated the termination of the decommissioning contract in Connecticut state court, with each party seeking substantial damages. On March 21, 2006, the parties agreed to settle the case for a payment by Bechtel to Connecticut Yankee of \$15 million, and Bechtel withdrew its intervention in Connecticut Yankee's rate filing.

In July 2006, Connecticut Yankee and the Department reached a settlement in principle to the rate case, which FERC approved on November 16, 2006. The settlement provides for the resolution of all outstanding issues and objections between the parties, including the matters described above. The settlement extends the decommissioning collection period from 2010 to 2015 at a lower annual collection rate. The settlement also includes a provision from the 2000 FERC settlement which stipulated that if decommissioning expenses exceeded a spending cap, Connecticut Yankee (through the sponsors' equity) was to absorb the overage up to a maximum of \$10 million through reduced decommissioning collections. Decommissioning costs exceeded the cap. Under the terms of the settlement, Connecticut Yankee's liability is reduced to \$5 million if the project receives its NRC license termination before the end of 2007. If the license termination is delayed, the amount increases over time to the \$10 million maximum. The settlement provides that Connecticut Yankee may resume payment of dividends to return equity to sponsors. After January 1, 2008, Connecticut Yankee will not earn a return on more than \$10 million in equity.

Nuclear Contingencies

As of March 31, 2007 and 2006, the Company has a liability of \$158 million and \$151 million, respectively, in other non-current liabilities for the disposal of nuclear fuel irradiated prior to 1983 at Niagara Mohawk's former nuclear facilities. In January 1983, the Nuclear Waste Policy Act of 1982 (the Nuclear Waste Act) established a cost of \$.001 per kWh of net generation for current disposal of nuclear fuel and provides for a determination of the Company's liability to the DOE for the disposal of nuclear fuel

irradiated prior to 1983. The Nuclear Waste Act also provides three payment options for liquidating such liability and the Company has elected to delay payment, with interest, until the year in which Constellation Energy Group Inc., which purchased the Niagara Mohawk's nuclear assets, initially plans to ship irradiated fuel to an approved DOE disposal facility. Progress in developing the DOE facility has been slow and it is anticipated that the DOE facility will not be ready to accept deliveries until at least 2010.

Long-Term Contracts for the Purchase of Electric Power

The Company's subsidiaries have several types of long-term contracts for the purchase of electric power. The Company's commitments under these long-term contracts, as of March 31, 2007, are as follows:

Fiscal Year Ended March 31,	Amount millions of dollars)
2008	\$ 2,061
2009	1,274
2010	966
2011	397
2012	359
Thereafter	2,361
Total	\$ 7,418

If the Company's subsidiaries need any additional energy to meet load requirements, they can purchase the electricity from other independent power producers (IPPs) other utilities, other energy merchants or the open market through the New York Independent System Operator (NYISO) or the New England Independent System Operator (ISO – NE) at market prices.

Gas Supply, Storage and Pipeline Commitments

In connection with its regulated gas business, Niagara Mohawk and Narragansett have long-term commitments with a variety of suppliers and pipelines to purchase gas commodity, provide gas storage capability and transport gas commodity on interstate gas pipelines.

The table below sets forth the Company's estimated commitments at March 31, 2007, for the next five years, and thereafter.

Fiscal Year Ended March 31,	Amount (In millions of dollars)
2008	\$ 513
2009	136
2010	85
2011	80
2012	29
Thereafter	45
Total	\$ 888

With respect to firm gas supply commitments, the amounts are based upon volumes specified in the contracts giving consideration to the minimum take provisions. Commodity prices are based on New York Mercantile Exchange (NYMEX) quotes and reservation charges, when applicable. Storage and pipeline capacity commitment amounts are based upon volumes specified in the contracts, and represent demand charges priced at currently filed tariffs. At March 31, 2007, the Company's firm gas supply commitments have varying expiration dates, the latest of which is March 2009. The majority of the gas storage and transportation commitments have varying expiration dates between 2010 and 2012 with the latest being October 2022.

Plant Expenditures

The Company's utility plant expenditures are estimated to be approximately \$749 million in fiscal 2008. At March 31, 2007, substantial commitments had been made relative to future planned expenditures. Generally construction expenditure levels are consistent from year to year, however, the Company is currently in the second year of a five-year Reliability Enhancement Program, to improve performance and reliability, which will result in increased capital expenditures.

Legal Matters by Entity

Niagara Mohawk

Station Service Cases: A number of generators complained or withheld payments associated with the Company's delivery of station service to their generation facilities, arguing that they were permitted to bypass its retail charges. The FERC issued two orders on complaints filed by the Company's station service customers in December 2003, allowing two generators to net their station service electricity over a 30-day period and to avoid state-authorized charges for deliveries made over distribution facilities. Subsequent to December 2003, FERC issued a third order that involved affiliates of NRG Energy, Inc. These orders directly conflict with the Company's state-approved tariffs and the orders of the PSC on station service rates. The effect of these orders is to permit these generators to bypass the Company's state-jurisdictional station service charges for electricity, including those set forth in the filing that was approved by the PSC on November 25, 2003. Under those state-approved tariffs, the Company was owed in aggregate approximately \$62 million as of December 31, 2006. The Company appealed the FERC orders to the U.S. Court of Appeals for the District of Columbia Circuit, and the matters were consolidated for appeal. On June 23, 2006, the Court issued a decision upholding the FERC's orders, and on October 23, 2006, the Court denied the Company's request for rehearing. On January 22, 2007, the Company filed a joint petition for certiorari to the United States Supreme Court requesting the Court to review and reverse the decision of the Court of Appeals. The Supreme Court denied certiorari and thus the FERC orders have become final.

Under those orders, FERC allows generators to bypass local distribution company charges (including stranded cost recovery charges) when receiving service through the NYISO if the amount of power produced by a generator over a 30-day period exceeds the amount of power taken over the power grid. As discussed under the deferral audit section of Note B, the Company is not recovering the lost revenues associated with the FERC orders through its deferral account and recorded a charge to expense of \$68 million in the fourth quarter of fiscal year 2007 related to this matter.

New England Power

Town of Norwood Dispute: From 1983 until 1998, NEP was the wholesale power supplier for Norwood, Massachusetts. In April 1998, Norwood began taking power from another supplier, although its contract term with NEP ran to 2008. Pursuant to a tariff amendment approved by the FERC in May 1998, NEP has been assessing Norwood a monthly CTC of \$0.6 million, plus interest on unpaid balances at 18 percent per year. As of March 31, 2007, the charges assessed Norwood but not paid amount to \$68 million. NEP and Norwood are engaged in litigation at the FERC and in state court, as follows.

FERC 206 Proceeding: In December 2002, Norwood challenged the CTC rate with the FERC under Section 206 of the Federal Power Act, which permits the FERC to make prospective adjustments to filed rates. On June 9, 2004, the FERC ALJ issued an initial decision recommending that FERC revise the

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

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CRC: 20479 **EDGAR 2** CTC formula to reduce the CTC amount that was previously calculated under the formula which the FERC accepted and approved in 1998. NEP challenged this initial decision, arguing that no reduction is appropriate. Norwood and the FERC staff challenged the initial decision, arguing that the reduction is insufficient.

On July 22, 2005, the FERC ruled that NEP correctly calculated the CTC payable by Norwood at approximately \$0.6 million per month from April 1998 through October 2008. FERC also reduced the late payment interest rate applicable to the unpaid CTC from 18 percent to 8 percent. In response to requests for rehearing filed by both sides, on February 22, 2006, FERC reaffirmed the validity of the CTC, and ruled that the late payment interest rate should be a simple interest rate of 18 percent. The FERC calculated the amount owed by Norwood for past and future CTC payments to be \$89 million through December 2005. On March 14, 2006, Norwood asked FERC to reconsider the interest portion of its decision, and on March 17, moved to stay the effectiveness of the decision pending FERC's consideration of its rehearing request. On June 30, FERC denied Norwood's motion for rehearing and its motion for a stay.

On April 18, 2006, Norwood petitioned the US Court of Appeals for the First Circuit to review the FERC's orders. On July 14, 2006, Norwood petitioned the First Circuit for a stay. On August 21, 2006, the Court entered a limited stay, holding that Norwood need not pay its past debt until after the Court rules on the merits but that Norwood must pay monthly CTC amounts when due in the meantime.

On February 2, 2007, the First Circuit affirmed the FERC's denial of Norwood's challenge to the principal CTC amount, affirmed the FERC's order insofar as it required late payment interest charges at least at the prime rate, and remanded to FERC only as to whether more than the prime rate is properly due. The First Circuit ruled further that issuance of the Court's mandate would lift its stay order of August 21, 2006. The mandate was issued on March 26, 2007. On May 3, 2007, Norwood filed a petition for certiorari with the US Supreme Court seeking review of the First Circuit's February, 2007 Order. NEP's response to that petition is currently due to be filed in July 2007.

On May 17, 2007, the FERC ruled that the interest rate should be at prime, but did not address the effective date of the reduced late payment interest rate. On June 14, 2007, NEP filed a motion for clarification and alternative request for rehearing, asking FERC to clarify this issue, arguing that the rate should apply only to bills rendered after June 30, 2006. NEP also made a compliance filing indicating that through May 2007, Norwood owes NEP approximately \$68.4 million. Norwood filed a protest on June 29, 2007.

State Collection Action: NEP filed a collection action in Massachusetts Superior Court (Worcester County) to collect the CTC. In March 2001, the Superior Court ruled that Norwood has breached the agreement by not paying the CTC charge, and ordered Norwood to make regular and substantial payments to an escrow account. Following unsuccessful appeals by Norwood, the Superior Court entered judgment for NEP on June 9, 2004 in the amount of approximately \$43 million, based on amounts owed through January 31, 2001. Norwood appealed again to the Massachusetts Appeals Court, arguing that the CTC did not bind Norwood until the FERC's July 22, 2005 order confirmed the calculation for Norwood that NEP made in 1998, and that the Appeals Court should, in any event, await final resolution of the CTC by FERC and any subsequent judicial review. On May 17, 2006, the Appeals Court denied Norwood's appeal. The court remanded the case back to the trial court to increase its January 2001 judgment consistent with the amount in FERC's February 2006 order. Norwood filed an appeal with the Massachusetts Supreme Judicial Court, and on June 28, 2006, the appeal was denied. On July 24, 2006, NEP moved the Superior Court to bring the judgment current as of the date that it is entered. The motion was continued in light of the FERC's August 21 grant of a limited stay, which was lifted when the First Circuit's mandate was issued, as discussed above. Through March 31, 2007, Norwood has paid NEP approximately \$39 million, including its last payment of approximately \$15 million made in March 2007. On March 14, 2007 the Norwood Town Meeting voted to bond the remainder of its obligations to NEP, and has informed the Company that the process could take a year to complete.

NOTE D – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table details the components of accumulated other comprehensive income (loss) for the fiscal years ended March 31, 2007 and 2006:

	(L Ava	Unrealized Gains and .osses) on ailable-for- Securities	_ A d	Pension Liability ljustment (In thous	Cash Flow <u>Hedges</u> sands)	Cor	Total Accumulated Other nprehensive come (Loss)
March 31, 2005	\$	3,868	\$ (188,841)	\$ 12,812	\$	(172,161)
Other comprehensive income (loss), net of				,			
taxes Unrealized gains on securities		6,217					6,217
Change in additional minimum pension liability				182,489			182,489
Hedging activity					4,009		4,009
Reclassification adjustment for loss included							
in net income		(3,236)			(21,574)		(24,810)
March 31, 2006	\$	6,849	\$	(6,352)	\$ (4,753)	\$	(4,256)
Other comprehensive income (loss), net of							
taxes Unrealized gains on securities		6,003					6,003
Change in additional minimum pension liability				(6,278)			(6,278)
Adjustment for the adoption of SFAS No. 158			(;	398,145)			(398,145)
Hedging activity					(17,526)		(17,526)
Reclassification adjustment for gain (loss)							
included in net income		(3,570)			22,034		18,464
March 31, 2007	\$	9,282	\$ (4	410,77 <u>5</u>)	\$ (245)	\$	(401,738)

NOTE E - DERIVATIVE CONTRACTS AND HEDGING ACTIVITIES

Niagara Mohawk

In the normal course of business, the Company is a party to derivative financial instruments (derivatives) that are principally used to manage commodity prices associated with its natural gas and electric operations. These financial exposures are monitored and managed as an integral part of the Company's overall Financial Risk Management Policy. At the core of the policy is a condition that the Company will engage in activities at risk only to the extent that those activities fall within commodities and financial markets to which it has a physical market exposure in terms and volumes consistent with its core business. The Company does not issue or intend to hold derivative instruments for speculative trading purposes. Derivatives are accounted for according to SFAS No. 133 as amended, which requires derivatives to be reported at fair value as assets or liabilities on the balance sheet. Changes in the fair value of instruments that qualify for hedge accounting are deferred in Accumulated Other Comprehensive Income and will be reclassified through purchased electricity or gas expense within the next twelve months. Other instruments are deferred in regulatory assets or liabilities according to current rate agreements and are reclassified through purchased electricity or gas expense in the hedge months. The Company's rate agreements allow for the pass-through of the commodity costs of electricity and natural gas, including the costs of the hedging programs.

Niagara Mohawk has eight indexed swap contracts, expiring in fiscal year 2009 (June 2008), which resulted from the Master Restructuring Agreement. These derivatives are not designated as hedging instruments and are covered by regulatory rulings that allow the gains and losses to be recorded as regulatory assets or regulatory liabilities. As of March 31, 2007 and 2006, the Company had recorded liabilities at net present value of \$268 million and \$537 million, respectively, for these swap contracts and had recorded a corresponding swap contracts regulatory asset. The asset and liability are amortized over

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the remaining term of the swaps as nominal energy quantities are settled and they are adjusted as periodic reassessments are made of energy price forecasts.

At March 31, 2007, Niagara Mohawk projects that it will make the following payments in connection with its swap contracts for the fiscal years 2008 through 2009 and thereafter, subject to changes in market prices and indexing provisions:

Year Ended March 31,	Projected Payment
	(In thousands of dollars)
2008	\$ 221,540
2009	46,500
Thereafter	-
	\$ 268,040

Niagara Mohawk uses NYMEX gas futures to hedge the gas commodity component of its indexed swap contracts. These instruments, as used, do not qualify for hedge accounting status under SFAS No. 133. Cash flow hedges that qualify under SFAS No. 133 are as follows: NYMEX gas futures for the purchases of natural gas and NYMEX electric swap contracts hedging the purchases of electricity.

The following table represents the open positions at March 31, 2007 and 2006 and the results on operations of these instruments for the year ended March 31, 2007 and 2006.

	Balances as of March 31, 2006								
Derivative Instrument	Asset*	Regulatory Deferral (Ir	Accumulated OCI**, net of tax thousands of dolla	Accumulated Deferred Income Tax on OCI"	Gain Reclass to Commodity Costs				
Qualified for Hedge Accounting									
NYMEX futures - gas supply	\$ (5,358.8)	\$ —	\$ 4,943.0	\$ (3,296.0)	\$ 35,956.6				
NYMEX electric swaps - electric supply	\$ 317.5	\$ —	\$ (190.5)	\$ 127.0	\$ 3,260.2				
Non-qualified for Hedge Accounting			,						
NYMEX futures - IPP swaps/non-MRA IPP	\$ (27,195.9)	\$ 31,718.1	\$ —	\$	\$ 59,464.9				

Notes:

Other comprehensive income (OCI)

		Balances as of March 31, 2007								
Derivative Instrument	Asset*	Regulatory Deferra	00	cumulated CI**, net of tax usands of do	In	Deferred Deferred Icome Tax on OCI**	Loss Reclass to Commodity Costs			
Qualified for Hedge Accounting										
NYMEX futures - gas supply	\$ 2,533.7	\$ —	- \$	214.9	\$	(143.3)	\$ (36,722.9)			
NYMEX electric swaps - electric supply	\$ 783.9	\$ -	- \$	30.1	\$	(20.1)	\$ (4,644.7)			

Differences between asset and regulatory or other comprehensive income deferral represent contracts settled for the following month.

	Balances as of March 31, 2007							
Derivative Instrument	Asset*	Regulatory Deferral	Accumulated OCI**, net o	i Ind	umulated Deferred come Tax on OCI**	Loss Reclass to Commodity Costs		
		(In thousands of dollars)						
Non-qualified for Hedge Accounting								
NYMEX futures - IPP swaps/non-MRA IPP	\$ 4,627.0	\$ 2,272.1	\$ —	. \$	_	\$(101,132.4)		

Notes:

- * Differences between asset and regulatory or other comprehensive income deferral represent contracts settled for the following month.
- ** Other comprehensive income (OCI)

The gains and losses on the derivatives that are deferred and reported in accumulated other comprehensive income will be reclassified as purchased energy expense in the periods in which expense is impacted by the variability of the cash flows of the hedged item. For the twelve months ended March 31, 2007, the realized net loss of \$37 million from hedging instruments, as shown in the table above, was recorded to gas purchases and was offset by a corresponding increase in the cost of a comparable amount of gas. For the twelve months ended March 31, 2006, a realized net gain of \$36 million was recorded to gas purchases and was offset by a corresponding decrease in the cost of a comparable amount of gas.

The actual amounts to be recorded in purchased energy expense are dependent on future changes in the contract values. The majority of these deferred amounts will be reclassified to expense within the next twelve months. A nominal amount of the hedging instruments extend into April 2008. There were no gains or losses recorded during the fiscal year ended March 31, 2007 from the discontinuance of gas futures or electricity swap cash flow hedges.

The deferred gain on NYMEX electric swap contracts to hedge electricity purchases was \$0.8 million and \$0.3 million for the fiscal years ended March 31, 2007 and 2006, respectively.

NEP

As a result of a USGen bankruptcy settlement agreement (Bankruptcy Settlement), the Company resumed the performance and payment obligations under power supply contracts that had been transferred to USGen when the Company divested its generating business. As of March 31, 2007 and 2006, the Company had recorded a derivative liability of approximately \$251 million and \$294 million, respectively, for the above-market portion of the Contracts with an equal offset to a corresponding regulatory asset. The performance and payment obligations will not affect the results of operations, as the Company will recover the above-market cost of the Contracts from customers through the CTC. In accordance with the Bankruptcy Settlement, the Company received proceeds of approximately \$196 million in June 2005 from USGen. That amount relates in part to the Contracts and the Company is crediting that amount to customers through a reduction in rates through December 31, 2009.

NOTE F - EMPLOYEE BENEFITS

Summary

The Company and its subsidiaries have non-contributory defined benefit pension plans and postretirement benefit plans other than pensions (the Plans) covering substantially all employees. With the exception of New England-based union-represented employees, employees hired on or after July 15, 2002 participate under a non-contributory defined benefit cash balance pension plan design. Under that design, pay-based credits are applied based on service time, and interest credits are applied based on

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an average annual 30-year Treasury bond yield. Non-union employees hired by New England-based companies prior to July 15, 2002 and New England-based union employees generally participate in the historic final average pay pension plan designs. In addition, a large number of employees hired by Niagara Mohawk prior to July 1998 are cash balance design participants who receive a larger benefit if so yielded under pre-cash balance conversion final average pay formula provisions. Employees hired by Niagara Mohawk following the August 1998 cash balance design conversion participate under cash balance design provisions only.

Supplemental nonqualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives.

The Company and its subsidiaries provide postretirement benefits other than pensions (PBOPs). PBOPs include health care and life insurance coverage to eligible retired employees. Eligibility is based on certain age and length of service requirements and in some cases retirees must contribute to the cost of their coverage.

Fundina Policy

Following the inception of the Pension Protection Act of 2006 (the PPA), the Company's funding policy is to contribute amounts sufficient to reach 100 percent of the Funding Target under the PPA by 2010. In New York, the funding policy is determined largely by the Company's settlement agreements with the PSC and the amounts recovered in rates. However, the contribution in New England and New York for any one year will not be less than the minimum amount required under the PPA.

Plan Assets

The target asset allocations for the benefit plans at March 31 are:

	Pension Be	Pension Benefits Non-Unio		n PROP	Union PROP		
	2007	2006	2007	2006	2007	2006	
U.S. equities	43%	42%	33%	33%	50%	51%	
Global equities (including U.S.)	6%	6%	0%	0%	0%	0%	
Non-U.S. equities	12%	12%	17%	17%	23%	23%	
Fixed income	36%	35%	50%	50%	27%	26%	
Private equity and other	3%	<u>5</u> %	0%	0%	0%	0%	
	100%	100%	100%	100%	100%	100%	

The percentage of the fair value of total plan assets at March 31 is:

	Pension Ben	Pension Benefits Non-Union F		ROP	Union PRO)P
	2007	2006	2007	2006	2007	2006
U.S. equities	45%	45%	34%	33%	50%	51%
Global equities (including U.S.)	6%	8%	0%	0%	0%	0%
Non-U.S. equities	12%	13%	18%	18%	24%	24%
Fixed income	34%	32%	48%	49%	26%	25%
Private equity and other	3%	2%	0%	0%	0%	0%
	100%	100%	100%	100%	100%	100%

The Company manages benefit plan investments to minimize the long-term cost of operating the Plans, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic asset/liability study

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which analyzes the Plans' liabilities and funded status and results in the determination of the allocation of assets across equity and fixed income. Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across the various fixed income market segments. Small investments are also held in private equity with the objective of enhancing long-term returns while improving portfolio diversification. For the PBOP plan, since the earnings on a portion of the assets are taxable, those investments are managed to maximize after tax returns consistent with the broad asset class parameters established by the asset allocation study. Investment risk and return is reviewed by the investment committee on a quarterly basis.

The estimated rate of return for various passive asset classes is based on both analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of the long-term assumption. A small premium is added for active management and rebalancing of both equity and fixed income. The rates of return for each asset class are then weighted in accordance with the plans' target asset allocation, and the resulting long-term return on asset rate is then applied to the market-related value of assets.

Assumptions Used for Benefits Accounting

The following weighted average assumptions were used to determine the pension and PBOP benefit obligations and net periodic benefit costs for the fiscal years ending March 31.

		Pension Benef	its		
	Benefit obligati	on	Net periodic ber	nefit	
	2007	2006	2007	2006	
Discount rate	6.00%	6.00%	6.00%	5.75%	
Rate of compensation increase					
- New England	4.30%	4.30%	4.30%	4.30%	
- New York	3.90%	3.90%	3.90%	3.90%	
Expected long-term rate of return on					
assets	8.00%	8.00%	8.00%	8.25%	
		PBOP			
	Benefit obligati		Net periodic ben		
	2007	2006	2007	2006	
Discount rate	6.00%	6.00%	6.00%	5.75%	
Expected long-term rate of return on					
assets	7.80%	7.80%	7.80%	8.05%	
Health care cost trend rate Initial	n/a	n/a	n/a	10.00%	
Pre 65*	9.50%	10.00%	10.00%	n/a	
Post 65*	10.50%	11.00%	11.00%	n/a	
Ultimate	5.00%	5.00%	5.00%	5.00%	
Year ultimate rate reached	n/a	n/a	n/a	2010	
Pre 65*	2012	2011	2011	n/a	

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Note:

The expected contributions to the Company's pension and PBOP plans during fiscal year 2008 are expected to be \$371 million and \$54 million, respectively.

Adoption of SFAS No. 158

The Company adopted SFAS No. 158 on March 31, 2007. This standard amends SFAS Nos. 87, 88, 106 and 132(R). SFAS No. 158 requires an employer with a defined benefit pension plan or other postretirement plan to recognize an asset or liability on its balance sheet for the over funded or under funded status of the plan as defined by SFAS No. 158. The pension asset or liability is the difference between the fair value of the pension plan's assets and the projected benefit obligation as of the year end. For PBOPs, the asset or liability is the difference between the fair value of the plan's assets and the accumulated postretirement benefit obligation as of the year end. The offset of this asset or liability is a charge to AOCI or a regulatory asset. The following table illustrates the effect on individual financial statement line items of applying this standard to the Company's plans, relating to pension and PBOP:

March 31, 2007	 Before application of SFAS No. 158		Adjustment thousands)	 After application of SFAS No. 158
Intangible asset	\$ 33,431	\$	(33,431)	\$ _
Regulatory asset	39,430		460,848	500,278
Deferred tax asset	166,126		340,325	506,451
Current liability	_		(9,047)	(9,047)
Non-current liability	(407,842)		(1,156,840)	(1,564,682)
AOCI, net of tax	 12,630		398,145	410,775
AOCI, pre tax	19,627		660,292	679,919

Pension Benefits

The Company's net periodic benefit cost for the fiscal years ended March 31, 2007 and 2006 included the following components:

	 2007		2006
	 (In thou		
Service cost	\$ 55,351	\$	55,412
Interest cost	163,067		155,779
Expected return on plan assets	(174,537)		(161,944)
Amortization of unrecognized prior service cost	4,913		4,913

At March 31, 2006, the healthcare cost trend assumption was updated to include rates for the pre 65 and post 65 groups.

	 2007	_		2006
	(In thousands)			
Amortization of unrecognized loss	 58,341	_		64,067
Net periodic benefit costs before settlements and curtailments	107,135			118,227
Settlement and curtailment loss	 25,555	_		<u> </u>
Net periodic benefit cost	\$ 132,690	\$;	118,227

The following table provides the changes in the pension plans' accumulated benefit obligation, funded status and the amounts recognized in the balance sheet at March 31:

		2007 (In thou	eande)	2006
Accumulated benefit obligation	\$	(2,603,473)	\$	(2,470,161)
Reconciliation of benefit obligation:	•	(=,000,110)	_	(=, :: 0, : 0 :)
Benefit obligation at beginning of period	\$	(2,748,465)	\$	(2,808,396)
Service cost		(55,351)		(55,412)
Interest cost		(163,067)		(155,779)
Actuarial gain (loss)		(87,045)		66,137
Benefits paid		156,703		204,985
Settlements		165,928		_
Acquisition of Rhode Island gas pension obligation*		(165,906)		<u> </u>
Benefit obligation at end of period		(2,897,203)		(2,748,465)
Fair value of plan assets at beginning of period		2,147,611		1,960,624
Actual return on plan assets		220,848		257,056
Company contributions		295,354		134,916
Benefits paid		(156,703)		(204,985)
Settlements		(165,928)		_
Acquisition of Rhode Island gas pension assets*		153,603		_
Fair value of plan assets at end of period		2,494,785		2,147,611
Funded status		(402,418)		(600,854)
Unrecognized actuarial loss		_		629,266
Unrecognized prior service cost		_		48,847
Net amount (accrued) prepaid cost	\$	(402,418)	\$	77,259

Note:

^{*} On August 24, 2006, the Company acquired the Rhode Island gas distribution assets of New England Gas Company from Southern Union Company. In connection with this acquisition, four small pension plans merged with the existing pension plan, resulting in an increase in the assets and benefit obligation of the plan in the amounts of \$154 million and \$166 million, respectively.

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		2007		2006
Amounts recognized on the helence cheet consist of		(In thou	sands)	
Amounts recognized on the balance sheet consist of:	Φ.		Φ.	00.005
Intangible asset	\$	_	\$	36,885
Prepaid benefit cost		_		360,183
Regulatory assets		214,788		79,923
Current pension liability		(9,047)		_
Non-current pension liability		(393,371)		(410,275)
Accumulated other comprehensive income, before taxes		415,250		10,543
Net amount recognized	\$	227,620	\$	77,259
				2007
				(In
				thousands)
Amounts recognized in regulatory assets and AOCI consist of:				
Net actuarial loss			\$	586,105
Prior service cost				43,933
Net amount recognized			\$	630,038

The estimated net actuarial loss and prior service cost for the defined benefit pension plans that will be amortized from AOCI and regulatory assets into net periodic benefit cost during fiscal year 2008 are \$58 million and \$4 million, respectively.

The following pension benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

	Pension Benefits
	 (In
	thousands)
2008	\$ 203,047
2009	\$ 202,615
2010	\$ 205,645
2011	\$ 208,947
2012	\$ 214,086
2013-2017	\$ 1,052,184

Additional Minimum Liability (AML)

The Company recognized AML, as prescribed under SFAS No. 87, "Employers' Accounting for Pensions," prior to recording the entries to recognize the funded status of the pension plans under SFAS No. 158. The Company recognized an AML of \$92 million which was subsequently eliminated under SFAS No. 158. At March 31, 2006, the Company recorded an AML of approximately \$127 million. While the offset to this entry would normally be a charge to other comprehensive income, certain Company

subsidiaries, had recorded regulatory assets in the amount of \$80 million at March 31, 2006 because they fully recover all pension costs.

Defined Contribution Plan

The Company also has several defined contribution pension plans primarily (section 401(k) employee savings fund plans) that cover substantially all employees. Employer matching contributions of approximately \$19 million and \$11 million were expensed in fiscal year 2007 and 2006, respectively.

Settlement Losses

The Company's pension plans have losses that have yet to be recognized in the income statement as a result of changes in the value of the projected benefit obligation and the plan assets due to expenses different from that assumed and from changes in actuarial assumptions. Under SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", a company must recognize a portion of its loss immediately when payouts from a plan exceed a certain amount. Niagara Mohawk recognized a settlement loss of approximately \$26 million during the fiscal year ended March 31, 2007 due to plan payouts that exceeded the threshold as prescribed in SFAS No. 88. During fiscal year 2007, Niagara Mohawk and the PSC staff reached an agreement to recover approximately 50% of this pension settlement loss.

Postretirement Benefits Other than Pensions

The Company's total net periodic benefit cost of PBOPs for the fiscal years ended March 31, 2007 and 2006 included the following components:

	 2007		2006
	 (In thou	sands)	
Service cost	\$ 28,178	\$	28,293
Interest cost	121,538		112,407
Expected return on plan assets	(76,743)		(73,782)
Amortization of prior service cost	13,331		13,330
Amortization of net loss	 43,896		45,648
Net periodic benefit cost	\$ 130,200	\$	125,896

The following table provides a reconciliation of the PBOP plans' funded status and the amounts recognized in the balance sheet at March 31:

	2007	2006
	(In thou	usands)
Benefit obligation at beginning of period	\$ (2,124,767)	\$ (2,019,009)
Service cost	(28,178)	(28,293)
Interest cost	(121,538)	(112,407)
Actuarial loss	(6,852)	(71,103)
Benefits paid	118,341	106,045
Medicare subsidy	(5,392)	_
Acquisition of Rhode Island gas PBOP obligation*	(47,640)	
Benefit obligation at end of period	(2,216,026)	(2,124,767)
Fair value of plan assets at beginning of period	988,189	922,173

	2007	2006
	(In thous	sands)
Actual return on plan assets	100,881	113,920
Company contributions	53,230	53,700
Benefits paid	(110,606)	(101,604)
Acquisition of Rhode Island gas PBOP assets*	13,021	
Fair value of plan assets at end of period	1,044,715	988,189
Funded status	(1,171,311)	(1,136,578)
Unrecognized actuarial loss	_	583,073
Unrecognized prior service cost		119,775
Net amount accrued cost	<u>\$ (1,171,311</u>)	\$ (433,730)

Note:

^{*} On August 24, 2006, the Company acquired the Rhode Island gas distribution assets of New England Gas Company from Southern Union Company. In connection with this acquisition, the Company's assets and benefit obligation of the PBOP plan increased by \$13 million and \$48 million, respectively.

	 2007
	 (In
	thousands)
Amounts recognized on the balance sheet consist of:	
Regulatory asset	\$ 285,490
PBOP liability	(1,171,311)
Accumulated other comprehensive income, before taxes	264,669
Net amount recognized	\$ (621,152)
Amounts recognized in regulatory assets and AOCI consist of:	
Net actuarial loss	\$ 521,892
Prior service cost	106,445
Net amount recognized	\$ 628,337

The estimated net actuarial loss and prior service cost for the PBOP plans that will be amortized from AOCI and regulatory assets into net periodic benefit cost during fiscal year 2008 are \$49 million and \$13 million, respectively.

As a result of the Medicare Act of 2003, the Company receives a federal subsidy for sponsoring a retiree healthcare plan that provides a benefit that is actuarially equivalent to Medicare Part D.

The following benefit payments and subsidies under Medicare Part D, which reflect future services, as appropriate, are expected to be:

	_	Payments		Subsidies
		(In the	ousands)	
2008	\$	117.654	\$	7.063

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	 Payments		Subsidies
	 (In thou	ısands)	
2009	\$ 127,008	\$	7,676
2010	\$ 132,042	\$	8,268
2011	\$ 137,022	\$	8,708
2012	\$ 140,849	\$	9,015
2013-2017	\$ 742,438	\$	48,356

The assumptions used in health care cost trends have a significant effect on the amounts reported. A one percent change in the assumed rates would have the following effects:

	 2007
Increase 1%	
Total of service cost plus interest cost	\$ 28,270
Postretirement benefit obligation	\$ 333,616
Decrease 1%	
Total of service cost plus interest cost	\$ (23,241)
Postretirement benefit obligation	\$ (289,647)

NOTE G - INCOME TAXES

The following is a summary of the components of federal and state income tax and reconciliation between the amount of federal income tax expense reported in the Consolidated Statements of Income and the computed amount at the statutory level.

Total income taxes in the consolidated statements of income are as follows:

	 For the Year Ended March 31,		
	 2007		2006
	 (In thou	ısands)	
Income taxes charged to operations	\$ 187,966	\$	319,232
Income taxes credited to "Other deductions"	 (3,924)		(2,032)
Total income taxes	\$ 184,042	\$	317,200

Total income taxes, as shown above, consist of the following components:

	For the Ye		ed
	2007		2006
	 (In thou	ısands)	
Current income taxes	\$ 75,463	\$	282,320

Previously recognized investment tax credits (ITC) related to the transmission and distribution facilities of the Company's regulated subsidiaries are amortized over their estimated productive lives.

Total income taxes, as shown above, consist of federal and state components as follows:

	 For the Year Ended March 31,			
	2007		2006	
	 (In tho	ısands)		
Federal income taxes	\$ 152,189	\$	272,705	
State income taxes	 31,853		44,495	
Total income taxes	\$ 184,042	\$	317,200	

With regulatory approval, the subsidiaries have adopted comprehensive interperiod tax allocation (normalization) for temporary book/tax differences.

Total income taxes differ from the amounts computed by applying the federal statutory tax rates to income before taxes. The reasons for the differences are as follows:

	For the Year ended March 31,		
	 2007	•	2006
	 (In thou	sands)	
Computed tax at statutory rate	\$ 226,133	\$	307,322
Increases (reductions) in tax resulting from:			
Amortization of ITC, net	(6,246)		(6,739)
State income tax, net of federal income tax benefit	19,334		28,336
Tax return true-ups	(52,888)		(16,563)
Rate recovery of deficiency in deferred tax reserves	764		11,159
Book/tax depreciation not normalized	13,536		10,156
Unamortized debt discount not normalized	(33)		3,298
Cost of removal	(6,861)		(7,298)
Medicare act	(12,713)		(11,385)
All other differences	3,016		(1,086)

For the Year ended March 31,

2007 2006
(In thousands)
\$ 184,042 \$ 317,200

Total income taxes

The Company applies SFAS No. 109, "Accounting for Income Taxes," which requires recognition of deferred income taxes using the liability method for temporary differences that are reported in different years for financial reporting and tax purposes. Under the liability method, deferred tax liabilities or assets are computed using the tax rates that will be in effect when temporary differences reverse. Generally, for regulated companies, the change in tax rates may not be immediately recognized in operating results because of rate-making treatment and provisions in the Tax Reform Act of 1986.

The following is the detail of the Company's accumulated deferred income taxes:

	At March 31,		
	 2007		2006
	(In thou	ısands	;)
Deferred tax assets:			
Plant related	\$ 53,193	\$	112,757
Alternative minimum tax	381		119,294
Unbilled revenues	21,987		17,070
Liability for environmental costs	224,069		191,307
Voluntary early retirement program	0		42,089
Bad debts	65,687		62,210
Pension and other post-retirement benefits	762,038		248,446
Investment tax credit	9,255		10,560
Other	 560,914		414,343
Total deferred tax assets	1,697,524		1,218,076
Deferred tax liabilities:			
Plant related	(1,481,242)		(1,429,641)
Equity AFUDC	(65,337)		(63,668)
Deferred environmental restoration costs	(185,897)		(186,842)
Merger rate plan stranded costs	(758, 235)		(795,184)
Merger fair value pension and OPEB adjustment	(90,768)		(109,478)
Bond redemption and debt discount	(25,215)		(30,009)
Pension and other post-retirement benefits	(266,144)		(61,784)
Other	 (637,358)		(569,349)
Total deferred tax liabilities	(3,510,196)		(3,245,955)
Net accumulated deferred income tax liability	(1,812,672)		(2,027,879)
Current portion (net deferred tax asset)	 176,208		195,476
Net accumulated deferred income tax liability (non-current)	\$ (1,988,880)	\$	(2,223,355)

The Company and other related subsidiaries participate with National Grid Holdings, Inc. (NGHI), a wholly owned subsidiary of National Grid plc, in filing consolidated US federal income tax returns. The Company's tax provisions and tax accounts are calculated on a separate company basis. Federal income tax returns have been examined and all appeals and issues have been agreed upon by the Internal Revenue Service (IRS) and the NGHI consolidated filing group through March 31, 2002. The IRS is currently reviewing the March 31, 2003 and March 31, 2004 tax returns of the NGHI consolidated filing group. The IRS has issued a preliminary notice of deficiency disallowing certain tax deductions taken in these consolidated US federal income tax returns. These adjustments are being appealed. The Company has joint and several liability for any potential assessments against the consolidated group. Management believes that the positions taken by the Company and its related subsidiaries and parent company are appropriate and the resolution of the tax matters will not have a material effect on the Company's financial position, results of operations or cash flows.

There were no valuation allowances for deferred tax assets deemed necessary at March 31, 2007 or 2006.

NOTE H - LONG-TERM DEBT

Long-term debt consists of the following:

Narragansett Electric

Series	Rate %	Maturity	_	2007		2006
				(In thou	ısands)	
First Mortgage Bonds:						
U(93-3)	6.650	June 30, 2008	\$	5,000	\$	5,000
M (Formerly Providence Gas)	10.250	July 31, 2008		544		_
S (Formerly Providence Gas)	6.820	April 1, 2018		14,464		_
N (Formerly Providence Gas)	9.630	May 30, 2020		10,000		_
O (Formerly Providence Gas)	8.460	September 30, 2022		12,500		_
P (Formerly Providence Gas)	8.090	September 30, 2022		10,000		_
R (Formerly Providence Gas)	7.500	December 15, 2025		14,250		_
W(97-I)	7.390	September 30, 2027		3,000		3,000
W(97-2)	7.390	October 1, 2027		7,000		7,000
Unamortized discounts				(212)		(237)
Total long-term debt			\$	76,546	\$	14,763
Long-term debt due within one year				11,648		_
Total long-term debt, excluding current						
portion			\$	64,898	\$	14,763

Substantially all of the properties and franchises of the Company are subject to the lien of mortgage indentures under which the first mortgage bonds have been issued.

In connection with the acquisition of the Rhode Island gas assets of Southern Union Gas and assumption of \$77 million of first mortgage bonds, the Company has deposited \$17 million with its first mortgage trustee to provide for the redemption of the Company's pre-acquisition first mortgage bonds. The principal amount is \$15 million and the additional \$2 million would satisfy all interest and premium due on

the bonds through maturity or first call date. This assumed debt may not exceed 60 percent of total capitalization or the rates on the debt will increase by 0.20 percent, and the debt may not exceed 70 percent of total capitalization or the bondholders may declare bonds due and payable. At March 31, 2007, total debt was approximately 11 percent of total capitalization. Narragansett will continue to comply with all requirements under the first mortgage indenture until all bonds have been redeemed or mature.

Massachusetts Electric

			At March 31					
Series	Rate %	Maturity	2007					
				(In thou	ısands)			
First Mortgage Bonds:								
V(96-I)	6.780	November 20, 2006	\$	_	\$	20,000		
T(93-7)	6.660	June 23, 2008		5,000		5,000		
T(93-8)	6.660	June 30, 2008		5,000		5,000		
T(93-10)	6.110	September 8, 2008		10,000		10,000		
T(93-II)	6.375	November 17, 2008		10,000		10,000		
V(98-3)	5.720	November 24, 2008		25,000		25,000		
V(97-I)	7.390	October 1, 2027		15,000		15,000		
V(98-I)	6.910	January 12, 2028		20,000		20,000		
V(98-2)	6.940	January 12, 2028		5,000		5,000		
Pollution Control Revenue Bonds:								
2004	Variable	August 1, 2008		20,000		20,000		
2004	Variable	August 1, 2014		20,000		20,000		
Unamortized discounts				(48 <u>5</u>)		(587)		
Total long-term debt				134,515		154,413		
Long-term debt due within one year				_		20,000		
Total long-term debt, excluding current								
portion			\$	134,515	\$	134,413		

Substantially all of the properties and franchises of the Company are subject to the lien of mortgage indentures under which the first mortgage bonds have been issued.

Granite State Electric

			 At Ma	rch 31	
Series	Rate %	<u>Maturity</u>	2007		2006
			 (In thou	ısands)	
Note	7.370	November 1, 2023	\$ 5,000	\$	5,000
Note	7.940	July 1, 2025	5,000		5,000
Note	7.300	June 15, 2028	5,000		5,000
Total long-term debt			\$ 15,000	\$	15,000

The Company's long-term debt covenants provide for certain restrictive covenants and acceleration clauses. These covenants stipulate that note holders may declare the debt to be due and payable if total

debt becomes greater than 70 percent of total capitalization. At March 31, 2007 and 2006, the total long-term debt was 18 percent of total capitalization.

Niagara Mohawk

			At March 31			
Series	Rate %	Maturity	2007	2006		
			(In thou	sands)		
First Mortgage Bonds:						
7 3/4%	7.750	May 15, 2006	\$ <u> </u>	\$ 275,000		
Senior Notes:(1)						
8 7/8%	8.875	May 15, 2007	200,000	200,000		
7 3/4%	7.750	October 1, 2008	600,000	600,000		
Tax Exempt:						
2013	Variable	October 1, 2013	45,600	45,600		
2015	Variable	July 1, 2015	100,000	100,000		
2023	Variable	December 1, 2023	69,800	69,800		
5.15% ⁽²⁾	5.150	November 1, 2025	75,000	75,000		
2025	Variable	December 1, 2025	75,000	75,000		
2026	Variable	December 1, 2026	50,000	50,000		
2027	Variable	March 1, 2027	25,760	25,760		
2027	Variable	July 1, 2027	93,200	93,200		
2029	Variable	July 1, 2029	115,705	115,705		
Notes Payable:(1)		•				
NM Holdings Note	3.720	July 31, 2009	350,000	350,000		
NM Holdings Note	3.830	June 30, 2010	350,000	350,000		
NM Holdings Note	5.800	November 1, 2012	500,000	500,000		
Unamortized discounts		·	(871)	(1,133)		
Total long-term debt			2,649,194	2,923,932		
Long-term debt due within one year			200,000	275,000		
Total long-term debt, excluding current portion			\$ 2,449,194	\$ 2,648,932		

Notes:

Substantially all of the Company's operating properties are subject to mortgage liens securing its mortgage debt. Several series of First Mortgage Bonds were issued to secure a like amount of tax-exempt revenue bonds issued by the New York State Energy Research and Development Authority (NYSERDA). Approximately \$575 million of such securities bear interest at short-term adjustable interest rates (with an option to convert to other rates, including a fixed interest rate) which averaged 3.41 percent for the year ended March 31, 2007and 3.20 percent for the year ended March 31, 2006. The bonds are currently in the auction rate mode and are backed by bond insurance. Pursuant to agreements between NYSERDA and the Company, proceeds from such issues were used for the purpose of

⁽¹⁾ Currently callable with make-whole provisions.

⁽²⁾ Fixed rate pollution control revenue bonds first callable November 1, 2008 at 102%.

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financing the construction of certain pollution control facilities at the Company's generation facilities (which the Company subsequently sold) or to refund outstanding tax-exempt bonds and notes.

New England Hydro Finance

			 At Ma	rch 31	
Series	Rate %	Maturity	 2007		2006
	'		 (In thou	ısands)	
Series B	9.260	April 17, 2007	\$ 590	\$	6,350
Series C	9.410	October 17, 2015	46,270		46,270
Total long-term debt			46,860		52,620
Long-term debt due within one year			5,650		5,760
Total long-term debt, excluding current					
portion			\$ 41,210	\$	46,860

The Company's long-term debt covenants provide for certain restrictive covenants and acceleration clauses. These covenants stipulate that note holders may declare the debt to be due and payable if total debt becomes greater than 70 percent of total capitalization. At March 31, 2007 and 2006, the total long-term debt was 61 percent and 59 percent of total capitalization, respectively.

New England Power

			 At Ma	rch 31	
Series	Rate %	Maturity	 2007		2006
			 (In thou	isands)	
Pollution Control Revenue Bonds:(1)					
CDA ⁽²⁾	Variable	October 15, 2015	\$ 38,500	\$	38,500
MIFA 1 ⁽³⁾	Variable	March 1, 2018	79,250		79,250
BFA 1 ⁽⁴⁾	Variable	November 1, 2020	135,850		135,850
BFA 2 ⁽⁴⁾	Variable	November 1, 2020	50,600		50,600
MIFA 2 ⁽³⁾	Variable	October 1, 2022	106,150		106,150
Unamortized discounts			 (34)		(40)
Total long-term debt			\$ 410,316	\$	410,310

Notes:

- (1) At March 31, 2007, interest rates on NEP's variable rate bonds ranged from 3.64 percent to 3.68 percent.
- CDA Connecticut Development Authority
- MIFA Massachusetts Industrial Finance Authority (now known as Massachusetts Development Finance Agency) (3)
- BFA Business Finance Authority of the State of New Hampshire

Nantucket Electric

			At Mar	rch 31	
Series	Rate %	Maturity	 2007		2006
	_		(In thou	sands)	_
2006 Series 1996 MIFA Tax Exempt	5.600	July 1, 2006	\$ _	\$	1,400
2007 Series 1996 MIFA Tax Exempt	5.600	July 1, 2007	1,400		1,400
2008 Series 1996 MIFA Tax Exempt	5.750	July 1, 2008	1,400		1,400
2009 Series 1996 MIFA Tax Exempt	5.750	July 1, 2009	1,400		1,400
2017 Series 1996 MIFA Tax Exempt	5.875	July 1, 2017	10,500		10,500
2004 \$3.5 Million MIFA Tax-Exempt.	Variable	March 16, 2016	2,335		2,495
2004 \$10 million MIFA Tax-Exempt	Variable	March 1, 2039	10,000		10,000
2005 \$28 million MIFA Tax-Exempt	Variable	December 1, 2040	28,000		28,000
Unamortized discounts			(66)		(72)
Total long-term debt			 54,969		56,523
Long-term debt due within one year			1,575		1,560
Total long-term debt, excluding current			 		
portion			\$ 53,394	\$	54,963

The Company has filed an application with the Massachusetts Development Finance Agency to refinance the \$13 million 1996 MIFA tax exempt bonds which will remain outstanding after July 2, 2007. The Company intends to reissue the bonds as variable rate debt during the second quarter of fiscal year 2008.

Totals — National Grid USA

	At March 31				
	 2007	2006			
	 (In thousands)				
Total long-term debt	\$ 3,389,068	\$	3,629,630		
Unamortized Discount on Debt	(1,667)		(2,069)		
Long-term debt due within one year	 218,873		302,320		
Total long-term debt, excluding current portion	\$ 3,168,528	\$	3,325,241		

As of March 31, 2007, the aggregate payments to retire maturing long-term debt are as follows

Fiscal Year	Amount
2008	\$ 218,873
2009	688,761
2010	358,505
2011	358,525
2012	508,545
Thereafter	1,255,859

 Fiscal Year
 Amount

 \$ 3,389,068

At March 31, 2007, the Company's subsidiaries' long-term debt, excluding intercompany debt, had a carrying value of \$2.2 billion and a fair value of \$2.2 billion. The fair value of debt that reprices frequently at market rates approximates carrying value. The fair market value of the Company's subsidiaries' long-term debt was estimated based on the quoted prices for similar issues or on the current rates offered to the Company and its subsidiaries for debt of the same remaining maturity.

NOTE I – SHORT-TERM DEBT

NEP

At March 31, 2007 and 2006, NEP had lines of credit and standby bond purchase facilities with banks totaling \$440 million, which is available to provide liquidity support for \$410 million of NEP's long-term bonds in tax-exempt commercial paper mode, and for other corporate purposes. The agreement with banks that provide NEP's line of credit and standby bond purchase facility expires on November 29, 2009. There were no borrowings under these lines of credit at March 31, 2007.

Inter-company money pool

The Company and certain subsidiaries operate a money pool to more effectively utilize cash resources and to reduce outside short-term borrowings. Short-term borrowing needs are met first by available funds of the money pool participants. Borrowing companies pay interest at a rate designed to approximate the cost of third-party short-term borrowings. Companies that invest in the pool share the interest earned on a basis proportionate to their average monthly investment in the money pool. Funds may be withdrawn from or repaid to the pool at any time without prior notice. The Company has the ability to borrow up to \$2 billion from its parent (through intermediary entities), National Grid plc, and certain other subsidiaries of National Grid plc, including for the purpose of funding the money pool, if necessary. At March 31, 2007 and 2006, the Company had borrowed \$1 billion and \$644 million, respectively, under this arrangement.

NOTE J — CUMULATIVE PREFERRED STOCK

A summary of cumulative preferred stock at March 31, 2007 and 2006 is as follows (in thousands except for share data and call price):

		March 31, 2007	March 31, 2006		March 31, 2007	March 31, 2006	
	Company		Shares Amount Outstanding (in 000's)		Call Price		
\$100 par value -							
3.40% Series	Niagara Mohawk	57,536	57,536	\$	5,754	\$ 5,754	\$103.500
3.60% Series	Niagara Mohawk	137,139	137,139		13,714	13,714	104.850
3.90% Series	Niagara Mohawk	94,967	94,967		9,496	9,496	106.000
4.10% Series	Niagara Mohawk	52,830	52,830		5,283	5,283	102.000
4.44% Series	Mass Electric	22,585	22,585		2,259	2,259	104.068
4.76% Series	Mass Electric	24,680	24,680		2,468	2,468	103.730
4.85% Series	Niagara Mohawk	35,128	35,128		3,513	3,513	102.000
5.25% Series	Niagara Mohawk	34,115	34,115		3,410	3,410	102.000
6.00% Series	New England Power	11,117	11,117		1,112	1,112	(a)
\$50 par value - 4.50% Series	Narragansett	49,089	49,089		2,454	2,454	55.000

		March 31, 2007	March 31, 2006		March 31, 2007		March 31, 2006	
	Company		Shares Outstanding					Call Price
4.64% Series	Narragansett	57,057	57,057		2,854		2,854	52.125
Total		576,243	576,243	\$	52,317	\$	52,317	

(a) Noncallable

NOTE K - COST OF REMOVAL AND ASSET RETIREMENT OBLIGATION

SFAS No. 143, "Accounting for Asset Retirement Obligations" provides the accounting requirements for retirement obligations associated with tangible long-lived assets. The Company does not have any material asset retirement obligations arising from legal obligations as defined under SFAS No. 143. However, under the Company's current and prior rate plans, it has collected through rates an implied cost of removal for its plant assets. This cost of removal collected from customers differs from the SFAS No. 143 definition of an asset retirement obligation in that these collections are for costs to remove an asset when it is no longer deemed usable (i.e. broken or obsolete) and not necessarily from a legal obligation. These collections have been recorded to a regulatory liability account to reflect future use. The Company estimates it has collected over time approximately \$642 million and \$538 million for cost of removal through March 31, 2007 and 2006, respectively. Of the \$642 million balance at March 31, 2007, \$83 million represents the cost of removal recorded as a result of the acquisition of the Rhode Island gas assets of New England Gas Company.

In March 2005, the FASB issued Interpretation No. 47 (FIN 47), "Accounting for Conditional Asset Retirement Obligations," which is an interpretation of SFAS No. 143, and which was adopted by the Company for the fiscal year ended March 31, 2006. FIN 47 clarifies that the term "conditional asset retirement obligation" used in SFAS No. 143 refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. The Company continues to monitor such contingencies, which do not have a material impact on the Company's results of operations or its financial position for the periods ended March 31, 2007 and 2006.

NOTE L - ACQUISITIONS

Pending Acquisition of Keyspan Corporation (Keyspan)

In 2006, National Grid plc, the ultimate parent of the Company, announced the proposed acquisition of KeySpan for \$7.3 billion together with the assumption of approximately \$4.5 billion of debt. This would significantly expand its operations in the northeastern US as KeySpan is the fifth largest distributor of natural gas in the US and the largest in the northeast US, serving 2.6 million customers in New York, Massachusetts and New Hampshire. KeySpan also operates an electricity transmission and distribution network serving 1.1 million customers in New York under a long-term contract with the Long Island Power Authority. KeySpan's other interests include 6.6 GW of generation capacity, together with a small portfolio of non-regulated, energy-related services, and strategic investments in certain gas pipeline, storage and liquefied natural gas assets. The planned combination of its current US operations with those of KeySpan would result in National Grid plc becoming the third largest energy utility in the US.

Acquisition of Rhode Island Gas Assets

On August 24, 2006, the Company acquired the Rhode Island gas assets of New England Gas Company from Southern Union Company for approximately \$574 million which consisted of \$497 million in cash and the assumption of \$77 million of debt. The Company received a contribution from the parent company (National Grid plc) in the amount of \$500 million to finance the acquisition, which is reflected in

'Additional paid in capital.' As part of this transaction, the Company also acquired four small non-regulated businesses.

On the date of the acquisition, the Rhode Island gas business served approximately 245,000 customers through a distribution network of over 3,000 miles of mains. The network substantially overlaps the Company's existing electricity distribution service area in Rhode Island. This strong overlap is expected to create opportunities for savings. The rates for the Rhode Island gas distribution business are set by the same state regulators that set the Company's electricity distribution rates in Rhode Island.

The acquisition was accounted for using the purchase method of accounting under the guidance of SFAS No. 141 "Business Combinations", with the purchase price paid by the Company allocated to the Company's net assets as of the acquisition date based on their fair values. The assets acquired and liabilities assumed have been recorded in the Company's balance sheet beginning August 24, 2006 at their fair values and the results of operations have been included in the Company's statement of operations since August 24, 2006. Therefore, the balance sheet and statements of operations for the periods subsequent to the acquisition are not comparable to the same periods in prior years.

The following table summarizes the fair values of New England Gas Company's assets and liabilities assumed by the Company at the date of acquisition.

		ugust 24, 2006 thousands)
Net utility plant	\$ `	357,667
Goodwill		235,800
Other property and investments		4,536
Cash and cash equivalents		16
Accounts receivable		72,453
Materials and supplies		36,099
Prepaid and other current assets		423
Regulatory assets		92,745
Deferred charges and other assets		422
Total assets acquired		800,161
Long-term debt		76,051
Long-term debt due in one year		544
Accounts payable		29,392
Other accrued expenses		39,491
Customer deposits		3,270
Accrued pension and other post-retirement benefits		46,922
Other reserves and deferred credits		107,753
Total liabilities assumed		303,423
Net assets acquired	\$	496,738

NOTE M - DISCONTINUED OPERATIONS

National Grid Wireless (Wireless), a subsidiary of the Company, owns, operates and manages towers and other communications structures. Wireless also manages a fibre optic telecommunications system in the Northeastern United States.

As part of the Company's strategy of focusing on energy markets, it committed during fiscal year 2007 to exit our wireless infrastructure operations. Subsequent to the end of fiscal year 2007, in April 2007, the Company agreed to the sale of the wireless infrastructure operations with completion expected in the summer of 2007 for proceeds of approximately \$290 million. Our wireless infrastructure operations were expanded during fiscal year 2007 with acquisitions at a cost of \$160 million.

Following the guidance of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company has reported Wireless as a discontinued operation for all periods presented. Below is financial information for Wireless (in thousands of dollars): The amounts disclosed above include balances and activity with National Grid USA subsidiaries that are eliminated in the consolidated financial statements.

Income Statement Data

		For the year ended March 31		
		2007		2006
Total operating revenues	\$	74,008	\$	51,358
Total operating expenses		62,074		46,217
Operating income		11,934		5,141
Total other expense	(109,780)		(97)
Income before income taxes		(97,846)		5,044
Income tax provision		10,641		2,668
Net Income	\$ (108,487)	\$	2,376

Balance Sheet Data

	For the years ended March 31,		
	2007		2006
ASSETS			
Total current assets	\$ 23,090	\$	17,297
Total assets	309,205		253,451
LIABILITIES AND STOCKHOLDER'S EQUITY			
Total current liabilities	288,323		119,286
Total liabilities	305,650		136,451
Total stockholder's equity	3,555		117,000
Total liabilities and stockholder's equity	 309,205		253,451

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NOTE N – SUBSEQUENT EVENTS

On June 11, 2007, the Board of Directors approved a stock repurchase of 56 shares at a price of \$13 million per share to be made on June 27, 2007.

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REGISTERED OFFICE OF THE ISSUER

National Grid USA

25 Research Drive Westborough MA 01582 United States of America

THE ARRANGER AND DEALER

HSBC Bank plc

8 Canada Square London E14 5HQ United Kingdom

LEGAL ADVISERS

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

Clifford Chance LLP

10 Upper Bank Street London E14 5JJ United Kingdom

To the Issuer as to English and United States law

Linklaters LLP

One Silk Street London EC2Y 8HQ United Kingdom

THE TRUSTEE

The Law Debenture Trust Corporation p.l.c.

Fifth Floor 100 Wood Street London EC2V 7EX United Kingdom

ISSUING AND PAYING AGENT

The Bank of New York

One Canada Square London E14 5AL United Kingdom

PAYING AGENT

Kredietbank S.A. Luxembourgeoise

43 Boulevard Royal L-2955 Luxembourg Luxembourg

REGISTERED AUDITORS TO THE ISSUER

PricewaterhouseCoopers LLP

125 High Street Boston MA 02110 United States of America BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: * Validation: N * Lines: * CRC: *

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EXHIBIT 2(b).6.2

SUPPLEMENTARY PROSPECTUS DATED 4 FEBRUARY 2008



National Grid USA

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

Euro 4,000,000,000 **Euro Medium Term Note Programme**

This Supplement (the "Supplement") to the Prospectus dated 3 December 2007 (the "Prospectus"), which comprises a base prospectus, constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the "FSMA"). This Supplement is prepared in connection with the Euro Medium Term Note Programme (the "Programme") established by National Grid USA (the "Issuer"). Terms defined in the Prospectus have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Prospectus and any other supplements to the Prospectus issued by the Issuer.

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

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Prospectus by this Supplement and (b) any other statement in, or incorporated by reference in, the Prospectus, the statements in this Supplement will prevail.

On 31 January 2008, National Grid plc published its Interim Management Statement for the period 1 October 2007 to 30 January 2008 (the "Interim Management Statement"). A copy of the Interim Management Statement has been filed with the Financial Services Authority and, by virtue of this Supplement, the first two paragraphs of the text under the heading "DIVIDEND POLICY UPDATE" in the Interim Management Statement is incorporated in, and forms part of, the Prospectus. Copies of all documents incorporated by reference in the Prospectus can be obtained from the registered office of the Issuer and the specified office of the Paying Agent for the time being in London, as set out in the Prospectus.

Save as disclosed in this Supplement, no significant new factor, material mistake or inaccuracy relating to information included in the Prospectus has arisen or been noted, as the case may be, in relation to the Issuer since the publication of the Prospectus.

An investor should be aware of its rights arising pursuant to Section 87Q(4) of the FSMA.

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EXHIBIT 2(b).7.1

Prospectus



NATIONAL GRID GAS plc

(incorporated with limited liability in England and Wales on 1 April 1986 under registered number 2006000)

NATIONAL GRID GAS FINANCE (NO 1) plc

(incorporated with limited liability in England and Wales on 3 August 2006 under registered number 5895068)

Euro 10,000,000,000 **Euro Medium Term Note Programme**

In respect of Instruments to be issued by National Grid Gas Finance (No 1) plc, unconditionally and irrevocably guaranteed by

NATIONAL GRID GAS pic

Under the Euro Medium Term Note Programme (the "Programme") described in this Prospectus (the "Prospectus"), each of National Grid Gas place ("National Grid Gas") and National Grid Gas Finance (No 1) plc ("National Grid Gas Finance (No 1)") (each, an "Issuer" and together, the "Issuers") 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 relevant Issuer, the Trustee and the relevant Dealer (as defined below). Instruments issued by National Grid Gas Finance (No 1) plc will be guaranteed by National Grid Gas (in such capacity, the "Guarantor"). The aggregate nominal amount of Instruments outstanding will not at any time exceed euro 10,000,000,000 (or the equivalent in other currencies). The Instruments will only be issued in bearer form.

Application has been made to the Financial Services Authority in its capacity as competent authority (the "UK Listing Authority") under 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 UK Listing Authority (the "Official List") and to the London Stock Exchange ple (the "London Stock Exchange") for such Instruments to be admitted to trading on the London Stock Exchange's Regulated Market (the "Market"). References in this Prospectus to Instruments being "listed" (and all related references) shall mean that such Instruments have been admitted to trading on the Market 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 Programme also permits Instruments to be issued on an unlisted basis or to be admitted to Issting, trading and/or quotation by system same as may be agreed with the relevant Issuer. The relevant Final Terms (as defined on page 9) 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 any other listing authority, stock exchange and/or quotation system).

Each Series (as defined on page 8) 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"). If the Global Instruments are stated in the applicable Final Terms to be issued in new global note ("NGN") form they are intended to be eligible collateral for Eurosystem monetary policy and 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, société anonyme ("Clearstream, Luxembourg"). Global notes 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 "Summary of Provisions Relating to the Instruments while in Global Form".

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

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 a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the relevant Directive 2003/71/EC (the "Prospectus Directive"), the minimum specified denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Instruments).

Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Prospectus.

Arranger for the Programme

HSBC

The Dealers

BARCLAYS CAPITAL DEUTSCHE BANK JPMORGAN CAZENOVE

HSBC MIZUHO INTERNATIONAL PLC THE ROYAL BANK OF SCOTLAND

The date of this Prospectus is 26 February 2008

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IMPORTANT NOTICES

This Prospectus is comprised of base prospectuses for the purposes of Article 5.4 of the Prospectus Directive and relevant implementing measures in the United Kingdom and for the purpose of giving information with regard to each of (i) with the exception of the information contained in the sections entitled "Description of National Grid Gas Finance (No 1) plc", "Risk Factors – Risks relating to National Grid Gas Finance (No 1) plc and its business" and the information contained in paragraphs 3, 5, 8, 11 and 14(iii) in the section entitled "General Information", National Grid Gas and each of its subsidiary undertakings (together, the "National Grid Gas Group") (the "National Grid Gas Base Prospectus") and, (ii) with the exception of the information contained in the sections entitled "Description of National Grid Gas plc", "Risk Factors – Risks relating to National Grid Gas plc and its business" and the information contained in paragraphs 2, 4, 7, 9, 10, 14(ii) and 14(iv) in the section entitled "General Information", National Grid Gas Finance (No 1) (the "National Grid Gas Finance (No 1) Base Prospectus"), together with the National Grid Gas Base Prospectus, the "Base Prospectuses" and each a "Base Prospectus") which, according to the particular nature of each Issuer and the Guarantor and the Instruments to be issued by each 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 relevant Issuer and the rights attaching to such Instruments.

National Grid Gas accepts responsibility for the information contained in the National Grid Gas Base Prospectus. To the best of the knowledge of National Grid Gas (having taken all reasonable care to ensure that such is the case) such information contained in the National Grid Gas Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Each of National Grid Gas Finance (No 1) and the Guarantor accepts responsibility for the information contained in the National Grid Gas Finance (No 1) Base Prospectus. To the best of the knowledge of National Grid Gas Finance (No 1) and the Guarantor (each having taken all reasonable care to ensure that such is the case) such information contained in the National Grid Gas Finance (No 1) Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus has been prepared on the basis that any offer of Instruments in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Instruments. Accordingly any person making or intending to make an offer in that Relevant Member State of Instruments which are the subject of an offering contemplated in this Prospectus as completed by final terms in relation to the offer of those Instruments may only do so in circumstances in which no obligation arises for any 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.

This Prospectus should be read and construed together with any amendments or supplements hereto and with any documents deemed to be incorporated herein (see "Documents Incorporated By Reference" below) and, in relation to any Tranche (as defined herein) of Instruments, should be read and construed together with the applicable Final Terms (as defined herein).

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 either of the Issuers 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

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Description: EXH 2(B).7.1 EDGAR 2 reasonably likely to involve a change) in the affairs of either of the Issuers 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 either of the Issuers 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 Issuers, 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 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 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 either of the Issuers or the Dealers to subscribe for, or purchase, any Instruments.

None of the Dealers, the Arranger or the Trustee have independently 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 either of the Issuers, 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 any of the Issuers 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.

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

In connection with the issue of any Tranche (as defined in "Overview of the Programme"), the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") in the applicable Final Terms (or any person acting on behalf of any Stabilising Manager(s)) may over-allot Instruments or effect transactions with a view to supporting the market price of the Instruments at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche is made and, if begun, may be ended 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

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relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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Name: NATIONAL GRID

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DOCUMENTS INCORPORATED BY REFERENCE

The National Grid Gas Base Prospectus should be read and construed in conjunction with the audited consolidated annual financial statements of National Grid Gas for the financial years ended 31 March 2006 and 31 March 2007, in each case together with the audit report thereon, which have been previously published and which have been approved by the Financial Services Authority or filed with it.

The National Grid Gas Finance (No 1) Base Prospectus should be read and construed in conjunction with the audited consolidated annual financial statements of National Grid Gas for the financial years ended 31 March 2006 and 31 March 2007, in each case together with the audit report thereon, which have been previously published and which have been approved by the Financial Services Authority or filed with it.

Such documents shall be incorporated in, and form part of the relevant Base Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of the relevant Base Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of the relevant Base Prospectus.

The relevant Issuer and (where applicable) the Guarantor will, at its registered office and at the specified offices of the Paying Agents, make available for inspection during normal business hours and free of charge, upon oral or written request, a copy of the relevant Base Prospectus and any document incorporated by reference in this Prospectus. Any request for inspection of such documents should be directed to the specified office of any Paying Agent.

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

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SUPPLEMENTAL PROSPECTUS

If at any time any of the Issuers shall be required to prepare a supplemental prospectus pursuant to Section 87G of the FSMA ("Supplemental Prospectus"), such 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 UK Listing Authority and Section 87G of the FSMA.

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OVERVIEW OF THE PROGRAMME

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

Issuers National Grid Gas plc (registered number 2006000).

National Grid Gas Finance (No 1) plc (registered number 5895068).

Guarantor National Grid Gas plc (in respect of Instruments to be issued by National Grid Gas

Finance (No 1) plc).

Description Euro Medium Term Note Programme.

Size Up to Euro 10,000,000,000 (or the equivalent in other currencies at the date of

issue) aggregate nominal amount of Instruments outstanding at any one time.

Arranger HSBC Bank plc

Principal Dealers Barclays Bank PLC

Deutsche Bank AG, London Branch

HSBC Bank plc

J.P. Morgan Securities Ltd.

Mizuho International plc

The Royal Bank of Scotland plc

The Issuers and the 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 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

Other Paying Agents Kredietbank S.A. Luxembourgeoise.

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 nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms document (the

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"Final Terms").

Issue Price

Instruments may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Instruments may be issued, the issue price of which will be payable in two or more instalments.

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 "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 relevant Issuer, the Guarantor (if applicable), the Issuing and Paying Agent, the Trustee and the relevant Dealer.

Initial Delivery of Instruments

On or before the issue date for each Tranche, if the relevant Global Instrument is intended to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations, 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 not intended to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations, 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 relevant Issuer, the Guarantor (if applicable), the Issuing and Paying Agent, the Trustee and the relevant Dealer.

Currencies

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

Maturities

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

Any Instruments having a maturity of less than one year from

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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 relevant Issuer.

Denominations

relevant Final Terms, save that (a) 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 a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the Instruments) and (b) 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).

Definitive Instruments will be in such denominations as may be specified in the

Fixed Rate Instruments

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

Floating Rate Instruments

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

- on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or
- (b) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin. Interest periods will be selected by the relevant 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

Zero Coupon Instruments

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

Dual Currency Instruments

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Instruments will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Final Terms.

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Index Linked Instruments

Payments of principal in respect of Index Linked Redemption Instruments or of interest in respect of Index Linked Interest Instruments will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms and (if applicable) the relevant Supplemental Prospectus.

Interest Periods and Rates of Interest

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

Redemption

The relevant Final Terms will specify the basis for calculating the redemption amounts payable, which may be by reference to a stock index or formula or as otherwise provided in the relevant Final Terms.

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

Redemption by Instalments

The Final Terms issued in respect of each issue of Instruments that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Instruments may be redeemed.

Other Instruments

Terms applicable to high interest Instruments, low interest Instruments, step-up Instruments, step-down Instruments, Dual Currency Instruments, reverse Dual Currency Instruments, optional Dual Currency Instruments, Partly Paid Instruments and any other type of Instrument that the relevant Issuer, the Trustee and any Dealer or Dealers may agree to issue under the Programme, subject to compliance with all relevant laws, regulations and directives, will be set out in the relevant Final Terms and (if applicable) the relevant Supplemental Prospectus.

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 relevant Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.

Status of Instruments and the guarantee

The Instruments (and where applicable, the guarantee in respect of them) will constitute unsubordinated and unsecured obligations of the relevant Issuer (and where applicable, the Guarantor, respectively), all as described in "Terms and Conditions of the Instruments - Status".

Negative Pledge

None of the Issuers or the Guarantor will give any negative pledge in respect of Instruments to be issued under the Programme.

Cross Default

The events of default in respect of Instruments in any Series

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CRC: 4390 EDGAR 2 $\begin{array}{c} \text{Phone: (212)924-5500} \\ \textbf{BNY Y59930} \\ \end{array} \begin{array}{c} \text{Operator: BNY99999T} \\ \textbf{766.00.00.00} \\ \end{array} \begin{array}{c} \text{Date: 17-JUN-2008 03:10:51.35} \\ \textbf{0/3} \end{array}$

will not contain any cross default provision in respect of any other indebtedness of the relevant Issuer or the Guarantor, where applicable, whether with respect to Instruments in any other Series or otherwise.

The events of default under the Instruments are as specified below under "Terms and Conditions of the Instruments – Events of Default".

Except as provided in "Optional Redemption" above and subject always to the regulations and any other laws, regulations and directives applicable to the relevant currency in which such Instruments are denominated, Instruments will be redeemable at the option of the relevant Issuer prior to maturity only for tax reasons. See "Terms and Conditions of the Instruments - Redemption, Purchase and Options".

All payments of principal and interest in respect of the Instruments will be made free and clear of withholding taxes of the United Kingdom save as compelled by law. In the event that any deduction or withholding on account of tax is required to be made, the Issuer will, 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 for the amounts withheld or deducted.

English.

Each Series may be admitted to the Official List and admitted to trading on the Market and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed between the relevant Issuer and the relevant Dealer(s) and specified in the relevant Final Terms or may be unlisted.

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

United States, United Kingdom, Public Offer Selling Restriction under the Prospectus Directive (in the case of unlisted Instruments) and Japan. See "Plan of Distribution".

Category 2 selling restrictions will apply to the Instruments 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) (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) (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**"),

Events of Default

Early Redemption

Withholding Tax

Governing Law

Listing

Ratings

Selling Restrictions

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Terms and Conditions

The Terms and Conditions applicable to each Series will be as agreed between the relevant Issuer, the Guarantor (where applicable), 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. The Terms and Conditions applicable to each Series will therefore be those as set out in "Terms and Conditions of the Instruments" below as supplemented, modified or replaced by the relevant Final Terms.

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RISK FACTORS

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

Factors which the relevant 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 relevant 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 relevant 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 such 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.

Risks relating to National Grid Gas plc and its business

Changes in law or regulation could have an adverse effect on National Grid Gas's results of operations

National Grid Gas is subject to regulation by governmental and regulatory authorities. Consequently, changes in law or regulation could adversely affect National Grid Gas. Changes to market structures implemented as a result of legislative developments and regulatory decisions concerning, for example, whether licences or approvals to operate are granted or renewed, whether market developments have been satisfactorily implemented, whether there has been any breach of the terms of a licence or approval, the level of permitted revenues for National Grid Gas's businesses and proposed business development activities could have an adverse impact on National Grid Gas's results of operations, cash flows, the financial condition of its businesses and the ability to develop those businesses in the future.

Breaches of or changes in environmental or health and safety laws or regulations could expose National Grid Gas to claims for financial compensation and adverse regulatory consequences and could damage National Grid Gas's reputation

Aspects of National Grid Gas's activities are potentially dangerous, such as the transmission and distribution of natural gas. Gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of National Grid Gas's operations that are not currently regarded as having adverse effects that could become so. National Grid Gas is subject to laws and regulations relating to pollution, the protection of the environment, and how National Grid Gas uses and disposes of hazardous substances and waste materials. National Grid Gas is also subject to laws and regulations governing health and safety matters, protecting both the public and its employees. Any breach of these obligations, or even incidents relating to the environment or to health and safety that do not amount to a breach, could adversely affect the results of operations and National Grid Gas's reputation.

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

National Grid Gas may suffer a major network failure or may not be able to carry out critical non-network operations. Operational performance could be adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand or inadequate record keeping. This could cause National Grid Gas to be in breach of a licence or approval, and even incidents that do not amount to a breach could result in adverse regulatory action and financial consequences, as well as harming National Grid Gas's reputation. In addition to these risks, National Grid Gas is subject to other risks that

are largely outside of its control such as the impact of weather or unlawful acts of third parties. Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure will adversely affect operational, and, potentially, business performance. Terrorist attack, sabotage or other intentional acts may also physically damage National Grid Gas's businesses or otherwise significantly affect corporate activities and as a consequence affect the results of operations.

National Grid Gas's results of operations depend on a number of factors relating to business performance including performance against regulatory targets and the delivery of anticipated costs and efficiency savings

Earnings maintenance and growth from National Grid Gas's regulated gas business may be affected by its ability to meet or better efficiency targets and/or incentives set by Ofgem. Earnings from National Grid Gas's regulated businesses will also be affected by its ability to recover incurred expenditure. Levels of earnings from National Grid Gas's businesses may also be affected by failure to meet service quality standards set by Ofgem. National Grid Gas is also reorganising its operations along lines of business. In addition, from time to time National Grid Gas publishes cost and efficiency savings targets for its businesses. To meet these targets and standards, National Grid Gas must improve operational performance, service reliability and customer service. If National Grid Gas does not meet these targets and standards, if it is not able to recover incurred expenditure or if it does not implement this reorganisation as envisaged, it may not achieve the expected benefits, its business may be adversely affected and its performance, results of its operations and reputation may be harmed.

Changes to the regulatory treatment of commodity costs may have an adverse effect on the results of operations

Changes in commodity prices could potentially impact on National Grid Gas's energy delivery businesses. Current regulatory arrangements in the UK provide the ability to pass through virtually all of the increased costs related to commodity prices to consumers. If Ofgem were to restrict this ability, it could have an adverse effect on National Grid Gas's operating results.

National Grid Gas's reputation may be harmed if consumers of energy suffer a disruption to their supply even if this disruption is outside of National Grid Gas's control

National Grid Gas is responsible for transporting available gas. National Grid Gas consults with and provides information to Ofgem and the UK Government and industry participants about future demand and the availability of supply. However, where there is insufficient supply to meet demand, whether because of extreme weather conditions, or failure of plant or systems operated by either National Grid Gas or third parties, National Grid Gas's role is to manage the relevant system safely, which, in extreme circumstances, may require National Grid Gas to disconnect consumers.

National Grid Gas is subject to the risk that business development activity, such as significant acquisitions or disposals, will be based on incorrect assumptions or conclusions or that significant liabilities will be overlooked or there may be other unanticipated adverse impacts

In any acquisition or disposal process National Grid Gas evaluates the projected financial impact of the transaction and conducts appropriate due diligence. Despite National Grid Gas's efforts, however, unforeseen circumstances or erroneous assumptions may adversely affect the anticipated financial consequences of a project.

The nature and extent of National Grid Gas's borrowings means that an increase in interest rates could have an adverse impact on its financial position and business results

A significant proportion of National Grid Gas's borrowings are subject to variable interest rates that may fluctuate with changes to prevailing interest rates. Increases in these interest rates could therefore increase National Grid Gas's costs and diminish its profits.

National Grid Gas's overall financial position may be adversely affected by a number of factors including restrictions in borrowing and debt arrangements, changes to credit ratings and effective tax rates

National Grid Gas is subject to certain covenants and restrictions in relation to its listed debt securities and its bank lending facilities. National Grid Gas is also subject to restrictions on financing that have been imposed by regulators. These restrictions may hinder National Grid Gas in servicing the financial requirements of its businesses. The debt issued by National Grid Gas is rated by credit rating agencies and changes to these ratings may affect both the borrowing capacity of the National Grid Gas Group as a whole and the cost of these borrowings. The effective rate of tax paid by the National Grid Gas Group may be influenced by a number of factors including changes in law and accounting standards.

Future funding requirements of National Grid's pension schemes could adversely affect National Grid Gas's results of operations

National Grid Gas participates in a of pension scheme which covers the majority of its employees. This scheme is a defined benefit scheme where the scheme assets are held independently of National Grid Gas's finances. Estimates of the amount and timing of future funding for this scheme are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require National Grid Gas to make additional contributions to this pension scheme which, to the extent they are not recoverable under its price controls, could adversely affect results of operations of National Grid Gas.

New or revised accounting standards, rules and interpretations by the UK, or international accounting standard setting boards and other relevant bodies could have an adverse effect on National Grid Gas's reported financial results

The accounting treatment under International Financial Reporting Standards ("IFRS"), as adopted by the European of replacement expenditure, pension and post-retirement benefits, derivative financial instruments and commodity contracts significantly affect the way National Grid Gas reports its financial position and results of operations. As a body of practice develops for IFRS, the application and interpretation of accounting principles to National Grid Gas's circumstances, and to those areas in particular, could result in changes in the financial results and financial position that it reports. In addition new standards, rules or interpretations may be issued that could also have significant effects.

Risk relating to National Grid Gas Finance (No 1) plc and its business

National Grid Gas Finance (No 1)'s only business is to act as a finance subsidiary of National Grid Gas 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 Instruments or entry into other obligations from time to time and any on-loan made by it of the proceeds of the issue of any Instruments.

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

Instruments may not be a suitable investment for all investors

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

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Instruments, the merits and risks of investing in the relevant Instruments and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant instruments and the impact such investment will have on its overall investment portfolio:
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Instruments, including where principal or interest is payable in one or more currencies, or

where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the relevant Instruments and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some 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.

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 and Dual Currency Instruments

The Issuer may issue Instruments with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "Relevant Factor"). In addition, the Issuer may issue Instruments with principal or interest payable in one or more currencies which may be different from the currency in which the Instruments are denominated. Potential investors should be aware that:

- the market price of such Instruments may be volatile;
- (ii) they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected;
- the amount of principal payable at redemption may be less than the nominal amount of such Instruments or even zero;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Instruments in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and

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(vii) the timing of changes in a Relevant Factor 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 Factor, the greater the effect on yield.

Partly-paid Instruments

The Issuer may issue Instruments where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Instruments with a multiplier or other leverage factor

Instruments with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

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 nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to Instruments generally

Set out below is a brief description of certain 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, in the circumstances described in Condition 11 of the Terms and Conditions of the Instruments.

European Monetary Union

If the United Kingdom joins the European Monetary Union prior to the maturity of the Instruments, there is no assurance that this would not adversely affect investors in the Instruments. It is possible that prior to the maturity of the Instruments the United Kingdom may become a participating Member State and that the Euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of any Instruments denominated in Sterling may become payable in Euro (ii) the law

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may allow or require such Instruments to be re-denominated into Euro and additional measures to be taken in respect of such Instruments; and (iii) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on such Instruments or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the Euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Instruments.

EU Savings Directive

Under the EU Council Directive 2003/48/EC on the taxation of savings income (the "EU Savings Directive") each Member State is required to provide the tax authorities of another Member State with details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain types of entities called "residual entities", within the meaning of the EU Savings Directive (the "Residual Entities"), established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg are permitted to apply an optional information reporting system whereby if a beneficial owner, within the meaning of the EU Savings Directive, does not comply with a prescribed procedure for information reporting, the relevant Member State will levy a withholding tax on payments to such beneficial owner. The withholding tax system will apply for a transitional period during which the rate of the withholding will rise over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories (in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or a Residual Entity established in one of those territories.

If, following implementation of the EU Savings Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any note as a result of the imposition of such withholding tax. However, the Issuer is required, save as provided in Condition 6.4 of the Instruments to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the EU Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to, such directive.

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.

Integral multiples of less than Euro 50,000

In relation to any issue of Instruments which have a denomination consisting of the minimum Specified Denomination of Euro 50,000 plus a higher integral multiple of another smaller amount, it is possible that the Instruments may be traded in amounts in excess of Euro 50,000 (or its equivalent) that are not integral multiples of Euro 50,000 (or its equivalent). In such a case a holder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Instrument in respect of such holding (should Definitive Instruments be printed) and would need to purchase a principal amount of Instruments such that it holds an amount equal to one or

more Specified Denominations. Except in circumstances set out in the relevant Global Instrument, investors will not be entitled to receive Definitive Instruments.

Risks related to the market generally

Set out below is a brief description of certain 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 Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**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 a common depositary 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 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.

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Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. 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 subsequent changes in market interest rates may 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 an issue of Instruments. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Instruments. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal 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.

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 and amendment and as supplemented or varied in accordance with the provisions of 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, amended, supplemented or varied (and subject to simplification by the deletion 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 relevant Issuer (as defined below), not to all Instruments that may be issued under the Programme. Provisions which are marked with * only apply where National Grid Gas Finance (No 1) is the Issuer.

National Grid Gas plc ("National Grid Gas") and National Grid Gas Finance (No 1) plc ("National Grid Gas Finance (No 1)") (each an "Issuer" and together, the "Issuers") and National Grid Gas plc as guarantor of Instruments issued by National Grid Gas Finance (No 1) (the "Guarantor") have established a Euro Medium Term Note Programme (the "Programme") for the issuance of up to Euro 10,000,000,000 in aggregate principal amount of debt instruments (the "Instruments").

The Instruments are constituted by an Amended and Restated Trust Deed (as amended or supplemented from time to time, the "Trust Deed") dated 26 February 2008 between the Issuers, 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, Receipts, Coupons and Talons referred to below. An Amended and Restated Agency Agreement (as amended or supplemented from time to time, the "Agency Agreement") dated 26 February 2008 has been entered into in relation to the Instruments between the Issuers, the Guarantor, the Trustee, The Bank of New York 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 during usual business hours at the registered office of the Trustee (as at 26 February 2008 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") and the holders of the receipts for the payment of instalments of principal (the "Receipts") relating to Instruments of which the principal is payable in instalments 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) 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.

In the case of Instruments which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in

circumstances which require the publication of a prospectus under Directive 2003/71/EC (the "**Prospectus Directive**"), the minimum Specified Denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Instruments)

This Instrument is a Fixed Rate Instrument, a Floating Rate Instrument, a Zero Coupon Instrument, a Perpetual Instrument, an Index Linked Interest Instrument, an Index Linked Redemption Instrument, an Instalment Instrument, a Dual Currency Instrument or a Partly Paid Instrument, a combination of any of the preceding or any other kind of Instrument, 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, save in the case of Zero Coupon Instruments in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Instalment Instruments are issued with one or more Receipts attached. Title to the Instruments and the Receipts, 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 (if applicable) and the Paying Agents shall be entitled to treat the bearer of any Instrument, Receipt, Coupon or Talon as the absolute owner of that Instrument, Receipt, 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 an Issuer and the Receipts relating to it, "holder" (in relation to an Instrument, Receipt, Coupon or Talon) means the bearer of any Instrument, Receipt, 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 the Receipts and Coupons relating to them constitute direct, unconditional and unsecured obligations of the Issuer and rank *pari passu* without any preference or priority among themselves. The payment obligations of the Issuer under the Instruments, Receipts 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, 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, Receipts and Coupons. Its obligations in that respect (the "Guarantee") are contained in the Trust Deed.]*

3 Interest

3.1 Interest on Fixed Rate Instruments

Each Fixed Rate Instrument bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with condition 3.2.4(f).

3.2 Interest on Floating Rate Instruments and Index Linked Interest Instruments

3.2.1 Interest Payment Dates

Each Floating Rate Instrument and Index Linked Interest Instrument bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with condition 3.2.4(f). Such Interest Payment Date(s) is/are either specified in the relevant Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are specified in the relevant Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown on this Instrument as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

3.2.2 Business Day Convention

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

3.2.3 Rate of Interest for Floating Rate Instruments

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

- (A) ISDA Determination for Floating Rate Instruments: Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Accrual Period means a rate equal to the Floating Rate which would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
 - $\hbox{(x)} \quad \hbox{ the Floating Rate Option is as specified in the relevant Final Terms;} \\$
 - (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 for Floating Rate Instruments: 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 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
- if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference (z) 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) (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).

3.2.4 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

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interest will accrue by reference to an Index or Formula as specified in the relevant Final Terms

(a) Zero Coupon Instruments

Where an Instrument, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Instrument. As from the Maturity Date, the Rate of Interest for any overdue principal of such an Instrument shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as defined in Condition 5.4.1(b)).

(b) Dual Currency Instruments

In the case of Dual Currency Instruments, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating a Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified in the relevant Final Terms.

(c) Partly Paid Instruments

In the case of Partly Paid Instruments (other than Partly Paid Instruments which are Zero Coupon Instruments), interest will accrue as previously stated on the paid-up nominal amount of such Instruments and otherwise as specified in the relevant Final Terms.

Accrual of Interest

Interest shall cease to accrue on each Instrument on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 3 to the Relevant Date (as defined in Condition 7).

Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts, Rate **Multipliers and Rounding**

- If any Margin or Rate Multiplier is specified in the relevant Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 3.2 above, by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.
- If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified (ii) in the relevant Final Terms, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- 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.

(f) **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 specified thereon, 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.

Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts

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, it shall determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of the Instruments for the relevant Interest Accrual Period, calculate the Redemption Amount or Instalment 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 any Instalment Amount to be notified to the Trustee, the Issuer, [the Guarantor,]* each of the Paying Agents, the Instrumentholders, any other Calculation Agent appointed in respect of the Instruments that is to make a further calculation upon receipt of such information and, if the Instruments are listed on a stock exchange and the rules of such exchange so require, such exchange as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 3.2.2, 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 9, 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.

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(h) Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the preceding provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(i) Definitions

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

"Benchmark" means LIBOR, LIBID, LIMEAN, EURIBOR or such other Benchmark as may be specified in the relevant Final Terms.

"Business Day" means:

- 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:

where:

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

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

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls:

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

" 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:

where:

"Y1" 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;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period

"M₂" 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, in which case D_2 will be 30;

(vi) if "30E/360 (ISDA)" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

where:

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

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

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

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

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

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ 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.

"Euro-zone" means the region comprising of Member States of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community as amended.

"Interest Accrual Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period

Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"Interest Amount" means:

- 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 hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- in respect of any other period, the amount of interest payable per Calculation Amount for that period. (ii)

"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

"Interest Period Date" means each Interest Payment Date unless otherwise specified in the relevant Final

"ISDA Definitions" means the 2006 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Final Terms.

"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 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, or calculated in accordance with the provisions, in the relevant Final Terms.

"Redemption Amount" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the

Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of the relevant Final Terms

"Reference Banks" means 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 3.2.2.

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor to it.

(j) Calculation Agent and Reference Banks

The Issuer[, failing whom the Guarantor,]* 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[or the Guarantor]*

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, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer [or the Guarantor]* 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 Indexation

This Condition 4 is applicable only if the relevant Final Terms specifies the Instruments as Index Linked Instruments.

4.1 Definitions

"Base Index Figure" means (subject to Condition 4.3(i)) the base index figure as specified in the relevant Final Terms;

"Index" or "Index Figure" means, subject as provided in Condition 4.3(i), the UK Retail Price Index ("RPI") (for all items) published by the Office for National Statistics (January 1987 = 100) or any comparable index which may replace the RPI for the purpose of calculating the amount payable on repayment of the Reference Gilt. 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 4.3 and 4.5, 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 4.3 and 4.5, 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 4.3 and 4.5, 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.

If the Index is replaced, the Issuer will describe the replacement Index in a supplement to the Prospectus;

"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; and

"Reference Gilt" means the Treasury Stock specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Issuer[or the Guarantor]* (an "Indexation Adviser").

4.2 **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, on which such payment falls to be made and rounded in accordance with Condition 3.2.4(e).

4.3 **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 4.1 shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month 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.
- Delay in publication of Index if sub-paragraph (i) of the definition of Index Figure is applicable: If the Index Figure (ii) 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, 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 4.3(i)) before the date for payment.

Delay in publication of Index if sub-paragraph (ii) and/or (iii) of the definition of Index Figure is applicable: If the (iii) 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, 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 4.3(i)) before the date for payment.

Application of Changes 4.4

Where the provisions of Condition 4.3(ii) or Condition 4.3(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 4.3(ii)(2) or Condition 4.3 (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:

- in relation to a payment of principal or interest in respect of such Instrument other than upon final redemption of (i) 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 4.3(ii)(2) or Condition 4.3(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
- in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid (ii) will be made.

4.5 **Cessation of or Fundamental Changes to the Index**

If (1) the Trustee and the Issuer [and the Guarantor]* have been notified by the Calculation Agent that the Index (i) has ceased to be published or (2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of (A) the Issuer be materially prejudicial to the interests of the Issuer,[or the Guarantor]* or (B) the Trustee acting solely on the advice of an Indexation Adviser, be materially prejudicial to the interests of the Instrumentholders, the Trustee will give written notice of such occurrence to the Issuer in the case of (B), and the Issuer[, the Guarantor]*

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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[, the Guarantor]* and the Instrumentholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.

- (ii) If the Issuer[, the Guarantor]* 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 (i), a bank or other person in London shall be appointed by the Issuer[, the Guarantor]* 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[, the Guarantor]* and the Instrumentholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change 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[, the Guarantor]* and the Trustee in connection with such appointment shall be borne by the Issuer[or the Guarantor]*.
- (iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer[, the Guarantor]* and the Trustee (acting solely on the advice of the Indexation Adviser) or as determined by the Expert 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)[, the Guarantor]* 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 and]* the Trustee and the Instrumentholders, and the Issuer [and the Guarantor]* shall give notice to the Instrumentholders in accordance with Condition 14 of such amendments as promptly as practicable following such notification.

Redemption for Index Reasons 4.6

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 4.3(ii)(2) 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, and (in either case) no amendment or substitution of the Index shall have been advised by the Indexation Adviser to the Issuer [and the Guarantor]* and such circumstances are continuing, the Issuer may, upon giving not more than 60 nor less than 30 days' notice to the Instrumentholders in accordance with Condition 14, 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 4.2).

5 Redemption, Purchase and Options

Final Redemption

Unless previously redeemed, purchased and cancelled as provided below, this Instrument will be redeemed at its Final Redemption Amount (which, unless otherwise provided, is its nominal

amount) on the Maturity Date specified in the relevant Final Terms provided, however, that if this Instrument is a Perpetual Instrument it will only be redeemable and repayable in accordance with the following provisions of this Condition 5.

5.2 Redemption for Taxation Reasons

If, on the occasion of the next payment in respect of the Instruments the Issuer [(or, if the Guarantee were called, the Guarantor)]* satisfies the Trustee immediately before the giving of the notice referred to below that it would be unable to make such payment without having to pay additional amounts as described in Condition 7, and such requirement to pay such additional amounts arises by reason of a change in the laws of the United Kingdom or any political sub-division of the United Kingdom or taxing authority in the United Kingdom or any political sub-division of the United Kingdom or in the official interpretation or application of the laws of the United Kingdom or any political sub-division of the United Kingdom or in any applicable double taxation treaty or convention, which change becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Instruments, and such requirement cannot be avoided by the Issuer [(or the Guarantor, as the case may be)]* taking reasonable measures (such measures not involving any material additional payments by, or expense for, the Issuer [(or the Guarantor, a 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 in accordance with Condition 14, 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 5.2, the Issuer shall deliver to the Trustee a certificate signed by two Directors 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.

5.3 Purchases

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

5.4 Early Redemption

5.4.1 Zero Coupon Instruments:

- (a) The Early Redemption Amount payable in respect of any Zero Coupon Instrument, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Instrument pursuant to Condition 5.2 or upon it becoming due and payable as provided in Condition 9 shall be the Amortised Face Amount (calculated as provided below) of such Instrument unless otherwise specified in the relevant Final Terms
- (b) Subject to the provisions of sub-paragraph (c) below, the Amortised Face Amount of any such Instrument shall be the scheduled Final Redemption Amount of such Instrument on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is specified in

relevant Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Instruments if they were discounted back to their issue price on the Issue Date) compounded annually.

(c) If the Early Redemption Amount payable in respect of any such Instrument, upon its redemption pursuant to Condition 5.2 or, if applicable, Condition 5.5 or 5.6 or upon it becoming due and payable as provided in Condition 9, is not paid when due, the Early Redemption Amount due and payable in respect of such Instrument shall be the Amortised Face Amount of such Instrument as defined in sub-paragraph (b) above, except that such sub-paragraph shall have effect as though the reference in that sub-paragraph to the date on which the Instrument becomes due and payable was replaced by a reference to the Relevant Date as defined in Condition 7. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Instrument on the Maturity Date together with any interest that may accrue in accordance with Condition 3.2.

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

5.4.2 Other Instruments

The Early Redemption Amount payable in respect of any Instrument (other than Instruments described in Condition 5.4.1 above), upon redemption of such Instrument pursuant to this Condition 5.4 or upon it becoming due and payable as provided in Condition 9, shall be the Final Redemption Amount unless otherwise specified in the relevant Final Terms.

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

If Call Option is specified in the relevant Final Terms, the Issuer may, 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 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 the date fixed for redemption. Any such redemption or exercise must relate to Instruments of a nominal amount at least equal to the minimum nominal amount (if any) to be redeemed specified hereon and no greater than the maximum nominal amount (if any) to be redeemed specified on this Instrument.

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.

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

If Put Option is specified in the relevant Final Terms, 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 on this Instrument)

redeem such Instrument on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option or any other Instrumentholders' option which may be set out on this Instrument (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.

5.7 **Partly Paid Instruments**

Partly Paid Instruments will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified in the relevant Final Terms.

Redemption by Instalments 5.8

Unless previously redeemed, purchased and cancelled as provided in this Condition 5, each Instrument which provides for Instalment Dates and Instalment Amounts will be partially redeemed on each Instalment Date at the Instalment Amount specified in the relevant Final Terms. The outstanding nominal amount of each such Instrument shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Instrument, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused on presentation of the related Receipt, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

Cancellation 5.9

All Instruments redeemed pursuant to any of the foregoing provisions will be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto). All Instruments purchased by or on behalf of the Issuer [, the Guarantor]* or any of [its/their] subsidiary undertakings may, at the option of the Issuer be held by or may be surrendered together with all unmatured Receipts and Coupons and all unexchanged Talons attached to them to a Paying Agent for cancellation, but may not be resold and when held by the Issuer [, the Guarantor]* or any of [its/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 11.

6 Payments and Talons

Payments 6.1

Payments of principal and interest in respect of Instruments will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Instrument), Instruments (in the case of all other payments of principal and, in the case of interest, as specified in Condition 6.5.6) or Coupons (in the case of interest, save as specified in Condition 6.5.6), 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;

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provided that in the case of Euro, the transfer shall be in a city in which banks have access to the TARGET System.

6.2 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.

6.3 Payments subject to Fiscal Laws etc.

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 7. No commission or expenses shall be charged to the Instrumentholders or Couponholders in respect of such payments.

6.4 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[s] 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 Paying Agent having a specified office in a continental European city, (iii) a Calculation Agent where the Conditions so require one, (iv) 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 and (v) to the extent that the Issuer is able to do so and not provided for by the foregoing provisions of this Condition 6.4, a Paying Agent with a specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive. 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 [and the Guarantor]* 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 6.2.

Notice of any such change or any change of any specified office shall promptly be given to the Instrumentholders in accordance with Condition 14.

6.5 Unmatured Coupons and Receipts and unexchanged Talons:

6.5.1 Unless the Instrument provides that the relevant Coupons are to become void upon the due date for redemption of those Instruments, Instruments should be surrendered for payment together with all unmatured Coupons (if any) appertaining to them, failing

which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) will be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 8).

- 6.5.2 If the relevant Instrument so provides, 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.
- If the relevant Instrument so provides, upon the due date for redemption of any Instrument, any unexchanged 6.5.3 Talon relating to such Instrument (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- 6.5.4 Upon the due date for redemption of any Instrument which is redeemable in instalments, all Receipts relating to such Instrument having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- 6.5.5 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 any unexchanged Talon relating to it, 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.
- 6.5.6 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.

Non-business days 6.6

If any date for payment in respect of any Instrument, Receipt 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 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:

- (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
- 6.6.2 (in the case of a payment in Euro), which is a TARGET Business Day.

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6.7 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 8).

7 Taxation

All payments of principal and interest by or on behalf of the Issuer [or the Guarantor]* in respect of the Instruments, the Receipts and the Coupons [or under the Guarantee]* will be made without withholding or deduction for or on account of, any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the United 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 compelled by law. In that event, the Issuer [or, as the case may be, the Guarantor]* will pay such additional amounts of principal and interest as will result in the payment to the Instrumentholders, Receiptholders or, as the case may be, the Couponholders of the amounts which would otherwise have been receivable in respect of the Instruments, Receipts or Coupons had no withholding or deduction been made, except that no such additional amounts shall be payable in respect of any Instrument, Receipt or Coupon presented for payment:

- (a) by or on behalf of, a person who is liable to such taxes or duties in respect of such Instrument, Receipt or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Instrument, Receipt or Coupon; or
- (b) by or on behalf of a person who would not be liable or subject to such deduction or withholding by making a declaration of non-residence or other claim for exemption to a tax authority; or
- (c) more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to such additional amounts on presenting the same for payment on such thirtieth day; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) by or on behalf of a holder who would have been able to avoid such withholding or deduction (i) by presenting the relevant Instrument, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or (ii) by satisfying any statutory or procedural requirements (including, without limitation, the provision of information).

As used in these Conditions, "Relevant Date" in respect of any Instrument, Receipt 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 14 that, upon further presentation of the Instrument, Receipt 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, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 5 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 3 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.

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8 Prescription

Instruments, Receipts 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.

9 Events of Default

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

- Non-Payment: there is default for more than 30 days in the payment of any principal or interest due in respect of the (a) 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) 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]* by the Trustee; or
- Winding-up: a resolution is passed, or a final order of a court in the United Kingdom is made and, where possible, not (c) discharged or stayed within a period of 90 days, that the Issuer [or the Guarantor]* be wound up or dissolved; or
- Enforcement Proceedings: attachment is made of the whole or substantially the whole of the assets or undertaking of (d) 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
- Insolvency: the Issuer [or the Guarantor]* ceases to carry on all or substantially all of its business or is unable to pay its (e) debts within the meaning of Section 123(1) (e) or Section 123(2) of the Insolvency Act 1986; or
- (f) Bankruptcy: the Issuer [or the Guarantor]* is adjudged bankrupt or insolvent by a court of competent jurisdiction in its country of incorporation,

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

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

10 Enforcement

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

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

(b) it has been indemnified to its satisfaction.

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

11 Meetings of Instrumentholders, Modifications and Substitution

11.1 Meetings of Instrumentholders

The Trust Deed contains provisions for convening meetings of Instrumentholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. An Extraordinary Resolution duly passed at any such meeting shall be binding on Instrumentholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders, except that any Extraordinary Resolution proposed, inter alia, (i) to amend the dates of maturity or redemption of the Instruments, any Instalment Date or any date for payment of interest on the Instruments, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Instruments, (iii) to reduce the rate or rates of interest in respect of the Instruments or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Instruments, (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, (v) to vary any method of calculating the Final Redemption Amount, the Early Redemption Amount or the Optional 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 modify the provisions concerning the quorum required at any meeting of Instrumentholders or the majority required to pass the Extraordinary Resolution [or (viii) to modify or cancel the Guarantee]* will only be binding if passed at a meeting of the Instrumentholders (or at any adjournment of that meeting) at which a special quorum (as defined in the Trust Deed) is present. A resolution in writing signed by the holders of not less than 95 per cent. in nominal amount of the Instruments will be binding on all Instrumentholders and Couponholders. 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).

11.2 Modification of the Trust Deed

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. Any such modification, 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.

11.3 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 [a Successor in Business (as

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defined in the Trust Deed) or any subsidiary/any other company] $^{\pm}$ in place of the Issuer or of any previous substituted company, as principal debtor under the Trust Deed and the Instruments [and the substitution of the Guarantor's Successor in Business (as defined in the Trust Deed) or any subsidiary of the Guarantor in place of the Guarantor] * . 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 Receipts, 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.

11.4 Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Instrumentholders as a class and shall not have regard to the consequences of such exercise for individual Instrumentholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Instrumentholder or Couponholder be entitled to claim, from the Issuer [or the Guarantor]* any indemnification or payment in respect of any tax consequence of any such exercise upon individual Instrumentholders or Couponholders.

12 Replacement of Instruments, Receipts, Coupons and Talons

If an Instrument, Receipt, 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 14 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, Receipt, 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, Receipts, Coupons or further Coupons) and otherwise as the Issuer[or the Guarantor]* may require. Mutilated or defaced Instruments, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

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

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

[±] Where National Grid Gas plc is the Issuer, delete the text "any other company". Where National Grid Gas Finance (No 1) is the Issuer, delete the text "a Successor in Business (as defined in the Trust Deed) or any subsidiary"

14 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 shall 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 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 to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer[, the Guarantor]* or any of [its/their] subsidiary undertakings, parent undertakings, joint ventures or associated undertakings without accounting for any profit resulting from these transactions and to act as trustee for the holders of any other securities issued by the Issuer or any of its subsidiary undertakings, parent undertakings, joint ventures or associated undertakings.

16 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.

17 Governing Law and Jurisdiction

- (a) The Instruments and all matters arising from or connected with the Instruments 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]* /[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 17 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.

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SUMMARY OF PROVISIONS RELATING TO THE INSTRUMENTS WHILE IN GLOBAL FORM

Initial Issue of Instruments

Upon the initial deposit of a Global Instrument with a common depositary for Euroclear and Clearstream, Luxembourg (the "Common Depositary"), Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Instruments equal to the nominal amount of those Instruments for which it has subscribed and paid.

If the Global Instruments are stated in the applicable Final Terms to be issued in NGN form, they are intended to be eligible collateral for Eurosystem monetary policy and the Global Instruments will be delivered on or prior to the original issue date of the Tranche to a 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.

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

If the Global Instrument is a CGN, upon the initial deposit of a Global Instrument with a common depositary for Euroclear and Clearstream, Luxembourg (the "Common Depositary"), Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Instruments equal to the nominal amount thereof for which it has subscribed and paid. If the Global Instrument is an NGN, the nominal 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 nominal 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 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 as the holder of an Instrument represented by a Global Instrument must look solely to Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be) for his share of each payment made by the relevant 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 clearing systems (as the case may be). Such persons shall have no claim directly against the relevant 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 such 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

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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:

- 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 "Summary of the Programme — Selling Restrictions"), in whole, but not in part, for the Definitive Instruments defined and described below; and
- 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 other clearing system (an "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 Note 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.

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 (i) if principal in respect of any Instruments is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms) relating to Partly Paid Instruments.

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 relevant 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 nominal 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 nominal amount of duly executed and authenticated Definitive Instruments or, if the Global Instrument is an NGN, the relevant 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 and Receipts in respect of interest or Instalment Amounts 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 relevant 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 in the form set out in the Agency Agreement. 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. 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. Condition 6.4(v) and Condition 7(e) will apply to the Definitive Instruments only. If the Global Instrument is an NGN, the relevant Issuer shall procure that details of each such payment shall be entered *pro rata* 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 relevant 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.

The records of the relevant clearing systems which reflect the amount of the Instrumentholders' interests in the instruments shall be conclusive evidence of the nominal amount of Instruments represented by the Global Instruments.

2 Prescription

Claims against the relevant 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 7).

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 nominal amount of the relevant permanent Global Instrument.

5 Purchase

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

6 Issuer's Option

Any option of the relevant Issuer provided for in the Conditions of any Instruments while such Instruments are represented by a permanent Global Instrument shall be exercised by such 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 such Issuer is exercised in respect of some but not all of the Instruments of any Series, the rights of accountholders with a clearing system or Approved Intermediary in respect of the Instruments will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg either as a pool factor or as a reduction in nominal 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 nominal 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 relevant Issuer shall procure that details of such exercise shall be entered pro rata in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

NGN nominal amount

Where the Global Instrument is an NGN, the relevant 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 nominal amount of the Instruments represented by such Global Instrument shall be adjusted accordingly.

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 onequarter in nominal 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 9 by stating in the notice to the relevant 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 such Issuer under the terms of the Trust Deed unless the Trustee, having become bound to proceed, fails to do so within a reasonable time and such failure is continuing.

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.

12 Partly Paid Instruments

The provisions relating to Partly Paid Instruments are not set out in this Prospectus, but will be contained in the relevant Final Terms and so in the Global Instruments. While any instalments of the subscription moneys due from the holder of Partly Paid Instruments are overdue, no interest in a Global Instrument representing such Instruments may be exchanged for an interest in a permanent Global Instrument or for Definitive Instruments (as the case may be). If any Instrumentholder fails to pay any instalment due on any Partly Paid Instruments within the time specified, the relevant Issuer may forfeit such Instruments and shall have no further obligation to their holder in respect of them.

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USE OF PROCEEDS

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

DESCRIPTION OF NATIONAL GRID GAS plc

Incorporation and Businesses

National Grid Gas is a licensed gas transporter under the Gas Act 1986, as amended (the "Gas Act").

National Grid Gas is the parent undertaking of the National Grid Gas Group and is an indirectly wholly-owned subsidiary undertaking of National Grid plc. National Grid Gas is incorporated in England and Wales.

National Grid Gas was incorporated in England and Wales on 1 April 1986 as a public company limited by shares under the Companies Act 1985. The address of National Grid Gas's registered office is 1-3 Strand, London, WC2N 5EH and the telephone number of the registered office is +44 20 7004 3000.

Business of National Grid Gas plc

The business of National Grid Gas comprises three principal activities:

- (i) owning and operating the high pressure gas national transmission system ("NTS") in Great Britain, comprising approximately 4,326 miles of high pressure pipe and 26 compressor stations, connecting to eight distribution networks and to third party independent systems for onward transportation of gas to end consumers as well as interconnectors;
- (ii) operating four gas distribution networks ("**DNs**"), comprising approximately 82,000 miles of distribution pipeline, conveying gas to domestic and industrial/commercial users in central, eastern and north west England, as well as a large part of London and the northern Home Countries;
- (iii) providing regulated gas metering and meter reading services in Great Britain; and
- (iv) owning and operating liquefied natural gas ("LNG") storage facilities.

National Grid Gas holds a gas transporter licence under the Gas Act in respect of each of its NTS and DN gas transportation activities (i.e. the activities described in (i) and (ii) above) (together, the "**Licences**").

National Grid Gas's customers are gas shippers, for whom it transports gas through the NTS and through its DNs to consumers or through the NTS to other gas transporters' gas distribution networks for onward conveyance to consumers.

National Grid Gas is responsible for residual energy balancing on the gas transportation system in Great Britain (the "GB system"). This role is given to National Grid Gas under the commercial arrangements governing the GB system (the Uniform Network Code). To facilitate this, the Licences permit National Grid Gas to (and it does) buy gas or rights to use gas systems (including capacity rights) in order to meet anticipated physical requirements for energy balancing on the GB system. In some circumstances National Grid Gas may also sell gas or capacity rights it has bought if it becomes clear that the anticipated physical position will not be required (and may make a profit, or avoid a loss in doing so). The purpose of this activity is not to make a profit, but to balance the GB system (although National Grid Gas's price control does incentivise it to keep its costs of system operation to a minimum).

Aside from the permitted balancing activities described above, the Licences prohibit National Grid Gas from purchasing or otherwise acquiring gas, gas derivatives or capacity rights in respect of the flow of gas for the purposes of resale or other disposition to third parties. As a result, National Grid Gas is prohibited from (i) engaging in any gas "trading" activity (other than in the very limited circumstances broadly related to the need to balance the GB system as described above) and (ii) acting as a gas shipper or gas supplier.

National Grid Gas is the parent company of National Grid Metering. National Grid Metering primarily provides gas metering services to National Grid Gas for both (i) industrial and commercial, and (ii)

domestic customers throughout Great Britain. The provision of gas metering services to National Grid Gas enables National Grid Gas to discharge National Grid Gas's obligations in the Licences in respect of metering. Following the sale of four gas distribution networks by National Grid Gas in 2005, National Grid Metering provides metering services to those four gas distribution networks to enable them to discharge the obligations contained in their gas transporter licences in respect of metering. National Grid Metering also provides gas meter reading services to gas suppliers.

Subsidiaries

The following table shows certain information on National Grid Gas's principal subsidiaries as at the date of this Prospectus:

Name	Country of Incorporation	National Grid Gas's Shareholding (either direct or indirect)
British Transco Capital Inc.	U.S.A. (Delaware)	100 %
British Transco Finance (No. 1) Limited	Cayman Islands	100 %
British Transco Finance (No. 2) Limited	Cayman Islands	100 %
British Transco Finance (No. 3) Limited	England & Wales	100 %
British Transco Finance (No. 5) Limited	England & Wales	100 %
British Transco Finance Inc.	U.S.A. (Delaware)	100 %
British Transco International Finance B.V.	The Netherlands	100 %
C4Gas SAS	France	47.5 %
Joint Radio Company Limited	England & Wales	50 %
National Grid Gas Finance (No 1) plc	England & Wales	100 %
National Grid Metering Limited	England & Wales	100 %
Xoserve Limited	England & Wales	56.57%

Directors

The Directors of National Grid Gas and their principal activities outside the National Grid Gas Group are as follows:

	Delegate al	Below to all Authorities and the Medicard	
Name	Principal Occupation	Principal Activities outside National Grid Gas Group	Business Address
Mark Fairbairn	Director	Executive Director of National Grid plc, Director of National Grid Gas Holdings plc, National Grid Electricity Transmission plc and National Grid UK Limited.	1-3 Strand London WC2N 5EH
Nick Winser	Director	Executive Director of National Grid plc and a director of National Grid Electricity Transmission plc, National Grid UK Limited, Grid America Holdings Inc, and National Grid USA	1-3 Strand London WC2N 5EH
Andrew Chapman	Director	Director of National Grid Electricity Transmission plc, National Grid Interconnectors Limited and NG Leasing Limited.	National Grid House Warwick Technology Park Gallows Hill Warwick CV34 6DA
Malcolm Cooper	Director	Director of National Grid Gas Holdings plc, National Grid Electricity Transmission plc, British Transco Capital Inc., British Transco Finance Inc, National Grid Commercial Holdings Ltd, National Grid Holdings Limited, National Grid Holdings One plc, National Grid (US) Holdings Ltd, National Grid International Limited, Lattice Group plc, National Grid Insurance Company (Isle of Man) Ltd, National Grid Insurance Company (Ireland) Ltd, CLS Holdings plc, ACT (Administration) Ltd, and the Association of Corporate Treasurers	1-3 Strand London WC2N 5EH
Paul Whittaker	Director	Director of National Grid Electricity Transmission plc, Fulcrum Gas Services Ltd. Fulcrum Infrastructure Services Ltd, Fulcrum Pipelines Ltd and Fulcrum Group Holdings Ltd	National Grid House Warwick Technology Park Gallows Hill Warwick CV34 6DA
Adam Wiltshire	Director	Director of National Grid Gas Holdings plc	National Grid House Warwick Technology Park Gallows Hill Warwick CV34 6DA

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

Regulatory Framework

The supply, transportation and shipping of gas in Great Britain are regulated under 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, 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.

As indicated above, each of the gas transportation businesses of National Grid Gas is operated pursuant to the Licences which were granted (or treated as granted) under the Gas Act.

The Gas Act and the Licences oblige National Grid Gas in respect of each of National Grid Gas's businesses of:

- (i) the NTS; and
- (ii) the DNs (taken as a whole),

to develop, maintain and operate an economic and efficient pipeline system for the conveyance of gas in Great Britain. These obligations also require National Grid Gas 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. National Grid Gas must also facilitate competition in the supply of gas in Great Britain.

The Licences set out the responsibilities of each 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 National Grid Gas may derive from its licensed activities (known as the "price controls"). The Licences also require National Grid Gas to conduct each of its transportation businesses in the manner best calculated to secure that neither the NTS/DN (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 Licences can only be amended either in accordance with (i) the procedures contained in the Licences themselves or (ii) the Gas Act. The Licences continue in force until determined by not less than 10 years' notice in writing given by GEMA (such notice not to be served earlier than 22 August 2011) or otherwise revoked in accordance with the terms of the Licences (such as in the event of financial default).

Each of the Licences contains conditions which have the effect of "ring fencing" each of the NTS and DN businesses. These include:

- (i) prohibiting National Grid Gas from carrying on activities other than those permitted by the Licences;
- (ii) requiring that each business has sufficient managerial and financial resources available to it to conduct the relevant licensed activities;
- (iii) requiring National Grid Gas to maintain an investment grade issuer credit rating;
- (iv) prohibiting National Grid Gas 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; and
- (vi) prohibiting either the NTS or the DN business from giving or receiving any cross-subsidy from any other group business.

If National Grid Gas is in default of any of these "ring fence" obligations, it is prohibited from declaring and paying a dividend. In October 2002, GEMA consented to National Grid Gas making loans to its immediate parent company, National Grid Gas Holdings plc. This consent was renewed by GEMA in May 2005. As a result, National Grid Gas Holdings plc is subject to a number of the "ring fencing" conditions of the Licences as if it were itself the holder of those Licences.

The Licences also contain "business separation" conditions requiring National Grid Gas to maintain appropriate managerial and operational independence of the transportation businesses of the NTS and DN from each other in order to ensure that each business complies with the obligations not to confer any

unfair commercial advantage or cross-subsidy on the other. This is backed up by specific requirements on the manner in which the NTS and DN businesses must interact with one another.

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

The level of revenue which each of the NTS and DN transportation business may receive from the supply of gas transportation services is set out in the price control conditions contained in the respective Licences. These are generally set for a period of five years by GEMA, either with the agreement of National Grid Gas or after referral to the Competition Commission. Each price control is set taking account of, among other things, an assessment of National Grid Gas's operating costs, capital expenditure. cost of capital and transportation volumes. Details of the price controls currently applicable to National Grid Gas are given below.

Recent Developments

On June 2005, Ofgem announced that certain aspects of National Grid Gas's metering business were to be investigated by it under the Competition Act 1988. In May 2006, Ofgem issued a statement of objections setting out why it believes National Grid Gas's conduct is in breach of Chapter II of that legislation. National Grid Gas responded to this and a further statement of objections issued by Ofgem in April 2007 maintaining that, in its view, it was not in breach. However, on 25 February 2008, Ofgem announced it had decided National Grid plc breached Chapter II of the Competition Act 1998 and Article 82 of the EC Treaty and fined it £41.6m. National Grid plc has announced it continues to believe it has not breached competition law and intends to appeal Ofgem's decision to the Competition Appeal Tribunal.

The price control arrangements for National Grid Gas's NTS operations put in place in 2002 ceased on 31 March 2007. On 15 January 2007 National Grid Gas accepted in principle Ofgem's final proposals for the price control to apply to its NTS operations covering the period from 1 April 2007 to 31 March 2012. The key elements of these proposals are a 4.4 per cent. post-tax real rate of return on National Grid Gas's regulatory asset value, a £824 million baseline five year capital expenditure allowance (in 2004/5 prices) and a £688 million five year operating expenditure allowance (in 2004/5 prices). The amendments to the licence which applies to its NTS operations required to put these final proposals into effect were implemented in part in April 2007, with the remaining elements implemented on 5 September 2007 with retrospective effect from 1 April 2007.

National Grid Gas has also accepted Ofgem's final proposals for the incentive schemes covering:

- the external costs of its system operation role to apply for one year from 1 April 2007; and
- the internal costs of system operation to apply for the five years from 1 April 2007. (ii)

These proposals have been implemented through licence changes to National Grid Gas's gas transporter licence in respect of its NTS operations.

Ofgem extended the price control applicable to National Grid Gas's DNs originally set in 2002 for a further one year until 31 March 2008. The outcome of that formal review was an increase of 11 per cent. in allowed revenues for 2007/08. In addition, the balance between fixed and variable elements has changed, which will reduce the impact that volume changes, including weather, have on this business in 2007/08.

National Grid Gas has also accepted Ofgem's final proposals for the price control applicable to the DNs for the five years from 1 April 2008. The key elements of these proposals are a 4.94 per cent. post-tax real rate of return on National Grid Gas's regulatory asset value, a £0.6 billion baseline five year capital expenditure allowance (in 2005/6 prices), a £1.8 billion five year operating expenditure allowance (in 2005/6 prices) and £1.8 billion for its mains replacement activities over the five years. National Grid Gas

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is working with Ofgem to agree the changes to its licence applicable to its retained gas distribution business to reflect these proposals which will apply from 1 April 2008.

At Ofgem's request, National Grid Gas has consulted on incentive scheme structures which will apply to its system operation activities from 1 April 2008. Following this consultation process, which ended on 25 January 2008, Ofgem will take into account the results of the consultation in deciding on the final proposals to be put forward, to apply from 1 April 2008.

On 18 January 2008, National Grid Gas accepted Ofgem's final proposals in respect of the prices its LNG storage business may charge for the provision of certain regulated services including the provision of operating margins services. This will permit these prices to increase in line with inflation. National Grid Gas also derives revenues from the provision of gas storage services to gas shippers at its LNG storage sites, but these services are sold by auction and the prices are not regulated.

National Grid plc announced an updated dividend policy on 31 January 2008. Its current dividend policy is to increase dividends per ordinary share by 7 per cent. per annum until 31 March 2008. The board of National Grid plc intends to recommend a new policy with the following two components: (i) for the current financial year a one-off increase of 15 per cent. over last year's full year dividend; and (ii) thereafter a targeted increase of 8 per cent. per annum from this enhanced base until 31 March 2012. This will result in a recommended final dividend for the year ending 31 March 2008 of 21.3 pence per ordinary share and a full year dividend of 33 pence per ordinary share.

DESCRIPTION OF NATIONAL GRID GAS FINANCE (NO 1) plc

Incorporation and Businesses

National Grid Gas Finance (No 1)'s activities are solely those of a finance company. National Grid Gas Finance (No 1) is incorporated in England and Wales.

National Grid Gas Finance (No 1) was incorporated in England and Wales on 3 August 2006 as a public company limited by shares under the Companies Act 1985. The address of National Grid Gas Finance (No 1)'s registered office is 1-3 Strand, London, WC2N 5EH and the telephone number of the registered office is +44 20 7004 3000.

National Grid Gas Finance (No 1) is a wholly owned subsidiary of National Grid Gas, which is wholly owned by National Grid Gas Holdings plc.

Subsidiaries

National Grid Gas Finance (No 1) has no subsidiaries as at the date of this National Grid Gas Finance (No 1) Base Prospectus.

Directors

The Directors of National Grid Gas Finance (No 1) and their principal activities outside National Grid Finance (No 1) are as follows:

Name	Principal Occupation	Principal Activities outside National Grid Gas Finance (No 1)
Malcolm Cooper	Director	Director of National Grid Holdings One plc ("NGH1") and certain other wholly owned subsidiaries of National Grid plc, and Director of ACT (Administration) Limited and director of CLS Holdings plc.
Richard Pettifer	Director	Director of NGH1 and certain other wholly owned subsidiaries of National Grid plc.
Mark Flawn	Director	Director of NG Luxembourg S.A. and certain other wholly owned subsidiaries of National Grid plc.
Alexandra Lewis	Director	Director of NGH1 and certain other wholly owned subsidiaries of National Grid plc.
Steve Noonan	Director	Director of NGH1 and certain other wholly owned subsidiaries of National Grid plc.

The business address of the Directors of National Grid Gas Finance (No 1) is 1-3 Strand, London WC2N 5EH.

There are no potential conflicts of interest between the duties to National Grid Gas Finance (No 1) of each of the Directors listed above and their private interests or other duties.

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DESCRIPTION OF THE GUARANTEE

All Instruments issued by National Grid Gas Finance (No 1) will be guaranteed by the Guarantor upon the terms of the guarantee set out in the Trust Deed (the "Guarantee").

Under Clause 4A.1 of the Trust Deed, the Guarantor unconditionally and irrevocably guarantees that if National Grid Gas Finance (No 1) does not pay any sum payable by it under the Trust Deed, the Instruments, the Receipts or the Coupons by the time and on the date specified for such payment, the Guarantor shall pay that sum to or to the order of the Trustee.

For further information on the Guarantor, please see the section in this Prospectus entitled "Description of National Grid Gas plc".

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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. 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 and should be treated with appropriate caution. 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) UK Withholding Tax on UK Source Interest
- 1. The Instruments issued by an 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 by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange. Instruments to be traded on a recognised stock exchange outside the United Kingdom will be treated as "listed" on a recognised stock exchange if (and only if) they are admitted to trading on that exchange and they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area Member States, in a country outside the United Kingdom in which there is a recognised 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.
- 2. In all cases falling outside the exemption described above, interest on the Instruments may fall to be paid under deduction of United Kingdom income tax at the savings rate (currently 20%) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply. However, this withholding 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 are not issued under arrangements the effect of which is to render such Instruments part of a borrowing with a total term of a year or more.
- (B) Provision of Information

Instrumentholders should note that where any interest on Instruments is paid to them (or to any person acting on their behalf) by the relevant Issuer or any person in the United Kingdom acting on behalf of such Issuer (a "paying agent"), or is received by any person in the United Kingdom acting on behalf of the relevant Instrumentholder (other than solely by clearing or arranging the clearing of a cheque) (a "collecting agent"), then the relevant Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HM Revenue and Customs details of the payment and certain details relating to the Instrumentholder (including the Instrumentholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Instrumentholder is resident in

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the United Kingdom for United Kingdom taxation purposes. In certain circumstances, the details provided to HM Revenue and Customs may be passed by HM Revenue and Customs to the tax authorities of certain other jurisdictions.

Additionally, persons in the United Kingdom paying amounts due on redemption of any Instruments which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to, or receiving such amounts on behalf of, another person, may also be required to comply with the provisions referred to above. However, HM Revenue & Customs published practice indicates that HM Revenue & Customs will not exercise its power to obtain information where such amounts are received on or before 5 April 2008.

Information may also be required to be reported in accordance with regulations made pursuant to the EU Savings Directive (see below).

(C) Payments under the Guarantee

It is possible that payments under the Guarantee in respect of interest on the Instruments (or other amounts due under the Instruments other than repayment of amounts paid for the Instruments) will not be eligible for the exemption from United Kingdom withholding tax described in paragraph (A)1 above. If such payments are not eligible for that exemption, they may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 22 per cent.) subject to such relief as may be available under the provisions of any applicable double tax treaty or any other relief that may apply. For the purposes of paragraph (B) above (Provision of Information) "interest" and "amounts payable on redemption" should be taken, for practical purposes, as including payments made under the Guarantee in respect of interest on the Instruments and amounts payable on redemption respectively.

- 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, but may be subject to reporting requirements as outlined in B above.
- Where Instruments are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then 2. any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as outlined above.
- 3. 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 to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do 4. 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 11.3 of the Instruments and does not consider the tax consequences of any such substitution.

(E) EU Savings Directive

Under EU Council Directive 2003/48/EC on the taxation of savings income, each Member State is required, to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an

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individual resident or certain other persons (referred to in this Directive as "residual entities") established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to or collected by such a person for, an individual resident, or residual entity established, in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident, or residual entity established, in one of those territories.

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PLAN OF DISTRIBUTION

Summary of Agreement

Subject to the terms and on the conditions contained in an Amended and Restated Dealer Agreement dated 26 February 2008 (as amended or supplemented from time to time) between the Issuers, the Guarantor, the Permanent Dealers and the Arranger (the "Dealer Agreement"), the Instruments will be offered on a continuous basis by each of the Issuers to the Permanent Dealers. However, each of the Issuers 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 each of the Issuers through the Dealers, acting as agents of the relevant 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 commissions in respect of an issue of Instruments on a syndicated basis will be stated in the relevant Final Terms. Each of the Issuers has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Instruments.

Selling Restrictions

United States

The Instruments have not been and will not be registered under the United States Securities Act of 1933 as amended (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

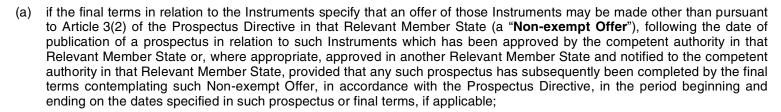
Instruments in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations under it.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver the Instruments of any identifiable Tranche, (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the relevant Issuer, by the Issuing and Paying Agent, or in the case of Instruments issued on a syndicated basis, the Arranger, 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, 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 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:



- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (d) at any time to fewer than 100 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
- (e) at any time if the denomination per Instrument being offered amounts to at least euro 50,000; or
- (f) 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 (b) to (f) 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 in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each 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: and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

Name: NATIONAL GRID

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Japan

The Instruments have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the "Financial Instruments and Exchange Law"). Accordingly, each of the Dealers has represented, warranted and agreed that it has not, directly or indirectly, offer or sell any Instruments in Japan or to, or for the benefit of, any resident 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 Law and other relevant laws and regulations of Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

General

These selling restrictions may be modified by the agreement of the relevant Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Instruments to which it relates or in a supplement to this Prospectus.

No action has been or will be taken in any country or jurisdiction by the relevant Issuers 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 Issuers 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 purchases, offers, sells or delivers Instruments or has in its possession or distributes this Prospectus, any other offering material or any Final Terms and neither the Issuers nor any other Dealer shall have responsibility for such material.

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FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Instruments will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Instruments and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated [•]

[NATIONAL GRID GAS PLC/NATIONAL GRID GAS FINANCE (NO 1) PLC]+

Issue of [Aggregate Nominal Amount of Tranche] [Title of Instruments]
[Guaranteed by National Grid Gas plc]*
under the Euro 10,000,000,000 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 26 February 2008 [and the supplementary Prospectus dated [•]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive"). This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus and the supplementary Prospectuses] [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/en-gb/pricesnews/marketnews.

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") set forth in the Prospectus dated [original date] [and the supplementary Prospectus dated [original date]. This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive") and must be read in conjunction with the Prospectus dated [current date] [and the supplementary Prospectus dated [original date] [and the Supplementary Prospectus dated [original date] and the Supplementary Prospectus dated [original date] and [and the Supplementary Prospectus of the combination of these Final Terms and the Prospectuses dated [original date] and [current date] [and the Supplementary Prospectuses dated [original date] and [original date] 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/en-gb/pricesnews/marketnews.

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs.]

Delete as applicable.

^{*} Only applicable where National Grid Gas Finance (No 1) is the Issuer.

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[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

iuci A	ticie to of the Flospecias Directive.	
1	(i) Issuer:	[National Grid Gas plc/National Grid Gas Finance (No 1)]+
	[(ii) Guarantor:	National Grid Gas plc]*
2	(i) Series Number:	[•]
	[(ii) Tranche Number:	[•]
	(If fungible with an existing Series, details of that Series, including the date on which the Instruments become fungible).]	
3	Specified Currency or Currencies:	[•]
4	Aggregate Nominal Amount:	[•]
	[(i)] Series:	[•]
	[(ii) Tranche:	[•]]
5	Issue Price:	[•] per cent of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
6	Specified Denominations:	[•]¹
		[Note – where multiple denominations above €50,000 (or equivalent) are being used the following sample wording should be followed:
		[
	Calculation Amount	[If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor] [Note: There must be a common factor in the case of two or more Specified Denominations]
7	[(i)] Issue Date:	[•]
	[(ii)] Interest Commencement Date:	[•]
8	Maturity Date:	[specify date or (for Floating Rate Instruments) Interest Payment Date falling in or nearest to the relevant month and year]
9	Interest Basis:	[[●] per cent. Fixed Rate] [[specify reference rate] +/- [●] per cent. Floating Rate] [Zero Coupon]

Delete as applicable.

Only applicable where National Grid Gas Finance (No 1) is the Issuer.

Instruments which have a maturity of less than one year must have a minimum denomination of £100,000 (or it equivalent in other currencies).

11

14

[Index Linked Interest] [Other (specify)]

(further particulars specified below)

10 Redemption/Payment Basis: [Redemption at par]

[Index Linked Redemption]

[Dual Currency] [Partly Paid] [Instalment] [Other (specify)]

Change of Interest or

[Specify details of any provision for convertibility of Redemption/Payment Basis: Instruments into another interest or redemption/ payment

basis

12 Put/Call Options: [Investor Put] [Issuer Call]

[(further particulars specified below)]

13 (i) Status of the Instruments: Senior [(ii)] Status of the Guarantee: Senior]*

Date [Board] approval for issuance of [(iii)]

Instruments [and the Guarantee1* obtained:

Guarantee])] [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15 **Fixed Rate Instrument Provisions**

Method of distribution:

[Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this

[•] (N.B Only relevant where Board (or similar) authorisation

is required for the particular tranche of Instruments[or related

paragraph)

(i) Rate[(s)] of Interest: [•] per cent. per annum [payable [annually/semi-

annually/quarterly/monthly] in arrear]

(ii) Interest Payment Date(s): [●] in each year 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 3.2.4(i)): [30/360 / Actual/Actual (ICMA/ISDA)/Other]

(vi) Determination Dates (Condition 3.2.4(i)): [•] in each year (insert regular interest payment dates,

ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count

Fraction is Actual/Actual (ICMA))

(vii) Other terms relating to the method of calculating Rate interest for Fixed

Instruments:

[Not Applicable/give details]

Only applicable where National Grid Gas Finance (No 1) is the Issuer.

(iii)

6	Floating	Rate	Instrument	Provisions
---	----------	------	------------	-------------------

[Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

(i) Interest Period(s): [•]

(ii) Specified Interest Payment Dates: [•] [ullet]

First Interest Payment Date: **Business Day Convention:** (iv)

[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (give details)]

(v) Business Centre(s) (Condition 3.2.4(i)):

Manner in which the Rate(s) of Interest (vi) is/are to be determined:

[Screen Rate Determination/ISDA Determination/other (give details)]

(vii) Interest Period Date(s): [Not Applicable/specify dates] [•]

Party responsible for calculating the Rate (s) of Interest and Interest Amount(s) (if not the Calculation Agent):

Screen Rate Determination (Condition (ix) 3.2.3(B)):

[•]

Relevant Time:

[[●] [TARGET] Business Days in [specify city] for [specify

currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]]

Primary Source for Floating Rate:

[Specify relevant screen page or "Reference Banks"]

Reference Banks (if Primary Source is "Reference Banks"):

Interest Determination Date(s):

[Specify five]

Relevant Financial Centre:

The financial centre most closely connected to the

Benchmark - specify if not London]

Benchmark:

[LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark]

Representative Amount:

[Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional

Effective Date:

[Specify if quotations are not be obtained with effect from

commencement of Interest Accrual Period

Specified Duration:

[Specify period for quotation if not duration of Interest Accrual Period|

(x) ISDA Determination (Condition 3.2.3(A)):

Floating Rate Option:

Designated Maturity: [•]

Reset Date:

[•]

[•]

17

18

(vi)

(vii)

(viii)

	 ISDA Definitions: (if different from those set out in the Conditions) 	[•]
(xi)	Margin(s):	[+/-][●] per cent. per annum
(xii)	Minimum Rate of Interest:	[•] per cent. per annum
(xiii)	Maximum Rate of Interest:	[•] per cent. per annum
(xiv)	Day Count Fraction (Condition 3.2.4(i)):	[•]
(xv)	Rate Multiplier:	[•]
(xvi)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Instruments, if different from those set out in the Conditions:	[•]
Zero	Coupon Instrument Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
(i)	Amortisation Yield (Condition 5.4):	[•] per cent. per annum
(ii)	Day Count Fraction (Condition 3.2.4(i)):	[•]
(iii)	Any other formula/basis of determining amount payable:	[•]
Inde	x-Linked Interest Instrument	[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)
(i)	Index/Formula:	[give or annex details]
(ii)	Interest Rate:	[•]
(iii)	Party responsible for calculating the Rate (s) of Interest, Interest Amount and Redemption Amount(s) (if not the Calculation Agent):	[•]
(iv)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[•]
(v)	Specified Interest Payment Dates:	[•]

Interest Period(s):

Business Centre(s) (Condition 3.2.4(i)): (x)

First Interest Payment Date:

Business Day Convention:

Maximum Indexation Factor: (xi) [Not Applicable/specify]

 $[\,\bullet\,]$

[ullet]

[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day

Convention/other (give details)]

[Not Applicable/specify]

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- Limited Indexation Month(s) or Period for calculation of Limited Indexation Factor:
- (xiii) Base Index Figure (Condition 4.1):
- (xiv) Day Count Fraction (Condition 3.2.4(i)):
- "Index" or "Index Figure" (Condition 4.1):
- (xvi) Reference Gilt:

19 **Dual Currency Instrument Provisions**

- (i) Rate of Exchange/method of calculating Rate of Exchange:
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due:
- Provisions applicable where calculation by (iii) reference to Rate of Exchange impossible or impracticable:
- at whose option Specified Person Currency(ies) is/are payable:
- Day Count Fraction (Condition 3.2.4(i)): (v)

PROVISIONS RELATING TO REDEMPTION

Call Option* 20

- (i) Optional Redemption Date(s):
- (ii) Optional Redemption Amount(s) of each Instrument and method, any, calculation of such amount(s):
- (iii) If redeemable in part:
 - (a) Minimum nominal amount to be redeemed:
 - Maximum nominal amount to be redeemed:
- Option Exercise Date(s): (iv)
- Notice period (if other than as set out in the Conditions)
- 21 **Put Option**

[•] per cent. per annum

[•] [•]

> Sub-paragraph [(i)/(ii) (iii)] of the definition of "Index" or "Index Figure" as set out in Condition 4.1 shall apply

[•]

[Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

[give details]

[•]

- [•]
- [•]

[•]

[Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

[•] per Calculation Amount

[•] per Calculation Amount

[•] per Calculation Amount

[•]

[•]

[Applicable/Not Applicable]

(If not applicable, delete the remaining sub-

[[]This does not include the tax call in Condition 5.2].

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> (i) Optional Redemption Date(s):

(ii) Optional Redemption Amount(s) of each Instrument and method, if any, of calculation of such amount(s):

- (iii) Option Exercise Date(s):
- Notice period (if other than as set out in the (iv) Conditions)
- Option Period (v)

22 **Final Redemption Amount of each Instrument**

In cases where the Final Redemption Amount is Index-Linked:

- (i) Index/Formula:
- Party responsible for calculating the Final (ii) Redemption Amount (if not the Calculation Agent):
- **Provisions** (iii) for determining Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:
- (iv) Determination Date(s):
- **Provisions** (v) for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible impracticable or otherwise disrupted:
- (vi) Payment Date:
- (vii) Minimum Final Redemption Amount:
- (viii) Maximum Final Redemption Amount:

23 **Early Redemption Amount**

- Early Redemption Amount(s) of each (i) Instrument payable on redemption for taxation reasons (Condition 5.2) or on Event of Default (Condition 9) or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):
- Redemption for taxation reasons permitted (ii) on days other than Interest Payment Dates (Condition 5.2)

paragraphs of this paragraph)

- [•] per Calculation Amount
- [•]
- [ullet]
- [•]
- [[•] per Calculation Amount/other/see Appendix]

[give or annex details]

- [•]
- [•]
- [ullet]
- [•]
- [ullet]
- [•] per Calculation Amount
- [•] per Calculation Amount

[•]

[Yes/No]

iii) Unmatured Coupons to become void upon early redemption (Condition 6.5)

[Yes/No/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

24 Form of Instruments:

Bearer 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]

(The exchange upon notice/at any time option should not be expressed to be applicable if the Specified Denomination of the Instruments in paragraph 6 includes language substantially to the following effect "[\in 50,000] and integral multiples of [\in 1,000] in excess thereof up to and including [\in 99,000]".)

New Global Note intended to be held in a manner which would allow Eurosystem eligibility:

[Not Applicable¹/Yes]

[Note that the designation "Yes" simply means that the Instruments are intended upon issue to be deposited with Euroclear or Clearstream, Luxembourg 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 satisfaction of the Eurosystem eligibility criteria.] [Include this text if "Yes" selected in which case the Instruments must be issued in NGN form]

- 25 Financial Centre(s) or other special provisions relating to Payment Dates (Condition 6.6):
- Talons for future Coupons or Receipts to be attached to Definitive Instruments (and dates on which such Talons mature):
- 27 Details relating to Partly Paid Instruments: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer[or the

[Not Applicable/give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items 16(iv) and 18(x) relate]

[Yes/No. If yes, give details]

[Not Applicable/give details]

Specify "Not Applicable" if the Notes being issued are Classic Global Notes/CGNs.

Guarantor] to forfeit the Instruments and interest due on late payment:

28 Details relating to Instalment Instruments:

Amount of each instalment:

Date on which each payment is to be

made:

Maximum Instalment Amount:

Minimum Instalment Amount:

29 Redenomination, renominalisation and reconventioning provisions:

Consolidation provisions: 30

Other final terms: 31

[Not Applicable/give details]

[•]

[•]

[•]

[Not Applicable/give details]

[Not Applicable/give details]

[Not Applicable/give details]

[(When adding any other final terms consideration should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

DISTRIBUTION

32 (i) If syndicated, names of Managers: [Not Applicable/give names] [Not Applicable/give name(s)] (ii) Stabilising Manager(s) (if any): 33 If non-syndicated, name of Dealer: [Not Applicable/give name]

Reg. S Compliance Category 2; [TEFRA C] / [TEFRA D] / 34 **U.S Selling Restrictions**

[TEFRA not applicable]

[Not Applicable/give details] 35 Additional selling restrictions:

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the [specify relevant regulated market] of the Instruments described herein pursuant to the Euro Medium Term Note Programme of National Grid Gas plc and National Grid Gas Finance (No 1) plc.]

RESPONSIBILITY

[Each of the]*/[The] Issuer[and the Guarantor]* accept[s] responsibility for the information contained in these Final Terms. [[•] has been extracted from [●]. [Each of the]*/[The] Issuer[and the Guarantor]* confirm[s] that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Sigr	ned on behalf of the Issuer:
Ву:	
	Duly authorised

Only applicable where National Grid Gas Finance (No 1) is the Issuer.

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

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[Sig	ned on behalf of the Guarantor:
Ву:	
	Duly authorised]*

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PART B - OTHER INFORMATION*

1	LISTING
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[London/other (specify)/None] (i) Listing:

(ii) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Instruments to be admitted to trading on [•] 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 [•] with

effect from [•].] [Not Applicable.]

(iii) Estimate of total expenses related to admission to

trading:

RATINGS 2

> The Instruments to be issued have been rated: Ratings:

> > [S & P: [•]] [Moody's: [●]] [[Fitch: [•]] [[Other]: [•]]

(The above disclosure should reflect the rating allocated to Instruments of the type being issued under the Programme generally or, where the issue has been specifically rated, that

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

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

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

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

Reasons for the offer [•]

[(ii)] Estimated net proceeds: [ullet]

> (If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other

funding.)

[(iii)] Estimated total expenses: [•] [Include breakdown of expenses.]

If an issue of Instruments is (i) NOT admitted to trading on a regulated market within the European Economic Area and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the Issuer may elect to amend and/or delete certain of the above paragraphs of Part B.

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> (Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]

5 [Fixed Rate Instruments only - YIELD

Indication of yield:

[•] The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

- PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER [Index-Linked Instruments only INFORMATION CONCERNING THE UNDERLYING

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]

[The Issuer [does not] intend to provide post issuance information]

[Dual Currency Instruments only - PERFORMANCE OF RATE[S] OF EXCHANGE

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]

OPERATIONAL INFORMATION

ISIN Code: [•] Common Code: [•]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société

anonyme and the identification number(s):

[Not Applicable/give name(s) and number(s)]

Delivery [against/free of] payment Delivery:

Names and addresses of initial Paying Agent(s): [•] Names and addresses of additional Paying Agent(s) [•]

(if any):

GENERAL

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

Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 11.1:

[Not Applicable/[[Euro]][●]]

[Not Applicable/give details]

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GENERAL INFORMATION

(1) The admission of the Programme to listing on the Official List and to trading on the Market is expected to take effect on or about 29 February 2008. The listing of the Instruments on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). Any Tranche of Instruments intended to be admitted to listing on the Official List and admitted to trading on the Market will be so admitted to listing and trading upon submission to the UK 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 UK 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 in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

However, Instruments may be issued pursuant to the Programme which will not be admitted to listing, trading and/or quotation by the UK Listing Authority or the Market or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing, trading and/or quotation by such listing authority, stock exchange and/or quotation system as the relevant Issuer and the relevant Dealer(s) may agree.

- (2) National Grid Gas has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the issue and performance of the Instruments.
- (3) National Grid Gas Finance (No 1) has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the issue and performance of the Instruments.
- (4) The establishment of the Programme was authorised by a resolution of the Finance Committee of the Board of Directors of National Grid Gas passed on 17 July 2003. The update of the Programme was authorised by a resolution of the Finance Committee of the Board of Directors of National Grid Gas passed on 25 April 2005. The guarantee of the Instruments issued by National Grid Gas Finance (No 1) was authorised by a resolution of the Finance Committee of the Board of Directors of National Grid Gas passed on 31 July 2006.
- (5) The update of the Programme was authorised by a resolution of the Board of Directors of National Grid Gas Finance (No 1) passed on 18 August 2006.
- (6) 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.
- (7) Save as disclosed in the first paragraph under the heading "Description of National Grid Gas plc Recent Developments" on page 57, there are no, nor have there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which National Grid Gas 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 National Grid Gas or of the National Grid Gas Group.
- (8) There are no, nor have there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which National Grid Gas Finance (No 1) is aware) during the 12 months preceding the date of this Prospectus which may have, or have

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Name: NATIONAL GRID

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Description: EXH 2(B).7.1

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had in the recent past a significant effect on the financial position or profitability of National Grid Gas Finance (No 1).

- (9) Save as disclosed in the section entitled "Description of National Grid Gas plc Recent Developments" on page 57, there has been no significant change in the financial or trading position of the National Grid Gas Group since 31 March 2007.
- (10) There has been no material adverse change in the prospects of National Grid Gas or the National Grid Gas Group since 31 March 2007.
- (11) There has been no significant change in the financial or trading position and no material adverse change in the prospects of National Grid Gas Finance (No 1) since its incorporation on 3 August 2006.
- (12) PricewaterhouseCoopers LLP (chartered accountants and registered auditors authorised and regulated by the Financial Services Authority) has audited the financial statements of the National Grid Gas Group for the years ended 31 March 2006 and 31 March 2007, in accordance with United Kingdom generally accepted auditing standards and reported thereon, respectively, without qualification.
- (13) Each Instrument, Receipt, 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".
- (14) 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, 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 National Grid Gas;
 - (iii) the Memorandum and Articles of Association of National Grid Gas Finance (No 1);
 - (iv) the audited consolidated financial statements of National Grid Gas for the years ended 31 March 2006 and 31 March 2007, together with the audit report thereon; and
 - (v) the amended and restated Trust Deed dated 26 February 2008 which incorporates the Guarantee.

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, 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/en-gb/pricesnews/marketnews.

(15) The Issuers do not intend to provide any post-issuance information.

REGISTERED OFFICE OF THE ISSUERS AND THE GUARANTOR

1-3 Strand London WC2N 5EH

THE TRUSTEE

The Law Debenture Trust Corporation p.l.c.

Fifth Floor 100 Wood Street London EC2V 7EX

THE ARRANGER

HSBC Bank plc 8 Canada Square London E14 5HQ

THE DEALERS

Barclays Bank PLC 5 The North Colonnade Canary Wharf London E14 4BB

> **HSBC Bank plc** 8 Canada Square London E14 5HQ

Mizuho International plc Bracken House One Friday Street London EC4M 9JA

Deutsche Bank AG, London Branch

Winchester House 1 Great Winchester Street London EC2N 2DB

J.P. Morgan Securities Ltd. 125 London Wall London EC2Y 5AJ

The Royal Bank of Scotland plc 135 Bishopsgate London EC2M 3UR

LEGAL ADVISERS

To the Issuers

Linklaters LLP One Silk Street London EC2Y 8HQ To the Dealers and to the Trustee

Clifford Chance LLP 10 Upper Bank Street London E14 5JJ

ISSUING AND PAYING AGENT

The Bank of New York One Canada Square London E14 5AL

PAYING AGENTS

Kredietbank S. A. Luxembourgeoise 43, Boulevard Royal L-2955 Luxembourg

REGISTERED AUDITORS TO NATIONAL GRID GAS PLC

PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

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BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

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EXHIBIT 4(c).8

Execution Copy

Dated October 26, 2007

NATIONAL GRID PLC, **NATIONAL GRID USA** and MR. ROBERT B. CATELL

FIXED TERM EMPLOYMENT AGREEMENT

This Fixed Term Employment Agreement (this "Agreement") is made on October ____, 2007 among:

- (1) National Grid plc incorporated in the UK with registered number 04031152 whose registered office is at 1-3 The Strand, London WC2N 5EH (the "Parent");
- (2) National Grid USA, a wholly-owned subsidiary of the Parent (the "Company"), and
- (3) Robert B. Catell (the "Executive").

This Agreement records the terms on which the Executive will serve the Parent and the Company following the KeySpan Merger Date.

1 Interpretation

In this Agreement (and any schedules to it):

1.1 Definitions

"Board" means the board of directors of the Parent from time to time or any person or committee nominated by the board of directors as its representative for the purposes of this Agreement;

"Employment" means the employment governed by this Agreement;

"Group" means the Parent, its ultimate holding company from time to time and the Parent's associates (as defined in section 435 of the Insolvency Act 1986) from time to time;

"Group Company" means a member of the Group and "Group Companies" will be interpreted accordingly;

"holding company" has the meaning given in section 736 of the Companies Act 1985;

"KeySpan Merger Date" means August 24, 2007; and

"Listing Rules" means the listing rules made by the Financial Services Authority in exercise of its functions as competent authority pursuant to Part VI of the Financial Services and Markets Act 2000.

2 Term of Employment

2.1 The Employment will start on October ____, 2007 (the "Commencement Date") and end on the earlier of the second anniversary of the KeySpan Merger Date or the effective date of early termination of the Employment in accordance with the provisions of this Agreement.

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2.2 The Executive represents and warrants to the Company that he is not prevented from taking up the Employment or from performing his duties in accordance with the terms of this Agreement by any obligation or duty owed to any other party, whether contractual or otherwise.

3 **Appointment and Duties of the Executive**

- The Executive will serve the Company as Chairman of National Grid USA from the Commencement Date or in any 3.1 other executive capacity as the Executive and the Company may agree from time to time.
- 3.2 As soon as practicable following the Commencement Date, the Parent shall appoint the Executive as, and Executive agrees to serve as, an Executive Director of the Parent (it being understood that the Executive's continuing service as an Executive Director is subject to the vote of the Parent's shareholders at the applicable annual general meeting).
- 3.3 The Executive will:
 - 3.3.1 devote the whole of his business time, attention and skill to the Employment;
 - 3.3.2 properly perform his duties and exercise his powers, as described under Exhibit A hereto;
 - 3.3.3 accept any offices or directorships as reasonably required by the Board;
 - 3.3.4 comply with all rules and regulations issued by the Company;
 - obey the reasonable and lawful directions of the Board; and 3.3.5
 - 3.3.6 use his best endeavors to promote the interests and reputation of every Group Company.
- 3.4 The Executive accepts that with his consent (which he will not unreasonably withhold or delay):
 - 3.4.1 the Company or the Parent may require him to perform duties for any other Group Company whether for the whole or part of his working time. In performing those duties clause 3.3.4 will apply as if references to the Company are to the appropriate Group Company. The Company will remain responsible for the payments and benefits he is entitled to receive under this Agreement (however, the actual payments and benefits may be delivered by any Group Company); and
 - the Company may transfer the Employment to any other Group Company. 3.4.2

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- 3.5 The Executive will keep the Board (and, where appropriate, the board of directors of any other Group Company) fully informed of his conduct of the business, finances or affairs of the Company or any other Group Company in a prompt and timely manner. He will provide information to the Board in writing if requested.
- The Executive will promptly disclose to the Board full details of any wrongdoing by any employee of any Group 3.6 Company where that wrongdoing is material to that employee's employment by the relevant Group Company or to the interests or reputation of any Group Company.
- Subject to applicable law, at any time during the Employment the Company may require the Executive to undergo a 3.7 medical examination by a medical practitioner appointed by the Company and reasonably acceptable to the Executive. The Executive authorizes that medical practitioner to disclose to the Company any report or test results prepared or obtained as a result of that examination and to discuss with it any matters arising out of the examination which are relevant to the Employment or which might prevent the Executive properly performing the duties of the Employment.

4 **Hours**

4.1 The Executive will comply with the Company's normal hours of work and will also work any additional hours which may be reasonably necessary to perform his duties to the satisfaction of the Board. He will not receive any further remuneration for any hours worked in addition to the normal working hours.

5 Interests of the Executive

- 5.1 The Executive will disclose promptly in writing to the Board all his interests (for example, shareholdings or directorships) in any businesses whether or not of a commercial or business nature except his interests in any Group Company.
- Subject to clause 5.3, during the Employment the Executive will not be directly or indirectly engaged or concerned in the 5.2 conduct of any activity which is similar to or competes with any activity carried on by any Group Company (except as a representative of the Company or with the written consent of the Board).
- 5.3 The Executive may not hold or be interested in investments which amount to more than three percent of the issued investments of any class of any one company, whether or not those investments are listed or quoted on any

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recognized Stock Exchange or dealt in on the Alternative Investments Market.

5.4 The Executive will (and will ensure that his spouse and dependent children) comply with all rules of law, including Part V of the Criminal Justice Act 1993, the Model Code as set out in the annex to Chapter 9 of the Listing Rules as amended from time to time and rules or policies applicable to the Group Company from time to time in relation to the holding or trading of securities.

6 Location

The Executive will work primarily at the New York Metropolitan area office of the Company. He will be required to travel 6.1 and work outside the United States from time to time but unless otherwise agreed with the Board will not be required to live outside the New York Metropolitan area.

7 Base Salary and Benefits; Buyout of KeySpan Severance Benefits

- The Company will pay the Executive an annual base salary of \$1,220,000. Base salary will accrue from day to day and 7.1 will be paid in accordance with the Company's payroll practices as they exist from time to time. Salary will be reviewed annually, normally commencing in June of each year. The first review will take place in June 2008.
- The salary referred to in clause 7.1 will be inclusive of any remuneration or fees which the Executive is or becomes 7.2 entitled to as an office holder in the Company or any Group Company or any other company in which the Executive becomes an office holder as part of or in connection with his duties under this Agreement. To achieve this:
 - 7.2.1 the Executive will repay any fees he receives to the Company; or
 - 7.2.2 his base salary will be reduced by the amount of those fees; or
 - 7.2.3 a combination of the methods set out in clauses 7.2.1 and 7.2.2 will be applied.
- 7.3 The Executive may, at the discretion of the Remuneration Committee of the Board, be invited to participate in any bonus plan operated by the Company from time to time. If so invited, the Executive's participation in such bonus plan and the amount (if any) payable under it will be at the discretion of the Remuneration Committee and/or in accordance with the rules of that plan from time to time in force. Participation in a bonus plan for one year does not entitle the Executive to participation in any bonus plan for any other year.

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7.4 The Executive is entitled to paid vacation each year in accordance with the Company's vacation policy for similarly situated senior executives (but in no event less than 25 days annually).

- The Executive shall be eligible to participate in employee benefit and welfare plans, including plans providing retirement 7.5 benefits, medical, dental, hospitalization, life or disability insurance, on the same basis as provided to similarly situated senior executives of the Parent (except as determined by the Remuneration Committee of the Board and/or except to the extent such participation would result in duplication of benefits by reason of the Executive's participation in similar KeySpan Corporation arrangements). For purposes of this Agreement, "employee benefit and welfare plans" do not include any severance, termination or redundancy plan, program or arrangement operated by any member of the Group.
- 7.6 The Company recognizes that the Executive presently has the right to terminate employment by reason of "Good Reason" under the terms of that certain Employment Agreement dated as of February 24, 2005 between KeySpan Corporation and the Executive as amended August 2, 2007 (the "KeySpan Employment Agreement"), and receive severance payments and benefits under the KeySpan Employment Agreement. In order to incentivize the Executive to continue in the employ of the Company during the critical transition period following the KeySpan Merger Date, the parties hereby agree to the following:
 - On January 10, 2008 (the "Payment Date"), the Company will pay the Executive the amount(s) and 7.6.1 benefit(s) (the "Buyout Amount") set forth on Schedule A of this Agreement, provided that the Executive has not been terminated for "Cause" (as defined in the KeySpan Employment Agreement except that reference to "laws of the United States" in section 4(b)(i) thereof is hereby amended to state "laws of the United States or the United Kingdom" and references to "Company" and "Board" in sections 4(b)(i), (ii) and (iii) are hereby amended to mean "National Grid plc" and the "Board of Directors of National Grid plc," respectively) prior to then. However, should the Executive die before the Payment Date, the Buyout Amount will be paid to the Executive's estate within 30 days after his death (but not prior to January 1, 2008). The Company's obligation to pay the Buyout Amount to the Executive pursuant to this clause 7.6.1 shall not be subject to the Executive's continued employment with the Company or any other conditions (other than clause 7.6.2(v)).

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- 7.6.2 The Executive agrees that (i) the Buyout Amount represents the Executive's full entitlement under the KeySpan Employment Agreement and, when paid, will represent full settlement of his severance rights under the KeySpan Employment Agreement, other than his rights under Section 9 of the KeySpan Employment Agreement (relating to certain excise tax gross-up payments), his rights to retirement benefits set forth in Appendix A of the KeySpan Employment Agreement and certain other rights and benefits referenced in Schedule B of this Agreement, (ii) from the Commencement Date, the Executive will not have any new or prospective rights or entitlements under the KeySpan Employment Agreement, (iii) no new "Protection Period" (as defined in the KeySpan Employment Agreement) will be triggered following the KeySpan Merger Date; (iv) the certified public accounting firm under Section 9 of the KeySpan Employment Agreement shall be the Parent's auditors, or such other certified public accounting firm of national standing selected by the Company, but subject to the Executive's approval (which approval shall not be unreasonably withheld); and (v) the Executive must execute and deliver an effective general release in the form attached as Exhibit B to this Agreement as a condition to receiving the Buyout Amount.
- 7.7 For the avoidance of doubt, from and after the date of this Agreement, and notwithstanding the settlement of certain rights of the Executive under the KeySpan Employment Agreement as set forth in clause 7.6, the Executive will continue to participate in, and will retain any applicable vested rights under, the applicable arrangements pursuant to clause 7.5 as well as the KeySpan Corporation arrangements referenced in Schedule B to this Agreement.

8 **Expenses**

8.1 The Company will refund to the Executive all reasonable business expenses properly incurred by him in performing his duties under this Agreement, provided that these are incurred in accordance with Company policy from time to time. The Company will require the Executive to produce receipts or other documents as proof that he has incurred any expenses he claims.

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8.2 If the Executive is provided with a credit or charge card by the Company this must only be used for expenses which he incurs in performing the duties of the Employment.

Confidentiality 9

9.1 Without prejudice to the common law duties which he owes to the Group the Executive agrees that he will not, except in the proper performance of his duties, copy, use or disclose to any person any of the Group's trade secrets or confidential information. This restriction will continue to apply after the termination of the Employment without limit in time but will not apply to trade secrets or confidential information which become public other than through unauthorized disclosure by the Executive. The Executive will use his best endeavors to prevent the unauthorized copying, use or disclosure of such information.

> For the purposes of this Agreement, trade secrets and confidential information include but will not be limited to technical data, know-how, information technology and know-how relating to the Group, customer lists, pricing information, information relating to the Group's marketing and financial strategies, marketing materials, financial information and any other information concerning the affairs of the Group or the personnel of the Group which is for the time being confidential, which the Executive is told is confidential or which by its nature is obviously confidential and whether such information is in written, oral, visual, electronic or any other form.

- 9.2 In the course of the Employment the Executive is likely to obtain trade secrets and confidential information belonging or relating to other Group Companies and other persons. He will treat such information as if it falls within the terms of clause 9.1 and clause 9.1 will apply with any necessary amendments to such information. If requested to do so by the Company the Executive will enter into an agreement with other Group Companies and any other persons in the same terms as clause 9.1 with any amendments necessary to give effect to this provision.
- 9.3 Nothing in this Agreement should or will prevent the Executive from raising any concerns in accordance with the provisions of the National Grid Standards of Ethical Business Conduct and the Requirement for Written Codes of Ethics for Employees (incorporating Whistleblowing Protection).

10 Intellectual Property

The Executive must disclose immediately to the Company any discovery or invention, secret process or improvement in 10.1 procedure made or discovered

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by the Executive during his employment in connection with or in any way affecting or relating to the business of the Company or any Group Company or capable of being used or adapted for use in or in connection with any such company ("Inventions") which Inventions will belong to and be the absolute property of the Company or such other person, firm, company or organization as the Company may require.

- 10.2 If requested by the Board (whether during or after the termination of his employment) the Executive will at the expense of the Company apply or join in applying for letters patent or other similar protection in the United States, the United Kingdom or any other part of the world for all Inventions and will do everything necessary (including executing documents) for vesting letters patent or other similar protection when obtained and all right and title to and interest in all Inventions in the Company absolutely and as sole beneficial owner or in such other person, firm, company or organization as the Company may require.
- 10.3 The Executive will (both during and after the termination of his employment) at the Company's expense anywhere in the world and at any time promptly do everything (including executing documents) that may be reasonably required by the Board to defend or protect for the benefit of the Company all Inventions and the right and title of the Company to them.
- 10.4 The entire copyright and all similar rights (including future copyright, the right to register trade marks or service marks and the right to register designs and design rights) throughout the world in works of any description produced by the Executive in the course of or in connection with his employment ("Works") will vest in and belong to the Company absolutely throughout the world for the full periods of protection available in law including all renewals and extensions.
- 10.5 The Executive will (both during and after the termination of his employment) at the Company's request and expense anywhere in the world and at any time promptly do everything (including executing documents) that may be reasonably required by the Board to assure, define or protect the rights of the Company in all Works.
- 10.6 The Executive will not make copies of any computer files belonging to any Group Company or their service providers and will not introduce any of his own computer files into any computer used by any Group Company in breach of any Group Company policy, unless he has obtained the consent of the Board.
- 10.7 By entering into this Agreement the Executive irrevocably appoints the Company to act on his behalf to execute any document and do anything in

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his name for the purpose of giving the Company (or its nominee) the full benefit of the provision of clause 10 or the Company's entitlement under statute. If there is any doubt as to whether such a document (or other thing) has been carried out within the authority conferred by this clause 10.7, a certificate in writing (signed by any director or the secretary of the Company) will be sufficient to prove that the act or thing falls within that authority.

11 **Termination and Suspension**

- The Employment will continue until the second anniversary of the KeySpan Merger Date unless terminated earlier by 11.1 (a) the mutual written agreement of the Executive and the Company or (b) either party giving written notice as set out in clause 11.2, 11.4 or 11.5.
- Until the first anniversary of the KeySpan Merger Date, either party may terminate the Employment by giving not less 11.2 than 12 months' written notice to the other. After the first anniversary of the KeySpan Merger Date either party may terminate the Employment by giving written notice equal to the number of days that is one day less than the total number of days remaining until the second anniversary of the KeySpan Merger Date.
- The Company may at its sole and absolute discretion pay base salary alone (as referred to in clause 7.1, at the rate in 11.3 force at the time such payment is made) in lieu of any unexpired period of notice (less any deductions the Company is required by law to make) specified in clause 11.2. Notwithstanding the preceding sentence, in the event the Company determines to make a payment in lieu of notice in connection with a notice of termination (pursuant to clause 11.2) that is given prior to the Payment Date of the Buyout Amount, the payment in lieu of notice period shall not exceed the applicable unexpired period of notice between the date of the notice of termination and the Payment Date of the Buyout Amount. Any payment by the Company in lieu of any unexpired period of notice will be made as soon as practicable and, in any event, completed within 2.5 months following the later of the end of the calendar year or the Company fiscal year that occurs immediately following initial notice under clause 11.2. The Executive is not entitled to participate in or benefit from any severance, termination or redundancy plan, program or arrangement maintained by any Group Company; for the avoidance of doubt, this is notwithstanding anything to the contrary that may be contained in such severance, termination or redundancy plan, program or arrangement.
- The Company may terminate the Employment by giving written notice to take immediate effect whether or not the 11.4 Executive's entitlement to sick pay,

contractual or otherwise, has been exhausted if the Executive does not perform the duties of the Employment for a

period of 180 days (whether or not consecutive). This notice can be given whilst the Executive continues not to perform his duties or on expiration of the 180 day period. In this clause, 'days' includes Saturdays, Sundays and public holidays.

- 11.5 The Company may terminate the Employment by giving written notice to take immediate effect if the Executive:
 - 11.5.1 has not performed his duties under this Agreement to the standard required by the Board; or
 - 11.5.2 commits any serious or persistent breach of his obligations under this Agreement; or
 - 11.5.3 does not comply with any term of this Agreement; or
 - 11.5.4 does not comply with any lawful order or direction given to him by the Board; or
 - is guilty of any gross misconduct or conducts himself (whether in connection with the Employment or not) in a 11.5.5 way which is harmful to any Group Company; or
 - 11.5.6 is guilty of dishonesty or is convicted of an offense (other than a motoring offence which does not result in imprisonment) whether in connection with the Employment or not; or
 - 11.5.7 commits (or is reasonably believed by the Board to have committed) a breach of any legislation in force which may affect or relate to the business of any Group Company; or
 - 11.5.8 becomes of unsound mind, is bankrupted or has a receiving order made against him or makes any general composition with his creditors or takes advantage of any statute affording relief for insolvent debtors; or
 - 11.5.9 becomes disqualified from being a director of a company or the Executive's directorship of the Parent terminates without the consent or concurrence of the Parent; or
 - 11.5.10 fails to maintain or becomes disqualified from maintaining registration with any regulatory body, membership of which is reasonably required by the Company for the Executive to carry out his duties.
- 11.6 Where the Company terminates the Employment by giving written notice to take immediate effect in accordance with either clause 11.4 or 11.5 (or in the event of the Executive's and the Company's mutual written agreement

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to terminate the Employment or in the case of the Executive's death), for the avoidance of doubt there is no obligation to give notice as set out in clause 11.1 or any other period of notice or to make any payment in lieu of notice.

- 11.7 The Executive will have no claim for damages or any other remedy against the Company if the Employment is terminated for any of the reasons set out in clause 11.4 or 11.5.
- When the Employment terminates the Company may deduct from any money due to the Executive (including 11.8 remuneration) any amount which he owes to any Group Company.
- 11.9 The Company may suspend the Executive from the Employment on full base salary at any time, and for any reason for a reasonable period to investigate any matter in which the Executive is implicated or involved (whether directly or indirectly) and to conduct any related disciplinary proceedings and such suspension shall not entitle the Executive to claim that he has been constructively dismissed.
- As a condition to making the payments and providing the benefits stated in this clause 11 (or in clause 12.5 below), the Company may require the Executive to execute and deliver a general release in which he (i) releases all claims that he may have in respect of his employment against any Group Company and any of their respective past or present officers, directors or employees other than his rights under this Agreement or another agreement into which he and the Company subsequently enter and (ii) covenants that he has not filed and will not file any civil action, suit, arbitration, administrative charge, or legal proceeding against any of the released parties in respect of the released claims.
- Unless the Group waives this requirement, the termination of the Employment for any reason will constitute the 11.11 Executive's resignation from (1) any director, officer or employee position he then has with any Group Company and (2) all fiduciary positions (including as trustee) he holds with respect to any pension plans or trusts established by any Group Company. The Executive agrees that this Agreement will serve as his written notice of resignation in this circumstance.

12 **Garden Leave**

Neither the Company nor any Group Company is under any obligation to provide the Executive with any work. At any 12.1 time after notice to terminate the Employment is given by either party under clause 11 above, or if the Executive resigns without giving due notice and the Company does not

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accept his resignation, the Company may, at its absolute discretion, require the Executive to take a period of absence called "garden leave" for a maximum period of time equal to the lesser of (a) 6 months or (b) the number of days until the second anniversary of the KeySpan Merger Date (the "Garden Leave Period"). The provisions of this clause shall apply to any Garden Leave Period.

- The Company may require that the Executive will not, without prior written consent of the Board, be employed or 122 otherwise engaged in the conduct of any activity, whether or not of a business nature during the Garden Leave Period. Further, if so requested by the Company, the Executive will not:
 - 12.2.1 enter or attend the premises of the Company or any other Group Company; or
 - 12.2.2 contact or have any communication with any customer or client of the Company or any other Group Company in relation to the business of the Company or any other Group Company (other than purely social contract); or
 - 12.2.3 contact or have any communication with any employee, officer, director, agent or consultant of the Parent or any other Group Company in relation to the business of the Parent or any other Group Company; or
 - 12.2.4 remain or become involved in any aspect of the business of the Parent or any other Group Company except as required by such companies.
- The Company may require the Executive: 12.3
 - 12.3.1 to comply with the provisions of clause 15; and
 - 12.3.2 to immediately resign from any directorship, trusteeships or other offices which he holds in the Parent, any other Group Company or any other company where such directorship or other office is held as a consequence or requirement of the Employment, unless he is required to perform duties to which any such directorship, trusteeship or other office relates in which case he may retain such directorships, trusteeships or other offices while those duties are ongoing. The Executive hereby irrevocably appoints the Company to be his attorney to execute any instrument and do anything in his name and on his behalf to effect his resignation if he fails to do so in accordance with this clause 12.3.2.
- During the Garden Leave Period, the Executive will be entitled to receive his base salary and all contractual benefits 12.4 (excluding bonuses) in

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accordance with the terms of this Agreement. Any unused vacation accrued at the commencement of the Garden Leave Period and any vacation accrued during any such period will be deemed to be taken by the Executive during the Garden Leave Period.

- 12.5 At the end of or at any time during the Garden Leave Period, the Company may, at it sole and absolute discretion, pay the Executive base salary alone (as defined in clause 7.1) in lieu of the balance of any period of notice given by the Company or the Executive (less any deductions the Company is required by law to make). In any event, and in accordance with clause 11.3, the Company's payment in lieu of the unexpired period of notice, as well as payment of any base salary attributable to the Garden Leave Period, will be completed within 2.5 months following the later of the end of the calendar year or the Company fiscal year that occurs immediately following initial notice under clause 11.2.
- 12.6 During the Garden Leave Period:
 - the Executive shall provide such assistance as the Company or any Group Company may reasonably require to effect an orderly handover of his responsibilities to any individual or individuals appointed by the Company or any Group Company to take over his role or responsibilities;
 - 12.6.2 the Executive shall make himself reasonably available to deal with requests for information, provide assistance, be available for meetings and to advise on matters relating to work (unless the Company has agreed the Executive may be unavailable for a period); and
 - 12.6.3 the Company may appoint another person to carry out his duties in substitution for the Executive.
- All duties of the Employment (whether express or implied), including without limitation the Executive's duties of fidelity, 12.7 good faith and exclusive service, shall continue throughout the Garden Leave Period save as expressly varied by this clause 12.
- The Executive agrees that the exercise by the Company of its rights pursuant to this clause 12 shall not entitle the 12.8 Executive to claim that he has been constructively dismissed.
- 13 **Restrictions after Termination of Employment**
- 13.1 In this clause:

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"Prohibited Area" means the United States and any other country in the world in which the Company or any Group Company has material business interests in the period of 12 months ending on the Relevant Date;

"Relevant Date" means the Termination Date or, if earlier, the date on which the Executive commences any Garden Leave Period;

"Restricted Period" means the period of 12 months (less any Garden Leave Period) commencing on the Termination

"Significant Customer" means any party with respect to whom the Company or any Group Company derives, or expects to derive, revenue which represents 1% or more of the revenue of the Group for the applicable fiscal year; and

"Termination Date" means the Executive's last date of employment with the Group.

- 13.2 The Executive is likely to obtain trade secrets and confidential information and personal knowledge of and influence over customers, clients and employees of the Group during the course of the Employment. To protect these interests of the Company, the Executive agrees with the Company that he will be bound by the following covenants:
 - 13.2.1 during the Restricted Period and within the Prohibited Area he will not be employed in, or carry on for his own account or for any other person, whether directly or indirectly, (or be a director of any company engaged in) any business which, by virtue of its location or otherwise, is or is about to be in competition with any business of the Company or any other Group Company being carried on by such company at the Relevant Date provided he was concerned or involved with that business to a material extent at any time during the 12 months prior to the Relevant Date;
 - 13.2.2 during the Restricted Period he will not (either on his own behalf or for or with any other person, whether directly or indirectly) canvass or solicit in competition with the Company or any other Group Company or deal with or otherwise accept in competition with the Company or any Group Company the business of any customer which is or is about to become a Significant Customer at the Relevant Date; and
 - 13.2.3 during the Restricted Period he will not (either on his own behalf or for or with any other person, whether directly or indirectly), entice or try to entice away from the Company or any other Group Company any person who was senior employee, director, officer, agent, senior consultant or senior associate of such a company at the Termination

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Date and who had been senior employee, director, officer, agent, senior consultant or senior associate at any time during the six months prior to the Relevant Date and with whom he had worked closely at any time during

- 13.3 Each of the paragraphs contained in clause 13.2 constitutes an entirely separate and independent covenant. If any covenant is found to be invalid this will not affect the validity or enforceability of any of the other covenants.
- Following the Termination Date, the Executive will not represent himself as being in any way connected with the 13.4 businesses of the Company or of any other Group Company (except to the extent agreed by such a company).
- Any benefit given or deemed to be given by the Executive to any Group Company under the terms of clause 13 is 13.5 received and held on trust by the Company for the relevant Group Company. The Executive will enter into appropriate restrictive covenants directly with other Group Companies if asked to do so by the Company.
- Any termination of the Employment or of this Agreement (or breach of this Agreement by the Executive, the Company 13.6 or the Parent) shall have no effect on the continuing operation of this clause 13.
- 13.7 The parties hereto acknowledge that the potential restrictions on the Executive's future employment imposed by this clause 13 are reasonable in both duration and geographic scope and in all other respects. If for any reason any court of competent jurisdiction shall find any provisions of this clause 13 unreasonable in duration or geographic scope or otherwise, the Executive and the Company agree that the restrictions and prohibitions contained herein shall be effective to the fullest extent allowed under applicable law in such jurisdiction.
- 13.8 The parties acknowledge that this Agreement would not have been entered into and the benefits described in clause 7 would not have been promised in the absence of the Executive's promises under this clause 13.
- In the event that the Executive breaches clause 13.2.1, 13.2.2, or 13.2.3, the Company's obligation to make or provide 13.9 payments or benefits under clause 7 (excluding clause 7.6) and 12 shall cease.
- Before the Executive either applies for or accepts employment with any other person or entity while any of clause 13.10 13.2.1, 13.2.2, or 13.2.3 is in effect, the Executive will provide the prospective employer with written notice of the provisions of this clause 13 and will deliver a copy of the notice to the Company.

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The Executive agrees not to take any action that is intended to harm the Group or its reputation or which leads to unwanted or unfavorable publicity to the Group or make any public statement that disparages any member of the Group or any of their respective past or present executive officers or directors.

14 Offers on Liquidation

141 The Executive will have no claim against the Company if the Employment is terminated by reason of liquidation in order to reconstruct or amalgamate the Company or by reason of any reorganization of the Company and the Executive is offered employment with the company succeeding to the Company upon such liquidation or reorganization and the new terms of employment offered to the Executive are no less favorable to him than the terms of this Agreement.

15 **Return of Company Property**

- At any time during the Employment (at the request of the Company) and in any event when the Employment terminates, 15.1 the Executive will immediately return to the Company:
 - all documents and other materials (whether originals or copies) made or compiled by or delivered to the Executive during the Employment and concerning all the Group Companies. The Executive will not retain any copies of any materials or other information; and
 - all other property belonging or relating to any of the Group Companies. 15.1.2
- When the Executive's employment terminates, the disposition of the vehicle lease in place for the Executive on the 15.2 Commencement Date will be determined in accordance with the terms of the KeySpan Executive Leased Vehicle Program as in effect immediately prior to the KeySpan Merger Date.
- 15.3 If the Executive commences Garden Leave in accordance with clause 12 he may be required to comply with the provisions of clause 15.1.

16 **Directorships**

16.1 The Executive's office as a director of the Parent or any other Group Company is subject to the Articles of Association or Certificate of Incorporation of the relevant company (as amended from time to time). If the provisions of this Agreement conflict with the provisions of the Articles of Association or Certificate of Incorporation, the Articles of Association or Certificate of Incorporation will prevail.

- 16.2 The Executive must resign from any office held in any Group Company if he is asked to do so by the Company.
- If the Executive does not resign as an officer of a Group Company, having been requested to do so in accordance with 16.3 clause 16.2, the Company will be appointed as his attorney to effect his resignation. By entering into this Agreement, the Executive irrevocably appoints the Company as his attorney to act on his behalf to execute any document or do anything in his name necessary to effect his resignation in accordance with clause 16.2. If there is any doubt as to whether such a document (or other thing) has been carried out within the authority conferred by this clause 16.3, a certificate in writing (signed by any director or the secretary of the Company) will be sufficient to prove the act or thing falls within that authority.
- 16.4 The termination of any directorship or other office held by the Executive will not terminate the Executive's employment or amount to a breach of terms of this Agreement by the Company.
- During the Employment the Executive will not do anything which could cause him to be disqualified from continuing to 16.5 act as a director of any Group Company.
- 16.6 The Executive must not resign his office as a director of any Group Company without the agreement of the Parent.

17 **Notices**

- Any notices given under this Agreement must be given by letter or fax. Notice to either the Parent or the Company must 17.1 be addressed to its respective registered office at the time the notice is given. Notice to the Executive must be given to him personally or sent to his last known address.
- Except for notices given by hand, notices given by post will be deemed to have been given on the next working day 17.2 after the day of posting and notices given by fax will be deemed to have been given in the ordinary course of transmission.

Data Protection Act 1998 18

18.1 For the purposes of the Data Protection Act 1998 (the "Act") the Executive gives his consent to the holding, processing and disclosure of personal data (including sensitive data within the meaning of the Act) provided by the Executive to the Company for all purposes relating to the performance of this Agreement including, but not limited to:

- 18.1.1 administering and maintaining personnel records;
- 18.1.2 paying and reviewing base salary and other remuneration and benefits;
- 18.1.3 providing and administering benefits (including if relevant, pension, life assurance, permanent health insurance and medical insurance);
- 18.1.4 undertaking performance appraisals and reviews;
- 18.1.5 maintaining sickness and other absence records;
- 18.1.6 taking decisions as to the Executive's fitness for work;
- 18.1.7 providing references and information to future employers, and if necessary, governmental and quasigovernmental bodies for social security and other purposes, and Her Majesty's Revenue & Customs;
- providing information to future purchasers of the Company or of the business in which the Executive works; 18.1.8
- transferring information concerning the Executive to a country or territory outside the European Economic 18.1.9
- 18.2 The Executive acknowledges that during his Employment he will have access to and process, or authorize the processing of, personal data and sensitive personal data relating to employees, customers and other individuals held and controlled by the Company. The Executive agrees to comply with the terms of the Act in relation to such data and to abide by the Company's data protection policy issued from time to time.

Disputes 19

19.1 Mandatory Arbitration. Subject to the provisions of this clause 19, any controversy or claim between the Executive and the Company arising out of or relating to or concerning this Agreement (including the covenants contained in clause 13) or any aspect of his employment with the Company or the termination of that employment (together, an "Employment Matter") will be finally settled by arbitration in the County of New York administered by the American Arbitration Association (the "AAA") under its Employment Arbitration Rules then in effect. However, the AAA's Employment Arbitration Rules will be modified in the following ways: (i) the award must not be a compromise but must be the adoption of the submission by one of the parties, (ii) each arbitrator will agree to treat as confidential evidence and other information presented to them to the same extent as the information is required to be kept confidential under clause 9, (iii) there will be no authority to award punitive damages (and the Executive and the Company

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agree not to request any such award), (iv) the optional Rules for Emergency Measures of Protections will apply, (v) there will be no authority to amend or modify the terms of this Agreement except as provided in clause 20.2 (and the Executive and the Company agree not to request any such amendment or modification), (vi) an award must be rendered within ten business days of the parties' closing statements or submission of post-hearing briefs and (vii) the arbitration will be conducted before a panel of three arbitrators, one selected by the Executive within 10 days of the commencement of the notice of arbitration, one selected by the Company in the same period and the third selected jointly by these arbitrators (or, if they are unable to agree on an arbitrator within 30 days of the commencement of arbitration, the third arbitrator will be appointed by the American Arbitration Association; provided that the arbitrator shall be a partner or former partner at a nationally recognized law firm who is experienced in employment matters).

- Injunctions and Enforcement of Arbitration Awards. The Executive or the Company may bring an action or special 19.2 proceeding in a state or federal court of competent jurisdiction sitting in the County of New York to enforce any arbitration award under clause 19.1. Also, the Company may bring such an action or proceeding, in addition to its rights under clause 9 or 13 and whether or not an arbitration proceeding has been or is ever initiated, to temporarily, preliminarily or permanently enforce any part of clause 9 or 13. The Executive agrees that (i) violating any part of clause 9 or 13 would cause damage to the Group that cannot be measured or repaired, (ii) the Company therefore is entitled to an injunction, restraining order or other equitable relief restraining any actual or threatened violation of clause 9 or 13, (iii) no bond will need to be posted for the Company to receive such an injunction, order or other relief and (iv) no proof will be required that monetary damages for violations of clause 9 or 13 would be difficult to calculate and that remedies at law would be inadequate.
- Jurisdiction and Choice of Forum. The Executive and the Company irrevocably submit to the exclusive jurisdiction of 19.3 any state or federal court located in the County of New York over any Employment Matter that is not otherwise arbitrated or resolved according to clause 19.1. This includes any action or proceeding to compel arbitration or to enforce an arbitration award. Both the Executive and the Company (i) acknowledge that the forum stated in this clause 19.3 has a reasonable relation to this Agreement and to the relationship between the Executive and the Company and that the submission to the forum will apply even if the forum chooses to apply non-forum law, (ii) waive, to the extent permitted by law, any objection to personal jurisdiction or to the laying of venue of any action or proceeding

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covered by this clause 19.3 in the forum stated in this clause 19.3, (iii) agree not to commence any such action or proceeding in any forum other than the stated in this clause 19.3 and (iv) agree that, to the extent permitted by law, a final and non-appealable judgment in any such action or proceeding in any such court will be conclusive and binding on the Executive and the Company. However, nothing in this Agreement precludes the Executive or the Company from bringing any action or proceeding in any court for the purpose of enforcing the provisions of clause 19.1 and this clause

- Waiver of Jury Trial. To the extent permitted by law, the Executive and the Company waive any and all rights to 19.4 a jury trial with respect to any Employment Matter.
- This Agreement is governed by and will be interpreted in accordance with the laws of the State of New York 19.5 applicable to contracts made and performed in New York, excluding application of its conflict of laws principles.
- This Agreement will be binding on, inure to the benefit of and be enforceable by the parties and their respective heirs, 19.6 personal representatives, successors and assigns. This Agreement does not confer any rights, remedies, obligations or liabilities to any entity or person other than the parties hereto and their permitted successors and assigns.

20 Miscellaneous

- This Agreement may be entered into in any number of counterparts, all of which taken together shall constitute one and 20.1 the same instrument. Any party may enter into this Agreement by executing any such counterpart.
- This Agreement may only be modified by the written agreement of the parties. 20.2
- 20.3 The Executive cannot assign this Agreement to anyone else.
- 20.4 References in this Agreement to rules, regulations, policies, handbooks or other similar documents which supplement it, are referred to in it or describe any pensions or other benefits arrangement are references to the versions or forms of the relevant documents as amended or updated from time to time.
- 20.5 The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

- 20.6 The Company may withhold from any amounts payable under this Agreement any applicable withholding in respect of federal, state, local or foreign taxes.
- 20.7 This Agreement supersedes any previous written or oral agreement between the parties in relation to the matters dealt with in it, including the KeySpan Employment Agreement (except with respect to the sections contained therein that are specifically referenced herein and, where applicable, as modified herein). It contains the whole agreement between the parties relating to the Employment at the date the agreement was entered into (except for those terms implied by law which cannot be excluded by the agreement of the parties). The Executive acknowledges that he has not been induced to enter into this Agreement by any representation, warranty or undertaking not expressly incorporated into it. The Executive agrees and acknowledges that his only rights and remedies in relation to any representation, warranty or undertaking made or given in connection with this Agreement (unless such representation, warranty or undertaking was made fraudulently) will be for breach of the terms of this Agreement, to the exclusion of all other rights and remedies (including those in tort or arising under statute).
- 20.8 Neither party's rights or powers under this Agreement will be affected if:
 - 20.8.1 one party delays in enforcing any provision of this Agreement; or
 - 20.8.2 one party grants time to the other party.
- 20.9 References to any statutory provisions include any modifications or re-enactments of those provisions.
- Headings will be ignored in construing this Agreement. 20.10
- 20.11 If either party agrees to waive his or its rights under a provision of this Agreement, that waiver will only be effective if it is in writing and it is signed by him or it. A party's agreement to waive any breach of any term or condition of this Agreement will not be regarded as a waiver of any subsequent breach of the same term or condition or a different term or condition.
- 20.12 This Agreement is in consideration of the mutual covenants contained in it. The parties hereto acknowledge the receipt and sufficiency of the consideration to this Agreement and intend this Agreement to be legally binding. This Agreement shall not be construed more strictly with regard to either party.
- 20.13 To the extent any reimbursements or in-kind benefits due to the Executive under this Agreement constitute "deferred compensation" under section

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409A of the Code, any such reimbursements or in-kind benefits shall be paid to the Executive in a manner consistent with, and shall otherwise comply with, Treas. Reg. section 1.409A-3(i)(1)(iv). Any excise tax gross-up payments that become due under clause 7.6.2 of this Agreement will be paid in a manner consistent with, and shall otherwise comply with, Treas. Reg. section 1.409A-3(i)(1)(v). Further, in the event that any payment made as a direct result of this Agreement is deemed to constitute "deferred compensation" under section 409A and is payable upon "separation from service" (as defined in section 409A) such payment(s) will be delayed for six (6) months if the Executive is a "specified employee" (as defined in section 409A) at the time of "separation from service." The payment of salary in lieu of notice under clause 11 of this Agreement, or during any Garden Leave Period under clause 12 of this Agreement, is intended to be made within the short-term deferral period exemption under section 409A, and will be made accordingly. Any payments that result from any plan or arrangement that is separately subject to the terms of section 409A will be made in accordance with the applicable terms of such plan or arrangement, except to the extent explicitly modified by this Agreement.

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US IRS Circular 230 Disclosure:

To ensure compliance with requirements imposed by the IRS, we inform you that any US tax advice contained in this Agreement (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the US Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

EXECUTED on the 26 day of October 2007 on behalf of

	/o/ Chave Halliday
NATIONAL GRID PLC	/s/ Steve Holliday
NATIONAL GRID USA	Director
	/s/ Helen Mahy Company Secretary/Director, NATIONAL GRID PLC
	Company Secretary/Director, NATIONAL GRID USA

BY SIGNING THIS AGREEMENT, I HEREBY CERTIFY THAT I (A) HAVE RECEIVED A COPY OF THIS AGREEMENT FOR REVIEW AND STUDY BEFORE SIGNING IT, (B) HAVE READ THIS AGREEMENT CAREFULLY BEFORE SIGNING IT, (C) HAVE HAD SUFFICIENT OPPORTUNITY TO REVIEW THE AGREEMENT WITH ANY ADVISOR I DESIRED TO CONSULT, INCLUDING LEGAL COUNSEL, (D) HAVE HAD SUFFICIENT OPPORTUNITY BEFORE SIGNING IT TO ASK ANY QUESTIONS ABOUT THIS AGREEMENT AND HAVE RECEIVED SATISFACTORY ANSWERS TO ALL SUCH QUESTIONS, AND (E) UNDERSTAND MY RIGHTS AND OBLIGATIONS UNDER THIS AGREEMENT.

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O] CRC: 9885 EDGAR 2 **EXECUTED** on this 26th day of October 2007 by ROBERT B. CATELL in the presence of:

Witness's signature /s/Shirley Percy

Name Shirley Percy Address 49 Jeddo Road London W12 9ED

Occupation PA

/s/ Robert B. Catell

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Schedule A

Buyout Amount

The Buyout Amount to be paid to the Executive shall equal \$14,887,089, representing the cash severance the Executive would have been entitled to receive under Sections 5(d)(A) and (B) of the KeySpan Employment Agreement, plus an additional lump sum in respect of the Retirement Plan and SERP enhancements that the Executive would have been entitled to receive under Section 5(d)(C) of the KeySpan Employment Agreement.

For the avoidance of doubt, the Buyout Amount described above does not include the additional excise tax gross up payments that the Executive shall be entitled to receive pursuant to Section 9 of the KeySpan Employment Agreement.

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Schedule B

Continuing KeySpan Corporation Arrangements

(That are in addition to those specifically referenced in the Fixed Term **Employment Agreement.)**

As noted in clause 7.6.2 of the Fixed Term Employment Agreement, Supplemental Executive Retirement Plan benefits set forth in Appendix A of the KeySpan Employment Agreement.

Life insurance benefits provided under the terms of the KeySpan Corporation Group Term Replacement Insurance Program (which became effective as of July 1, 2005) (which benefit shall be offered at the "active employee" level until August 23, 2009 or, if earlier, the Executive's death).

Eligibility for applicable KeySpan Corporation retiree health and dental benefits to the extent that comparable benefits will not be separately provided to the Executive by the Company pursuant to clause 7.5 of the Fixed Term Employment Agreement; provided however, that if the Executive becomes re-employed and is eligible for health and dental benefits under another employer provided plan, or is eligible for Medicare benefits, the foregoing retiree health and dental benefits shall be secondary.

Exhibit A

ROLE & RESPONSIBILITY OF CHAIRMAN OF NATIONAL GRID USA

The following is a summary of the Executive's anticipated duties and responsibilities.

Board Responsibilities

- Serves on the Board of Directors of National Grid plc (the "Board") (subject to shareholder approval) in an Executive Director capacity as Chairman of National Grid USA.
- Provides a sounding board for the Group Chairman and CEO on US people, policy and strategic issues.
- Provides insight and guidance on US markets and growth opportunities.
- Serves on key Board committees at the invitation and discretion of the Board.
- Collaborates with the Executive Directors of the Board (who have US business lines of responsibility) on strategic execution and provides assistance to them to build relationships etc. to advance National Grid's US interests.
- Takes on any special US ambassadorial assignments for the Board, Group Chairman or CEO.

Development and Execution of Corporate Strategy

- Supports the CEO in developing corporate strategy and strategic execution process to drive shareholder value.
- · Partners with the CEO to lead US growth strategy.
- Takes lead with other key US executives to position National Grid USA for sustainable competitive advantage and to execute positioning strategy.

Effectively Manages Relationships with Key Constituencies

- Advances National Grid interests in the US via government interface (federal, state, local), regulatory, community, union and industry organization relations.
- Provides advice and assistance to the other Executive Directors to effectively manage relationships with regulators, government officials and agencies, media, union leadership and all other key influencers which utilizes the leverage of his external relationships.

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Manages the relationship with the Chairman of LIPA and federal, state and local elected officials in order to facilitate a constructive business environment.

- Completes current board service terms on major external business and industry organizations and assists in transference to the US-based Executive Director and other senior officers as appropriate.
- Represents the Group on the boards of major business and industry organizations, i.e., New York State Business Council, New York City Partnership (double with CEO on Edison Electric Institute, National Petroleum Council) US Energy Association, American Gas Association, Long Island Association and New York State Energy Association.
- When required, acts as the National Grid USA's spokesperson for major media including newspapers, television, trade press etc on major external policy issues.
- Testifies at select important state and federal legislative hearings, both as a representative of the Company and the energy industry as may be required.
- Leads community development efforts in the US and the Foundation to ensure active support for key community organizations and good alignment with Group objectives.

Financial Responsibility

- Responsible for working with the CEO in developing and fostering relationships with the US financial community, including large institutional investors, financial analysts and the credit rating agencies.
- Works with the CEO to enhance investor relations and provide advice/counseling to help build shareholder value, particularly with the US investment community.

Corporate Governance

- · Provides information to the Group Chairman relating to US Board and governance trends.
- Collaborates with the Group Chairman and Company Secretary in development of Board agendas and Board information with particular reference to presentations to the Board ensuring relevant US-related agenda items are covered and well prepared
- Provides ongoing advice, counsel and assistance to the CEO on strategic and external affairs matters within the US that could impact on the business.

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- Ensures Gas/Electric/Generation conflicts are appropriately resolved to maximize value of National Grid plc.
- Assists the CEO with US organization alignment, executive selection and performance management and development. Provides insight on US compensation program, succession planning and cultural alignment.

Exhibit B

Form of Release and Waiver

(Subject to updating for changes in applicable law.)

GENERAL RELEASE, by [NAME] (the "Executive") in favor of National Grid plc and National Grid USA (the "Company").

- [In consideration of the payments and benefits set forth in Schedule A of]¹ [Other than the payments and benefits to which the Executive is entitled under 12 the Fixed Term Employment Agreement, dated [DATE], between the Company and the Executive (the "Employment Agreement"), the Executive knowingly and voluntarily waives, terminates, cancels, releases and discharges forever any and all actions, causes of action, claims, allegations or rights (collectively, "Claims") he (or his heirs, executors, administrators, successors, assigns and legal representatives) may have or may yet have against the Company and any of their respective subsidiaries or affiliates, and each of their respective predecessors, successors or assigns, present and former directors, officers, employees, shareholders, attorneys and agents (collectively, the "Released Parties"), whether known or unknown, based upon any matter, cause or thing occurring at any time before and including the Effective Date (as defined in Section 6 below).
- 2 Subject to Paragraph 3 below, Paragraph 1 includes, but is not limited to, (1) all Claims under federal, state or local law or the national or local law of any other country (statutory or decisional) for breach of contract, for tort, for wrongful or abusive or unfair discharge or dismissal, for impairment of economic opportunity or for defamation, for intentional infliction of emotional distress, or for discrimination based upon race, color, ethnicity, sex, age, national origin, religion, disability, sexual orientation or any other unlawful criterion or circumstance; (2) Claims for compensation, bonuses or benefits; (3) Claims under any service agreement, severance program, compensation or benefit plan or arrangement maintained by the Group; (4) Claims for sexual harassment; (4) Claims related to whistleblowing; (5) Claims for punitive or exemplary damages; (6) Claims for violations of any of the following laws (as amended): the Equal Pay Act, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991 as amended, the Age Discrimination in Employment Act of 1967 as amended by the Older Workers Benefit Protection Act, the Americans with Disabilities Act of 1991, the Employee Retirement Income Security Act of 1974, the Worker Adjustment Retraining and Notification Act, the Family and Medical Leave Act, the Rehabilitation Act, Executive Order 11246, all claims and damages relating to race, sex, national origin, disabilities, religion, sexual orientation, age, and all employment discrimination claims arising under similar state statutes; and (7) Claims for violations of any other applicable employment statute or law. In addition, the Executive waives any and all rights under the laws of any jurisdiction in the United States, England and Wales, the European Union or any other country, that limit a general release to those Claims that are known or suspected to exist in his favor as of the date of this General Release.
- This General Release shall not (i) limit in any way the Executive's ability to bring an action to enforce any rights under the Employment Agreement or (ii) release any Claim for accrued but unpaid compensation and other accrued and vested benefits to which he is entitled under an applicable agreement, plan or program of the Company and its affiliates.
- The Executive represents and warrants that as of the date of his execution of this General Release he has no actual knowledge of any violation by himself or KeySpan Corporation

Use for release referenced in Section 7.6. NOTE: Must be signed by January 2, 2008.

Use for release referenced in Section 11.10.

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and its affiliates of any applicable law or regulation or threatened litigation against the Group, that in either case (whether individually or in the aggregate) would be reasonably likely to have a material adverse impact on the business or reputation of the Group (other than a violation that has already been notified to or already known by a member of the Board of Directors (other than the Executive), Chief Executive Officer or the General Counsel of National Grid plc).

- 5 The Executive represents and warrants that he has not, and as of the Effective Date will not have, filed any civil action, suit, arbitration, administrative charge, or legal proceeding against any Released Party, that he has not assigned, pledged, or hypothecated any Claim to any person and that no other person has an interest in the Claims that he is releasing in this General Release. The Executive agrees that if any person or entity files or causes to be filed any civil action, suit, arbitration or other legal proceeding seeking equitable or monetary relief concerning any Claim released in this General Release, he will not seek or accept any personal relief from or as a result of the action, suit, arbitration or proceeding. (For the avoidance of doubt, this General Release is not intended to restrict Executive's right to participate in an Equal Employment Opportunity Commission investigation or proceeding, but Executive hereby waives any and all rights to monetary damages in connection with any such investigation or proceeding.)
- 6 The Executive affirms that, prior to the execution of this General Release, he was advised to consult with an attorney of his choice concerning the terms and conditions of this General Release and that he has been given up to 21 days to consider signing this General Release. The Executive understands that he has seven days following his signing to revoke and cancel this General Release, and the terms and conditions of this General Release will not become effective or enforceable until the revocation period has expired (the "Effective Date"). The Executive agrees that a revocation will only be effective if he furnishes written notice to the Group Head of Human Resources within such seven-day period.
- 7 The terms of this General Release shall be governed by Section 19 of the Employment Agreement.

Agreed and accepted this	_ day of	, 200:	
By: Name: Title:			
STATE OF	: ss.:		
appeared	in the year personally known to me ars above and acknowledged to	e or proved to me on the bas	is of satisfactory evidence to be the
Notary Publ	ic		

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Dated July 11, 2007

NATIONAL GRID PLC,
NATIONAL GRID USA
and
MR. THOMAS KING

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") is made on this 11 day of July, 2007 among:

- National Grid plc incorporated in the UK with registered number 04031152 whose registered office is at 1-3 The Strand, (1) London WC2N 5EH (the "Parent");
- (2) National Grid USA, a wholly-owned subsidiary of the Parent (the "Company"), and
- (3) Thomas King (the "Executive").

This Agreement records the terms on which the Executive will serve the Parent and the Company.

Interpretation

In this Agreement (and any schedules to it):

1.1 **Definitions**

"Board" means the board of directors of the Parent from time to time or any person or committee nominated by the board of directors as its representative for the purposes of this Agreement;

"Employment" means the employment governed by this Agreement;

"Group" means the Parent, its ultimate holding company from time to time and the Parent's associates (as defined in section 435 of the Insolvency Act 1986) from time to time;

"Group Company" means a member of the Group and "Group Companies" will be interpreted accordingly;

"holding company" has the meaning given in section 736 of the Companies Act 1985; and

"Listing Rules" means the listing rules made by the Financial Services Authority in exercise of its functions as competent authority pursuant to Part VI of the Financial Services and Markets Act 2000.

2 **Commencement of Employment**

- 2.1 The Employment will start on July 23, 2007 (the "Commencement Date"). The Employment will continue until termination in accordance with the provisions of this Agreement.
- 2.2 The Executive represents and warrants to the Company that he is not prevented from taking up the Employment or from performing his duties in

accordance with the terms of this Agreement by any obligation or duty owed to any other party, whether contractual or otherwise.

Appointment and Duties of the Executive

- 3.1 The Executive will serve the Company as Executive Director, Electricity Distribution and President of National Grid USA from the Commencement Date or in any other executive capacity as the Executive and the Company may agree from time to time.
- As soon as practicable following the Commencement Date, the Parent shall appoint the Executive as, and Executive 3.2 agrees to serve as, an Executive Director of the Parent (it being understood that the Executive's continuing service as an Executive Director is subject to the vote of the Parent's shareholders at the applicable annual general meeting).
- 3.3 The Executive will:
 - 3.3.1 devote the whole of his time, attention and skill to the Employment;
 - 3.3.2 properly perform his duties and exercise his powers;
 - accept any offices or directorships as reasonably required by the Board; 3.3.3
 - 3.3.4 comply with all rules and regulations issued by the Company;
 - 3.3.5 obey the directions of the Board; and
 - use his best endeavors to promote the interests and reputation of every Group Company. 3.3.6
- 3.4 The Executive accepts that with his consent (which he will not unreasonably withhold or delay):
 - 3.4.1 the Company or the Parent may require him to perform duties for any other Group Company whether for the whole or part of his working time. In performing those duties clause 3.3.4 will apply as if references to the Company are to the appropriate Group Company. The Company will remain responsible for the payments and benefits he is entitled to receive under this Agreement (however, the actual payments and benefits may be delivered by any Group Company) and;
 - 3.4.2 the Company may transfer the Employment to any other Group Company.
- 3.5 The Executive will keep the Board (and, where appropriate, the board of directors of any other Group Company) fully informed of his conduct of the

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business, finances or affairs of the Company or any other Group Company in a prompt and timely manner. He will provide information to the Board in writing if requested.

- 3.6 The Executive will promptly disclose to the Board full details of any wrongdoing by any employee of any Group Company where that wrongdoing is material to that employee's employment by the relevant Group Company or to the interests or reputation of any Group Company.
- Subject to applicable law, at any time during the Employment the Company may require the Executive to undergo a 3.7 medical examination by a medical practitioner appointed by the Company. The Executive authorizes that medical practitioner to disclose to the Company any report or test results prepared or obtained as a result of that examination and to discuss with it any matters arising out of the examination which are relevant to the Employment or which might prevent the Executive properly performing the duties of the Employment.

4 1 The Executive will comply with the Company's normal hours of work and will also work any additional hours which may be reasonably necessary to perform his duties to the satisfaction of the Board. He will not receive any further remuneration for any hours worked in addition to the normal working hours.

Interests of the Executive

- 5.1 The Executive will disclose promptly in writing to the Board all his interests (for example, shareholdings or directorships) in any businesses whether or not of a commercial or business nature except his interests in any Group Company.
- Subject to clause 5.3, during the Employment the Executive will not be directly or indirectly engaged or concerned in the 5.2 conduct of any activity which is similar to or competes with any activity carried on by any Group Company (except as a representative of the Company or with the written consent of the Board).
- The Executive may not hold or be interested in investments which amount to more than three per cent of the issued 5.3 investments of any class of any one company, whether or not those investments are listed or quoted on any recognized Stock Exchange or dealt in on the Alternative Investments Market.

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5.4 The Executive will (and will ensure that his spouse and dependent children) comply with all rules of law, including Part V of the Criminal Justice Act 1993, the Model Code as set out in the annex to Chapter 9 of the Listing Rules as amended from time to time and rules or policies applicable to the Group from time to time in relation to the holding or trading of securities.

Location 6

The Executive will work at the Boston area office of the Company or anywhere else within the United States or the United 6.1 Kingdom required by the Board. He will be required to travel and work outside the United States from time to time but unless otherwise agreed with the Board will not be required to live outside the United States.

Base Salary and Benefits

- The Company will pay the Executive an annual base salary of \$1,000,000. Base salary will accrue from day to day and will be paid in accordance with the Company's payroll practices as they exist from time to time. Salary will be reviewed annually, normally commencing in June of each year. The first review will take place in June 2008.
- The salary referred to in clause 7.1 will be inclusive of any remuneration or fees which the Executive is or becomes 7.2 entitled to as an office holder in the Company or any Group Company or any other company in which the Executive becomes an office holder as part of or in connection with his duties under this Agreement. To achieve this:
 - 7.2.1 the Executive will repay any fees he receives to the Company; or
 - 7.2.2 his base salary will be reduced by the amount of those fees; or
 - 7.2.3 a combination of the methods set out in clauses 7.2.1 and 7.2.2 will be applied.
- The Executive may, at the discretion of the Remuneration Committee of the Board, be invited to participate in any bonus 7.3 plan operated by the Company from time to time. If so invited, the Executive's participation in such bonus plan and the amount (if any) payable under it will be at the discretion of the Remuneration Committee and/or in accordance with the rules of that plan from time to time in force. Participation in a bonus plan for one year does not entitle the Executive to participation in any bonus plan for any other year.
- 7.4 The Executive shall be eligible to participate in the Company's Executive Supplemental Retirement Plan (the "ESRP") in accordance with the terms

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and conditions thereof, subject to the following modifications: The Executive shall participate in the ESRP as a Level B participant and vest in his ESRP benefit six (6) months following the Commencement Date, be credited under the ESRP with years of service and eligible pay used in the calculation of the Executive's vested benefit under the terms of the PG&E Corporation Supplemental Executive Retirement Plan (the "**PGE SERP**") but the ESRP accrued benefit shall be offset by the total accrued benefit payable at age 55 under the PGE SERP and the PG&E Company Retirement Plan, with such offset value determined as of the Commencement Date; be credited with an additional five (5) years of service under the ESRP as of June 1, 2011 (if the Executive remains employed within the Group up through that date); and shall become a Level A participant if the Executive remains employed within the Group through the date he attains age 55. For the avoidance of doubt, the years of service and eligible pay used in the calculation of the PGE SERP, as well as the total accrued benefit payable to the Executive at age 55 under the PGE SERP, shall be based upon documentation the Executive obtains from PG&E following his termination of employment with PG&E, and which particulars will not be affected by any amendments to the PGE SERP following the Commencement Date.

- The Executive is entitled to paid vacation each year in accordance with the Company's vacation policy for similarly 7.5 situated senior executives (but in no event less than 25 days annually).
- The Executive shall be eligible to participate in employee benefit and welfare plans, including plans providing retirement 7.6 benefits, medical, dental, hospitalization, life or disability insurance, on the same basis as provided to similarly situated senior executives of the Parent (except as determined by the Remuneration Committee of the Board). For purposes of this Agreement, "employee benefit and welfare plans" do not include any severance, termination or redundancy plan, program or arrangement operated by any member of the Group.

8 **Expenses**

8.1 The Company will refund to the Executive all reasonable expenses properly incurred by him in performing his duties under this Agreement, provided that these are incurred in accordance with Company policy from time to time. The Company will require the Executive to produce receipts or other documents as proof that he has incurred any expenses he claims.

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8.2 If the Executive is provided with a credit or charge card by the Company this must only be used for expenses which he incurs in performing the duties of the Employment.

Confidentiality 9

Without prejudice to the common law duties which he owes to the Group the Executive agrees that he will not, except in 9.1 the proper performance of his duties, copy, use or disclose to any person any of the Group's trade secrets or confidential information. This restriction will continue to apply after the termination of the Employment without limit in time but will not apply to trade secrets or confidential information which become public other than through unauthorized disclosure by the Executive. The Executive will use his best endeavors to prevent the unauthorized copying, use or disclosure of such information.

For the purposes of this Agreement, trade secrets and confidential information include but will not be limited to technical data, know-how, information technology and know-how relating to the Group, customer lists, pricing information, information relating to the Group's marketing and financial strategies, marketing materials, financial information and any other information concerning the affairs of the Group or the personnel of the Group which is for the time being confidential, which the Executive is told is confidential or which by its nature is obviously confidential and whether such information is in written, oral, visual, electronic or any other form.

- In the course of the Employment the Executive is likely to obtain trade secrets and confidential information belonging or 9.2 relating to other Group Companies and other persons. He will treat such information as if it falls within the terms of clause 9.1 and clause 9.1 will apply with any necessary amendments to such information. If requested to do so by the Company the Executive will enter into an agreement with other Group Companies and any other persons in the same terms as clause 9.1 with any amendments necessary to give effect to this provision.
- 9.3 Nothing in this Agreement should or will prevent the Executive from raising any concerns in accordance with the provisions of the National Grid Standards of Ethical Business Conduct and the Requirement for Written Codes of Ethics for Employees (incorporating Whistleblowing Protection).

10 **Intellectual Property**

The Executive must disclose immediately to the Company any discovery or invention, secret process or improvement in 10.1 procedure made or discovered

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by the Executive during his employment in connection with or in any way affecting or relating to the business of the Company or any Group Company or capable of being used or adapted for use in or in connection with any such company ("Inventions") which Inventions will belong to and be the absolute property of the Company or such other person, firm, company or organization as the Company may require.

- If requested by the Board (whether during or after the termination of his employment) the Executive will at the expense of 10.2 the Company apply or join in applying for letters patent or other similar protection in the United States, the United Kingdom or any other part of the world for all Inventions and will do everything necessary (including executing documents) for vesting letters patent or other similar protection when obtained and all right and title to and interest in all Inventions in the Company absolutely and as sole beneficial owner or in such other person, firm, company or organization as the Company may require.
- The Executive will (both during and after the termination of his employment) at the Company's expense anywhere in the 10.3 world and at any time promptly do everything (including executing documents) that may be required by the Board to defend or protect for the benefit of the Company all Inventions and the right and title of the Company to them.
- 10.4 The entire copyright and all similar rights (including future copyright, the right to register trade marks or service marks and the right to register designs and design rights) throughout the world in works of any description produced by the Executive in the course of or in connection with his employment ("Works") will vest in and belong to the Company absolutely throughout the world for the full periods of protection available in law including all renewals and extensions.
- 10.5 The Executive will (both during and after the termination of his employment) at the Company's request and expense anywhere in the world and at any time promptly do everything (including executing documents) that may be required by the Board to assure, define or protect the rights of the Company in all Works.
- 10.6 The Executive will not make copies of any computer files belonging to any Group Company or their service providers and will not introduce any of his own computer files into any computer used by any Group Company in breach of any Group Company policy, unless he has obtained the consent of the Board.
- 10.7 By entering into this Agreement the Executive irrevocably appoints the Company to act on his behalf to execute any document and do anything in

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his name for the purpose of giving the Company (or its nominee) the full benefit of the provision of clause 10 or the Company's entitlement under statute. If there is any doubt as to whether such a document (or other thing) has been carried out within the authority conferred by this clause 10.7, a certificate in writing (signed by any director or the secretary of the Company) will be sufficient to prove that the act or thing falls within that authority.

11 **Termination and Suspension**

- 11.1 The Employment will continue until terminated by either party giving written notice as set out in clause 11.2.
- Either party may terminate the Employment by giving not less than 12 months' written notice to the other. 11.2
- Except as otherwise agreed by the Executive and the Company, notwithstanding the other provisions of this Agreement 11.3 and in particular clause 11.2, this Agreement will automatically terminate at the end of the Company's fiscal year in which the Executive's 65th birthday occurs.
- 11.4 The Company may at its sole and absolute discretion pay base salary alone (as referred to in clause 7.1, at the rate in force at the time such payment is made) in lieu of any unexpired period of notice (less any deductions the Company is required by law to make). Any payment by the Company in lieu of any unexpired period of notice will be made as soon as practicable and, in any event, completed within 2.5 months following the later of the end of the calendar year or the Company fiscal year that occurs immediately following initial notice under clause 11.2. The Executive is not entitled to participate in or benefit from any severance, termination or redundancy plan, program or arrangement maintained by any Group Company; for the avoidance of doubt, this is notwithstanding anything to the contrary that may be contained in such severance, termination or redundancy plan, program or arrangement.
- 11.5 The Company may terminate the Employment by giving written notice to take immediate effect whether or not the Executive's entitlement to sick pay, contractual or otherwise, has been exhausted if the Executive does not perform the duties of the Employment for a period of 364 days (whether or not consecutive) in any period of 2 years. This notice can be given whilst the Executive continues not to perform his duties or on expiration of the 364 day period. In this clause, 'days' includes Saturdays, Sundays and public holidays.

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- 11.6 The Company may terminate the Employment by giving written notice to take immediate effect if the Executive:
 - 11.6.1 has not performed his duties under this Agreement to the standard required by the Board; or
 - 11.6.2 commits any serious or persistent breach of his obligations under this Agreement; or
 - 11.6.3 does not comply with any term of this Agreement; or
 - 11.6.4 does not comply with any lawful order or direction given to him by the Board; or
 - 11.6.5 is guilty of any gross misconduct or conducts himself (whether in connection with the Employment or not) in a way which is harmful to any Group Company; or
 - 11.6.6 is guilty of dishonesty or is convicted of an offense (other than a motoring offence which does not result in imprisonment) whether in connection with the Employment or not; or
 - 11.6.7 commits (or is reasonably believed by the Board to have committed) a breach of any legislation in force which may affect or relate to the business of any Group Company; or
 - **11.6.8** becomes of unsound mind, is bankrupted or has a receiving order made against him or makes any general composition with his creditors or takes advantage of any statute affording relief for insolvent debtors; or
 - **11.6.9** becomes disqualified from being a director of a company or the Executive's directorship of the Parent terminates without the consent or concurrence of the Parent; or
 - 11.6.10 fails to maintain or becomes disqualified from maintaining registration with any regulatory body, membership of which is reasonably required by the Company for the Executive to carry out his duties.
- 11.7 Where the Company terminates the Employment by giving written notice to take immediate effect in accordance with either clause 11.5 or 11.6 (or in the case of the Executive's death), for the avoidance of doubt there is no obligation to give notice as set out in clause 11.1 or any other period of notice or to make any payment in lieu of notice.
- 11.8 The Executive will have no claim for damages or any other remedy against the Company if the Employment is terminated for any of the reasons set out in clause 11.5 or 11.6.

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- 11.9 When the Employment terminates the Company may deduct from any money due to the Executive (including remuneration) any amount which he owes to any Group Company.
- 11.10 The Company may suspend the Executive from the Employment on full base salary at any time, and for any reason for a reasonable period to investigate any matter in which the Executive is implicated or involved (whether directly or indirectly) and to conduct any related disciplinary proceedings and such suspension shall not entitle the Executive to claim that he has been constructively dismissed.
- 11.11 As a condition to making the payments and providing the benefits stated in this clause 11, the Company may require the Executive to execute and deliver a general release in which he (i) releases all claims that he may have in respect of his employment against any Group Company and any of their respective past or present officers, directors or employees other than his rights under this Agreement or another agreement into which he and the Company subsequently enter and (ii) covenants that he has not filed and will not file any civil action, suit, arbitration, administrative charge, or legal proceeding against any of the released parties in respect of the released claims.
- 11.12 Unless the Group waives this requirement, the termination of the Employment for any reason will constitute the Executive's resignation from (1) any director, officer or employee position he then has with any Group Company and (2) all fiduciary positions (including as trustee) he holds with respect to any pension plans or trusts established by any Group Company. The Executive agrees that this Agreement will serve as his written notice of resignation in this circumstance.

12 Garden Leave

- 12.1 Neither the Company nor any Group Company is under any obligation to provide the Executive with any work. At any time after notice to terminate the Employment is given by either party under clause 11 above, or if the Executive resigns without giving due notice and the Company does not accept his resignation, the Company may, at its absolute discretion, require the Executive to take a period of absence called "garden leave" for a maximum period of 6 months (the "Garden Leave Period"). The provisions of this clause shall apply to any Garden Leave Period.
- 12.2 The Company may require that the Executive will not, without prior written consent of the Board, be employed or otherwise engaged in the conduct of

any activity, whether or not of a business nature during the Garden Leave Period. Further, if so requested by the Company, the Executive will not:

- 12.2.1 enter or attend the premises of the Company or any other Group Company; or
- 12.2.2 contact or have any communication with any customer or client of the Company or any other Group Company in relation to the business of the Company or any other Group Company (other than purely social contract); or
- 12.2.3 contact or have any communication with any employee, officer, director, agent or consultant of the Parent or any other Group Company in relation to the business of the Parent or any other Group Company; or
- 12.2.4 remain or become involved in any aspect of the business of the Parent or any other Group Company except as required by such companies.
- **12.3** The Company may require the Executive:
 - 12.3.1 to comply with the provisions of clause 15; and
 - 12.3.2 to immediately resign from any directorship, trusteeships or other offices which he holds in the Parent, any other Group Company or any other company where such directorship or other office is held as a consequence or requirement of the Employment, unless he is required to perform duties to which any such directorship, trusteeship or other office relates in which case he may retain such directorships, trusteeships or other offices while those duties are ongoing. The Executive hereby irrevocably appoints the Company to be his attorney to execute any instrument and do anything in his name and on his behalf to effect his resignation if he fails to do so in accordance with this clause 12.3.2.
- During the Garden Leave Period, the Executive will be entitled to receive his base salary and all contractual benefits (excluding bonuses) in accordance with the terms of this Agreement. Any unused vacation accrued at the commencement of the Garden Leave Period and any vacation accrued during any such period will be deemed to be taken by the Executive during the Garden Leave Period.
- 12.5 At the end of or at any time during the Garden Leave Period, the Company may, at it sole and absolute discretion, pay the Executive base salary alone (as defined in clause 7.1) in lieu of the balance of any period of notice given by the Company or the Executive (less any deductions the Company is

required by law to make). In any event, and in accordance with clause 11.4, the Company's payment in lieu of the unexpired period of notice will be completed within 2.5 months following the later of the end of the calendar year or the Company fiscal year that occurs immediately following initial notice under clause 11.2.

- 12.6 During the Garden Leave Period:
 - the Executive shall provide such assistance as the Company or any Group Company may require to effect an 12.6.1 orderly handover of his responsibilities to any individual or individuals appointed by the Company or any Group Company to take over his role or responsibilities;
 - the Executive shall make himself available to deal with requests for information, provide assistance, be 12.6.2 available for meetings and to advise on matters relating to work (unless the Company has agreed the Executive may be unavailable for a period); and
 - 12.6.3 the Company may appoint another person to carry out his duties in substitution for the Executive.
- 12.7 All duties of the Employment (whether express or implied), including without limitation the Executive's duties of fidelity, good faith and exclusive service, shall continue throughout the Garden Leave Period save as expressly varied by this
- 12.8 The Executive agrees the exercise by the Company of its rights pursuant to this clause 12 shall not entitle the Executive to claim that he has been constructively dismissed.
- 13 **Restrictions after Termination of Employment**
- 13.1 In this clause:
 - "Prohibited Area" means the United States and any other country in the world in which the Company or any Group Company has material business interests in the period of 12 months ending on the Relevant Date;
 - "Relevant Date" means the Termination Date or, if earlier, the date on which the Executive commences any Garden Leave Period:
 - "Restricted Period" means the period of 12 months (less any Garden Leave Period) commencing on the Termination
 - "Significant Customer" means any party with respect to whom the Company or any Group Company derives, or expects to derive, revenue

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which represents 1% or more of the revenue of the Group for the applicable fiscal year; and

"Termination Date" means the Executive's last date of employment with the Group.

- The Executive is likely to obtain trade secrets and confidential information and personal knowledge of and influence over 13.2 customers, clients and employees of the Group during the course of the Employment. To protect these interests of the Company, the Executive agrees with the Company that he will be bound by the following covenants:
 - during the Restricted Period and within the Prohibited Area he will not be employed in, or carry on for his own 13.2.1 account or for any other person, whether directly or indirectly, (or be a director of any company engaged in) any business which, by virtue of its location or otherwise, is or is about to be in competition with any business of the Company or any other Group Company being carried on by such company at the Relevant Date provided he was concerned or involved with that business to a material extent at any time during the 12 months prior to the Relevant Date;
 - 13.2.2 during the Restricted Period he will not (either on his own behalf or for or with any other person, whether directly or indirectly) canvass or solicit in competition with the Company or any other Group Company or deal with or otherwise accept in competition with the Company or any Group Company the business of any customer which is or is about to become a Significant Customer at the Relevant Date; and
 - 13.2.3 during the Restricted Period he will not (either on his own behalf or for or with any other person, whether directly or indirectly), entice or try to entice away from the Company or any other Group Company any person who was senior employee, director, officer, agent, senior consultant or senior associate of such a company at the Termination Date and who had been senior employee, director, officer, agent, senior consultant or senior associate at any time during the six months prior to the Relevant Date and with whom he had worked closely at any time during that period.
- Each of the paragraphs contained in clause 13.2 constitutes an entirely separate and independent covenant. If any 13.3 covenant is found to be invalid this will not affect the validity or enforceability of any of the other covenants.

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- 13.4 Following the Termination Date, the Executive will not represent himself as being in any way connected with the businesses of the Company or of any other Group Company (except to the extent agreed by such a company).
- Any benefit given or deemed to be given by the Executive to any Group Company under the terms of clause 13 is received and held on trust by the Company for the relevant Group Company. The Executive will enter into appropriate restrictive covenants directly with other Group Companies if asked to do so by the Company.
- 13.6 Any termination of the Employment or of this Agreement (or breach of this Agreement by the Executive, the Company or the Parent) shall have no effect on the continuing operation of this clause 13.
- 13.7 The parties hereto acknowledge that the potential restrictions on the Executive's future employment imposed by this clause 13 are reasonable in both duration and geographic scope and in all other respects. If for any reason any court of competent jurisdiction shall find any provisions of this clause 13 unreasonable in duration or geographic scope or otherwise, the Executive and the Company agree that the restrictions and prohibitions contained herein shall be effective to the fullest extent allowed under applicable law in such jurisdiction.
- 13.8 The parties acknowledge that this Agreement would not have been entered into and the benefits described in clause 7 would not have been promised in the absence of the Executive's promises under this clause 13.
- 13.9 In the event that the Executive breaches clause 13.2.1, 13.2.2, or 13.2.3, the Company's obligation to make or provide payments or benefits under clause 7 and 12 shall cease.
- 13.10 Before the Executive either applies for or accepts employment with any other person or entity while any of clause 13.2.1, 13.2.2, or 13.2.3 is in effect, the Executive will provide the prospective employer with written notice of the provisions of this clause 13 and will deliver a copy of the notice to the Company.
- 13.11 The Executive agrees not to take any action that is intended to harm the Group or its reputation or which leads to unwanted or unfavorable publicity to the Group or make any public statement that disparages any member of the Group or any of their respective past or present executive officers or directors.

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14 Offers on Liquidation

14.1 The Executive will have no claim against the Company if the Employment is terminated by reason of liquidation in order to reconstruct or amalgamate the Company or by reason of any reorganization of the Company and the Executive is offered employment with the company succeeding to the Company upon such liquidation or reorganization and the new terms of employment offered to the Executive are no less favorable to him than the terms of this Agreement.

15 Return of Company Property

- 15.1 At any time during the Employment (at the request of the Company) and in any event when the Employment terminates, the Executive will immediately return to the Company:
 - 15.1.1 all documents and other materials (whether originals or copies) made or compiled by or delivered to the Executive during the Employment and concerning all the Group Companies. The Executive will not retain any copies of any materials or other information; and
 - **15.1.2** all other property belonging or relating to any of the Group Companies.
- 15.2 When the Employment terminates the Executive will immediately return to the Company any car provided to the Executive which is in the possession or under the control of the Executive. The Company car must be returned in good condition (allowing for fair wear and tear).
- 15.3 If the Executive commences Garden Leave in accordance with clause 12 he may be required to comply with the provisions of clause 15.1.

16 Directorships

- 16.1 The Executive's office as a director of the Parent or any other Group Company is subject to the Articles of Association or Certificate of Incorporation of the relevant company (as amended from time to time). If the provisions of this Agreement conflict with the provisions of the Articles of Association or Certificate of Incorporation, the Articles of Association or Certificate of Incorporation will prevail.
- 16.2 The Executive must resign from any office held in any Group Company if he is asked to do so by the Company.
- 16.3 If the Executive does not resign as an officer of a Group Company, having been requested to do so in accordance with clause 16.2, the Company will be appointed as his attorney to effect his resignation. By entering into this

Agreement, the Executive irrevocably appoints the Company as his attorney to act on his behalf to execute any document or do anything in his name necessary to effect his resignation in accordance with clause 16.2. If there is any doubt as to whether such a document (or other thing) has been carried out within the authority conferred by this clause 16.3, a certificate in writing (signed by any director or the secretary of the Company) will be sufficient to prove the act or thing falls within that authority.

- 16.4 The termination of any directorship or other office held by the Executive will not terminate the Executive's employment or amount to a breach of terms of this Agreement by the Company.
- 16.5 During the Employment the Executive will not do anything which could cause him to be disqualified from continuing to act as a director of any Group Company.
- 16.6 The Executive must not resign his office as a director of any Group Company without the agreement of the Parent.

17 Notices

- 17.1 Any notices given under this Agreement must be given by letter or fax. Notice to either the Parent or the Company must be addressed to its respective registered office at the time the notice is given. Notice to the Executive must be given to him personally or sent to his last known address.
- 17.2 Except for notices given by hand, notices given by post will be deemed to have been given on the next working day after the day of posting and notices given by fax will be deemed to have been given in the ordinary course of transmission.

18 Data Protection Act 1998

- 18.1 For the purposes of the Data Protection Act 1998 (the "Act") the Executive gives his consent to the holding, processing and disclosure of personal data (including sensitive data within the meaning of the Act) provided by the Executive to the Company for all purposes relating to the performance of this Agreement including, but not limited to:
 - 18.1.1 administering and maintaining personnel records;
 - **18.1.2** paying and reviewing base salary and other remuneration and benefits;
 - **18.1.3** providing and administering benefits (including if relevant, pension, life assurance, permanent health insurance and medical insurance);

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- **18.1.4** undertaking performance appraisals and reviews;
- **18.1.5** maintaining sickness and other absence records;
- **18.1.6** taking decisions as to the Executive's fitness for work;
- **18.1.7** providing references and information to future employers, and if necessary, governmental and quasi-governmental bodies for social security and other purposes, the Inland Revenue and the Contributions Agency;
- 18.1.8 providing information to future purchasers of the Company or of the business in which the Executive works; and
- **18.1.9** transferring information concerning the Executive to a country or territory outside the European Economic Area.
- 18.2 The Executive acknowledges that during his Employment he will have access to and process, or authorize the processing of, personal data and sensitive personal data relating to employees, customers and other individuals held and controlled by the Company. The Executive agrees to comply with the terms of the Act in relation to such data and to abide by the Company's data protection policy issued from time to time.

19 Disputes

Mandatory Arbitration. Subject to the provisions of this clause 19, any controversy or claim between the Executive and the Company arising out of or relating to or concerning this Agreement (including the covenants contained in clause 13) or any aspect of his employment with the Company or the termination of that employment (together, an "Employment Matter") will be finally settled by arbitration in Massachusetts administered by the American Arbitration Association (the "AAA") under its Employment Arbitration Rules then in effect. However, the AAA's Employment Arbitration Rules will be modified in the following ways: (i) the award must not be a compromise but must be the adoption of the submission by one of the parties, (ii) each arbitrator will agree to treat as confidential evidence and other information presented to them to the same extent as the information is required to be kept confidential under clause 9, (iii) there will be no authority to award punitive damages (and the Executive and the Company agree not to request any such award), (iv) the optional Rules for Emergency Measures of Protections will apply, (v) there will be no authority to amend or modify the terms of this Agreement except as provided in clause 20.2 (and the Executive and the Company agree not to request any such amendment or modification), (vi) an award must be rendered within ten business days of the parties' closing statements or submission of post-

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hearing briefs, and (vii) the arbitration will be conducted before a panel of three arbitrators, one selected by the Executive within 10 days of the commencement of the notice of arbitration, one selected by the Company in the same period and the third selected jointly by these arbitrators (or, if they are unable to agree on an arbitrator within 30 days of the commencement of arbitration, the third arbitrator will be appointed by the American Arbitration Association; provided that the arbitrator shall be a partner or former partner at a nationally recognized law firm who is experienced in employment matters).

- Injunctions and Enforcement of Arbitration Awards. The Executive or the Company may bring an action or special proceeding in a state or federal court of competent jurisdiction sitting in Massachusetts to enforce any arbitration award under clause 19.1. Also, the Company may bring such an action or proceeding, in addition to its rights under clause 9 or 13 and whether or not an arbitration proceeding has been or is ever initiated, to temporarily, preliminarily or permanently enforce any part of clause 9 or 13. The Executive agrees that (i) violating any part of clause 9 or 13 would cause damage to the Group that cannot be measured or repaired, (ii) the Company therefore is entitled to an injunction, restraining order or other equitable relief restraining any actual or threatened violation of clause 9 or 13, (iii) no bond will need to be posted for the Company to receive such an injunction, order or other relief and (iv) no proof will be required that monetary damages for violations of clause 9 or 13 would be difficult to calculate and that remedies at law would be inadequate.
- Jurisdiction and Choice of Forum. The Executive and the Company irrevocably submit to the exclusive jurisdiction of any state or federal court located in Massachusetts over any Employment Matter that is not otherwise arbitrated or resolved according to clause 19.1. This includes any action or proceeding to compel arbitration or to enforce an arbitration award. Both the Executive and the Company (i) acknowledge that the forum stated in this clause 19.3 has a reasonable relation to this Agreement and to the relationship between the Executive and the Company and that the submission to the forum will apply even if the forum chooses to apply non-forum law, (ii) waive, to the extent permitted by law, any objection to personal jurisdiction or to the laying of venue of any action or proceeding covered by this clause 19.3 in the forum stated in this clause 19.3, (iii) agree not to commence any such action or proceeding in any forum other than the stated in this clause 19.3 and (iv) agree that, to the extent permitted by law, a final and non-appealable judgment in any such action or proceeding in any such court will be conclusive and binding on the Executive and the Company. However, nothing in this Agreement precludes

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the Executive or the Company from bringing any action or proceeding in any court for the purpose of enforcing the provisions of clause 19.1 and this clause 19.3.

- 19.4 Waiver of Jury Trial. To the extent permitted by law, the Executive and the Company waive any and all rights to a jury trial with respect to any Employment Matter.
- This Agreement is governed by and will be interpreted in accordance with the laws of the State of Massachusetts 19.5 applicable to contracts made and performed in Massachusetts, excluding application of its conflict of laws principles.
- This Agreement will be binding on, inure to the benefit of and be enforceable by the parties and their respective heirs, 19.6 personal representatives, successors and assigns. This Agreement does not confer any rights, remedies, obligations or liabilities to any entity or person other than the parties hereto and their permitted successors and assigns.

20 Miscellaneous

- 20.1 This Agreement may be entered into in any number of counterparts, all of which taken together shall constitute one and the same instrument. Any party may enter into this Agreement by executing any such counterpart.
- This Agreement may only be modified by the written agreement of the parties. 20.2
- 20.3 The Executive cannot assign this Agreement to anyone else.
- 20.4 References in this Agreement to rules, regulations, policies, handbooks or other similar documents which supplement it, are referred to in it or describe any pensions or other benefits arrangement are references to the versions or forms of the relevant documents as amended or updated from time to time.
- 20.5 The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.
- The Company may withhold from any amounts payable under this Agreement any applicable withholding in respect of 20.6 federal, state, local or foreign taxes.
- This Agreement supersedes any previous written or oral agreement between the parties in relation to the matters dealt 20.7 with in it. It contains the whole agreement between the parties relating to the Employment at the

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date the agreement was entered into (except for those terms implied by law which cannot be excluded by the agreement of the parties). The Executive acknowledges that he has not been induced to enter into this Agreement by any representation, warranty or undertaking not expressly incorporated into it. The Executive agrees and acknowledges that his only rights and remedies in relation to any representation, warranty or undertaking made or given in connection with this Agreement (unless such representation, warranty or undertaking was made fraudulently) will be for breach of the terms of this Agreement, to the exclusion of all other rights and remedies (including those in tort or arising under statute).

- 20.8 Neither party's rights or powers under this Agreement will be affected if:
 - one party delays in enforcing any provision of this Agreement; or 20.8.1
 - 20.8.2 one party grants time to the other party.
- 20.9 References to any statutory provisions include any modifications or re-enactments of those provisions.
- 20.10 Headings will be ignored in construing this Agreement.
- 20.11 If either party agrees to waive his or its rights under a provision of this Agreement, that waiver will only be effective if it is in writing and it is signed by him or it. A party's agreement to waive any breach of any term or condition of this Agreement will not be regarded as a waiver of any subsequent breach of the same term or condition or a different term or condition.
- 20.12 The Executive hereby confirms that the execution of this Agreement and performance of his obligations under this Agreement do not and will not conflict with, violate the terms of, or constitute a default under, and will be in compliance with any agreement or instrument to which he is a party or by which he is bound, or to which he is subject. The Executive further confirms that he is not party to any employment contract, confidentiality agreement or other agreement that contains any restriction that will affect the performance of his duties hereunder. Executive represents that (A) his negotiations with the Group have not interfered with his duties as an employee, partner or member of another entity, (B) he has not and will not solicit or encourage any employee of another entity to leave such entity's employment in violation of any agreement between such entity and the Executive and (C) he has not, and will not, use, retain or disclose to the Group any confidential information of another entity.
- 20.13 This Agreement is in consideration of the mutual covenants contained in it. The parties hereto acknowledge the receipt and sufficiency of the

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consideration to this Agreement and intend this Agreement to	be legally binding.
EXECUTED on July 11, 2007 on behalf of	
	/s/ Steve Holliday
IATIONAL GRID PLC	Director
IATIONAL GRID USA	Director
	/s/ Helen Mahy
Compar	ny Secretary/Director, NATIONAL GRID PLC

Company Secretary/Director, NATIONAL GRID USA

BY SIGNING THIS AGREEMENT, I HEREBY CERTIFY THAT I (A) HAVE RECEIVED A COPY OF THIS AGREEMENT FOR REVIEW AND STUDY BEFORE SIGNING IT, (B) HAVE READ THIS AGREEMENT CAREFULLY BEFORE SIGNING IT, (C) HAVE HAD SUFFICIENT OPPORTUNITY TO REVIEW THE AGREEMENT WITH ANY ADVISOR I DESIRED TO CONSULT, INCLUDING LEGAL COUNSEL, (D) HAVE HAD SUFFICIENT OPPORTUNITY BEFORE SIGNING IT TO ASK ANY QUESTIONS ABOUT THIS AGREEMENT AND HAVE RECEIVED SATISFACTORY ANSWERS TO ALL SUCH QUESTIONS, AND (E) UNDERSTAND MY RIGHTS AND OBLIGATIONS UNDER THIS AGREEMENT.

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EXECUTED on July, 2007 by	1
THOMAS KING	_ }
n the presence of:	J

/s/ Thomas B. King

Witness's signature

Name Soo Ling Yongblood

/s/ Soo Ling Youngblood

Address 655 12th Street Oakland, CA 94607

Occupation Executive Assistant

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EXHIBIT 4(c).11

Sir John Parker FREng Chairman

D: +44 (0) 20 7004 3010 F: +44 (0) 20 7004 3012 M: +44 (0) 7831 496201 john.parker@ngrid.com

nationalgrid

14 May 2008 Mr P. Aiken Flat 12, 36 Sloane Court West London SW3 4TB

Dear Philip,

I am delighted to advise that the Board has confirmed your appointment as a Non-executive Director of National Grid plc (the 'Company') with effect from 15 May 2008. This letter sets out the terms of your appointment and it is agreed that this is a contract for services and not a contract of employment.

Appointment

Your appointment, commencing on 15 May 2008, will be subject to your re-election by shareholders at the Company's AGM on 28 July 2008, following which the first term of your appointment will run to the Company's AGM in 2011, unless otherwise terminated earlier in accordance with the Company's Articles of Association or by and at the discretion of either party upon one month's written notice. Continuation of your contract of appointment is contingent on satisfactory performance and re-election by shareholders at forthcoming AGMs. In the event that shareholders do not support your appointment or other shareholder action terminates your appointment you will not be entitled to receive damages for breach of contract. As you know, it is Board policy that Non-executive Directors are typically expected to serve two three-year terms; any extension to this is subject to review by the Nominations Committee (prior to making recommendations to the Board) in the light of good corporate governance policy at the time.

Time Commitment

Overall we anticipate a time commitment of approximately 2-21/2 days on average per month, after the induction phase, taking into account reading and preparation time for Board and Committee meetings. This will include attendance at Board meetings (estimated 10 scheduled meetings per year including a Board strategy session, of which currently 3 are held in the US) plus ad hoc and emergency meetings, the AGM, any extraordinary general meetings and at least one site visit each year. It is planned that certain Board meetings will be held at the Company's operational sites (in the UK and US).

By confirming this appointment, you have agreed that you are able to allocate sufficient time to meet the expectations of your role including appropriate preparation time. The agreement of the Chairman should be sought before accepting additional commitments that might affect the time you are able to devote to your role as a Non-executive Director of the Company.

You should also have regard to your duties as a Director in light of the UK Companies Act, UK Listing Authority Rules and Combined Code and obligations arising as a result of the Company having an ADR programme listed on the New York Stock Exchange, as set out in the relevant section of

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the Directors' Information Pack. You will also be subject to the Company's Share Dealing Code, also set out in the Information Pack.

Role

All Directors, Non-executive and Executive, have the same general legal responsibilities to the Company. The Board as a whole is collectively responsible for promoting the success of the Company for the benefit of its members by directing and supervising the Company's affairs. The Board:

- provides effective business leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed;
- sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives, and reviews management performance; and
- sets the Company's values and standards and ensures that its obligations to its shareholders and others are understood and met.

In addition to these requirements of all Directors, the role of the Non-executive Director has the following key elements:

- Strategy: Non-executive Directors should constructively challenge and contribute to the development of strategy;
- **Performance:** Non-executive Directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance;
- Risk: Non-executive Directors should satisfy themselves that the financial function of the Company is professionally
 managed and that financial controls and systems of risk management are robust and defensible; and
- **People:** Non-executive Directors are responsible for determining appropriate levels of remuneration for Executive Directors and have a prime role in appointing, and where necessary removing, senior management and in succession planning.

Committees

This letter refers to your appointment as a Non-executive Director of the Company. You have also been requested to serve on the Audit and Risk and Responsibility Committees of the Board.

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<u>Fees</u>

You will be paid an annual retainer fee of £45,000 gross per annum which will be paid monthly in arrears. You will also be entitled to attendance fees of £1,500 for each Board meeting held in your country of residence (UK) and £4,000 for each overseas meeting.

In addition, the attendance fee is intended to cover your attendance at any meetings of Committees of which you are a member. You will not receive any additional fees for membership of, or attendance at, any ad hoc Board Committee meetings. For the avoidance of doubt, home country attendance fees will be payable where you attend a meeting by telephone or video conference or other such means.

The Company will reimburse you for all reasonable and properly documented expenses you incur in performing the duties of your office. The Board shall review the above fees from time to time and they are therefore subject to change. All fees and payments will be made subject to any deductions required to be made by the Company.

Outside interests

It is accepted and acknowledged that you have business interests other than those of the Company and have declared any conflicts that are apparent at present. In the event that you become aware of any potential conflicts of interest, these should be disclosed to the Chairman and/or Group Company Secretary and General Counsel as soon as apparent.

Independence

The Board has determined you to be independent according to the provisions of the Combined Code.

If you become aware of anything that may affect this determination of independence, this should be disclosed to the Chairman and/or Group Company Secretary and General Counsel as soon as apparent.

Confidentiality

You will, naturally, during your appointment and following its termination not disclose or communicate to any person (except as required by law or in the course of the proper performance of your duties, or with the consent of the Board) nor use for your own account or advantage any confidential information relating to the Company or any of its subsidiaries or associate companies which you obtained during your appointment or otherwise.

You will be required to return all papers containing confidential information on termination of the appointment.

Your attention is also drawn to the requirements under both legislation and regulation as to the disclosure of 'price sensitive' information. Consequently you should avoid making any statements that might risk a breach of these requirements without prior clearance from the Chairman or Company Secretary and General Counsel.

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Induction

You will be provided with an induction to the Company and its businesses and detailed information on a variety of areas and in addition have been provided a Directors' Information Pack. We will also arrange for various site visits and meetings with senior and middle management and the Company's advisors. We will also arrange for you to meet major investors, as appropriate.

Should you feel you require additional information on any area please contact the Company Secretary and General Counsel to arrange this.

Review Process

The performance of individual Directors, the Board and Board Committees is evaluated annually. If, in the interim, there are any matters which cause you concern in relation to your role you should discuss them with the Chairman as soon as is appropriate.

Insurance

The Company has Directors' and Officers' liability insurance and it is intended to maintain such cover for the full term of your appointment. A summary of the cover is included in your Directors' Information Pack.

Indemnity

The Articles of Association of the Company and legislation in the UK allow the Company to indemnify Directors in relation to any legal or regulatory action taken against them (either actual or threatened) as may arise by virtue of their position in the Company. Such indemnity shall indemnify you against expenses (including legal fees) actually and reasonably incurred by you in connection with such action, suit or proceeding and against judgements, fines and amounts paid in settlement in connection with such action, suit or proceeding to the fullest extent permitted. Such right of indemnification shall be without prejudice to any other rights which you may be entitled.

To enable the full extent of this indemnity to apply to you, please sign the attached deeds of indemnity and return both copies to me. One copy will be returned to you in due course.

Independent Professional Advice

Occasions may arise when you consider that you need independent professional advice in the furtherance of your duties as a Director. Please advise either the Chairman or the Company Secretary and General Counsel should you wish to seek such advice. The Company will reimburse the full cost of expenditure incurred in respect of such advice.

Governing Law

The agreement contained in this letter shall be governed by, and construed in accordance with, English law and shall be subject to the exclusive jurisdiction of the English courts.

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

Y59930.SUB, DocName: EX-4.C.11, Doc: 11, Page: 5 **[E/O]**Description: EXH 4(C).11

CRC: 63976 **EDGAR 2**

: (212)924-5500 Operator: BNY99999T Date: 17-JUN-2008 03:10:51.35 BNY Y59930 904.00.00.00 0/3

national**grid**

Yours sincerely,

Entire Agreement
This appointment letter represents the entire understanding, and constitutes the whole agreement, in relation to the Appointment and supersedes any previous agreement between yourself and the Company with respect thereto.

On a personal level, I am delighted that you have agreed to accept this appointment to the Board of National Grid plc and I look forward to our building a good working relationship.

/s/ John Parker
Sir John Parker Chairman
Agreed and accepted by:
/s/ Philip Aiken Philip Aiken

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: * Validation: N * Lines: * CRC: *

Y59930.SUB, DocName: EX-8, Doc: 12

<DOCUMENT>
<TYPE> EX-8
<FILENAME> y59930exv8.htm
<DESCRIPTION> EX-8: SUBSIDIARIES
<TEXT>

EXHIBIT 8 LIST OF SUBSIDIARIES

	COMPANY NAME	REGISTERED OFFICE ADDRESS
1	65 WILLIS LANE, INC.	CORPORATION SERVICE COMPANY, 80 STATE STREET, ALBANY NY 12207-2543
		USA
2	ADRIAN ASSOCIATES L.P.	535 BOYLSTON STREET, BOSTON MA 02116 USA
4	ALBERTA NORTHEAST GAS LTD	100 CUMMINGS CENTER, SUITE 457G, BEVERLEY MA 01915 USA
5	ARLINGTON ASSOCIATES LP	535 BOYLSTON STREET, BOSTON MA 02116 USA
6	ASSETHALL LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
7	BARD, RAO & ATHNAS CONSULTING ENGINEERS, LLC	THE ARSENAL ON THE CHARLES, 311 ARSENAL STREET, WATERTOWN MA 02472
_		USA
8	BEEGAS NOMINEES LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
9	BIRCH SITES LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
10	BLACKWATER A LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
11	BLACKWATER B LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
12	BLACKWATER C LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
13	BLACKWATER D LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
14	BLACKWATER E LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
15	BLACKWATER H LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
16	BLACKWATER J LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
17	BLUE-NG (HOLDINGS) LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
18	BLUE-NG LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
19	BOSTON GAS COMPANY	52 SECOND AVENUE WALTHAM MA 02451 USA
20	BOTOFOGA LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
21	BRITISH TRANSCO CAPITAL, INC.	CT CORPORATION, CORPORATION TRUST CENTER , 1209 ORANGE STREET,
		WILMINGTON, DELAWARE, 19801, USA
22	BRITISH TRANSCO FINANCE (NO 1) LIMITED	C/O MAPLES AND CALDER, UGLAND HOUSE,, SOUTH GEORGE STREET, GEORGE
		TOWN, GRAND CAYMAN, P O BOX 309 GT, CAYMAN ISLANDS
23	BRITISH TRANSCO FINANCE (NO 2) LIMITED	C/O MAPLES AND CALDER, UGLAND HOUSE,, SOUTH GEORGE STREET, GEORGE
		TOWN, GRAND CAYMAN, P O BOX 309 GT, CAYMAN ISLANDS
24	BRITISH TRANSCO FINANCE (NO 3) LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
25	BRITISH TRANSCO FINANCE (NO 5) LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
26	BRITISH TRANSCO FINANCE, INC.	CT CORPORATION, CORPORATION TRUST CENTER , 1209 ORANGE STREET,
		WILMINGTON, DELAWARE, 19801, USA

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27	BRITISH TRANSCO INTERNATIONAL FINANCE BV
28	BRITNED DEVELOPMENT LIMITED
29	BROKEN BRIDGE CORP.
30	BSC CO LIMITED
31	C4GAS SAS
32	COLONIAL GAS COMPANY
33	CONNECTICUT YANKEE ATOMIC POWER COMPANY
34	DIRECT GLOBAL POWER, INC
35	EASTERN ASSOCIATED SECURITIES CORP.
36	EASTERN RIVERMOOR COMPANY, INC
37	NATIONAL GRID UK PENSION SERVICES LIMITED (PREVIOUSLY KNOWN AS
	EASTLANDS (BENEFITS ADMINISTRATION) LIMITED)
38	ELEXON LIMITED
39	ENERGIS PLC
40	ENERGYNORTH NATURAL GAS, INC.
41	ENPORIAN, INC
42	ESSEX GAS COMPANY
43	EUA ENERGY INVESTMENT CORPORATION
44	EUA FRC II ENERGY ASSOCIATES
45	EVIONYX, INC.
46	FIRSTPOINT ENERGY CORPORATION
47	FULCRUM CONNECTIONS (EMPLOYERS) LIMITED
48	FULCRUM CONNECTIONS LIMITED
49	FULCRUM GAS SERVICES LIMITED
50	FULCRUM GROUP HOLDINGS LIMITED
51	FULCRUM INFRASTRUCTURE SERVICES LIMITED
52	FULCRUM PIPELINES LIMITED
53	GRANITE STATE ELECTRIC COMPANY
54	GRIDAMERICA HOLDINGS INC.
· .	

SCHOUWBURGPLEIN 30-34, ROTTERDAM 3012 CL, THE NETHERLANDS 1-3 STRAND, LONDON, WC2N 5EH LAWYERS INCORPORATING SERVICE 14 CENTRE STREET CONCORD NH 03301 1-3 STRAND, LONDON, WC2N 5EH PARK ATRIUM, 11 RUE DES COLONIES, 1000 BRUSSELS, BELGIUM 52 SECOND AVENUE WALTHAM MA 02451 USA 362 INJUN HOLLOW ROAD, EAST HAMPTON, CT 006424-3099, UNITED STATES 1462 ERIE BOULEVARD SCHENECTADY NY 12305 USA 52 SECOND AVENUE WALTHAM MA 02451 USA 52 SECOND AVENUE WALTHAM MA 02451 USA 1 – 3 STRAND, LONDON, WC2N 5EH 4TH FLOOR, 350 EUSTON ROAD, LONDON, NW1 3AW 1 MORE LONDON PLACE LONDON SE1 2AF LAWYERS INCORPORATING SERVICE 14 CENTRE STREET CONCORD NH 03301

TWO HARBOUR PLACE, 302 KNIGHTS RUN AVENUE, TAMPA FL 33602 USA CORPORATION SERVICE COMPANY 84 STATE STREET BOSTON MA 02109 25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES 25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES 85 EXECUTIVE BOULEVARD, ELMSFORD NY 10523 C/O THE COMPANY CORPORATION, 2711 CENTERVILLE ROAD, SUITE 400. WILMINGTON, DE 19808, UNITED STATES 1 – 3 STRAND, LONDON, WC2N 5EH 1 – 3 STRAND, LONDON, WC2N 5EH

9 LOWELL ROAD, SALEM, NEW HAMPSHIRE, USA

1 – 3 STRAND, LONDON, WC2N 5EH

2711 CENTERVILLE ROAD, WILMINGTON, DELAWARE, USA

56	HOLDCO PARTICIPACOES LTDA
57 58 59 60 61 62 63 64	HONEOYE STORAGE CORPORATION INTELIG TELECOMUNICACOES LTDA INVERSIONES ABC LIMITADA IROQUOIS GAS TRANSMISSION SYSTEM L.P. IROQUOIS PIPELINE OPERATING COMPANY ISLAND ENERGY SERVICES COMPANY, INC. ISLANDER EAST PIPELINE COMPANY, LLC JOINT RADIO COMPANY LIMITED
65	JVCO PARTICIPACOES LTDA
66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86	KEDC HOLDINGS CORP. KEYSPAN (U.K.) KEYSPAN C.I., LTD KEYSPAN C.I. II, LTD KEYSPAN COMMUNICATIONS CORP. KEYSPAN COMMUNICATIONS CORP. KEYSPAN CORPORATE SERVICES LLC KEYSPAN CORPORATION KEYSPAN ELECTRIC SERVICES LLC KEYSPAN ENERGY CORPORATION KEYSPAN ENERGY DEVELOPMENT CO. KEYSPAN ENERGY MANAGEMENT, LLC KEYSPAN ENERGY SERVICES INC. KEYSPAN ENERGY SERVICES NEW JERSEY, LLC KEYSPAN ENERGY SOLUTIONS, LLC KEYSPAN ENERGY SUPPLY, LLC KEYSPAN ENERGY TRADING SERVICES LLC KEYSPAN ENERGY TRADING SERVICES LLC KEYSPAN ENGINEERING ASSOCIATES, INC KEYSPAN ENGINEERING & SURVEY, INC. KEYSPAN EXPLORATION AND PRODUCTION, LLC KEYSPAN GAS EAST CORPORATION

GRIDCOM LIMITED

55

1 – 3 STRAND, LONDON, WC2N 5EH PRAIA DE BOTAFOGO, NO 300-50 ANDAR, SALA 1301 (PARTE), RIO DE JANEIRO, RJ. BRAZIL 4511 EGYPT ROAD, CANANDAIGUA NY 14424 USA PRAIA DE BOTAFOGO. NO 370. BOTAFOGO. RIO DE JANEIRO. BRAZIL AVENIDA DEL CONDOR 760. HUECHURABA, SANTIAGO, CHILE ONE CORPORATE DRIVE, SUITE 606, SHELTON CT 06448 USA 1 CORPORATE DRIVE SUITE 600 SHELTON CT06484 175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA 70 EAST JOHNSON AVENUE CHESHIRE CT06410 UNIT 108 THE BLACKFRIARS FOUNDRY, 156 BLACKFRIARS ROAD, LONDON, SE1 8EN PRAIA DE BOTAFOGO, NO 300-50 ANDAR, SALA 1301 (PARTE), RIO DE JANEIRO, RJ. BRAZIL ONE METROTECH CENTER, BROOKLYN NY11201 USA 20-22 BEDFORD ROW, LONDON WC1R 4JS ONE METROTECH CENTER, BROOKLYN NY11201 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA 1377 MOTOR PARKWAY, SUITE 206, ISLANDIA NY11749 USA 175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA 175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA 119 GREEN STREET, BROOKLYN NY11222 USA 303 MERRICK ROAD, SUITE 501, LYNBROOK NY11563 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA 14-04 111 STREET, COLLEGE POINT NY11356 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA 175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA 175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA

87	KEYSPAN GENERATION LLC
88	KEYSPAN-GLENWOOD ENERGY CENTER, LLC
89	KEYSPAN HOME ENERGY SERVICES, LLC
90	KEYSPAN HOME ENERGY SERVICES (NEW ENGLAND), LLC
91	KEYSPAN IGTS CORP.
92	KEYSPAN INSURANCE COMPANY
93	KEYSPAN INTERNATIONAL CORPORATION
94	KEYSPAN ISLANDER EAST PIPELINE, LLC
0.1	RETOFANTOEMBERTENOTT IN ELINE, LEG
95	KEYSPAN LNG GP, LLC
96	KEYSPAN LNG, LP
97	KEYSPAN LNG LP, LLC
98	KEYSPAN LUXEMBOURG S.A.R.L.
99	KEYSPAN MHK, INC.
100	KEYSPAN MIDSTREAM INC.
101	KEYSPAN MILLENNIUM, LLC
102	KEYSPAN NEW ENGLAND, LLC
103	KEYSPAN NORTH EAST VENTURES INC
104	KEYSPAN PLUMBING & HEATING SOLUTIONS, LLC
105	KEYSPAN PLUMBING SOLUTIONS, INC.
106	KEYSPAN-PORT JEFFERSON ENERGY CENTER, LLC
107	KEYSPAN-RAVENSWOOD, LLC
108	KEYSPAN RAVENSWOOD SERVICES CORP.
109	KEYSPAN SERVICES, INC.
110	KEYSPAN TECHNOLOGIES INC.
111	KEYSPAN TELEMETRY SOLUTIONS, LLC
112	KEYSPAN UTILITY SERVICES LLC
113	KSI CONTRACTING, LLC
114	KSI ELECTRICAL, LLC
115	KSI MECHANICAL, LLC
116	KSNE, LLC
117	LAND MANAGEMENT AND DEVELOPMENT, INC
118	LANDRANCH LIMITED

175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA ONE CHAPIN ROAD, P.O. BOX 2018, PINE BROOK NJ 07058 62 SECOND AVENUE, BURLINGTON MA 01803 USA 175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA CORPORATION SERVICE COMPANY 2711 CENTERVILLE ROAD SUITE 400 COUNTY OF NEW CASTLE WILMINGTON DELAWARE 19808 CORPORATION SERVICE COMPANY 2711 CENTERVILLE ROAD SUITE 400 COUNTY OF NEW CASTLE WILMINGTON DELAWARE 19808 ONE METROTECH CENTER, BROOKLYN NY11201 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA 175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA 52 SECOND AVENUE WALTHAM MA 02451 USA ONE METROTECH CENTER, BROOKLYN NY11201 USA 175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA 222-40 96TH AVENUE, QUEENS VILLAGE NY 11429 ONE METROTECH CENTER, BROOKLYN NY11201 USA CORPORATION SERVICE COMPANY 2711 CENTERVILLE ROAD SUITE 400 COUNTY OF NEW CASTLE WILMINGTON DELAWARE 19808 175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA 67 B MOUNTAIN BOULEVARD EXT. WARREN NJ 07059 USA 67 B MOUNTAIN BOULEVARD EXT. WARREN NJ 07059 USA 67 B MOUNTAIN BOULEVARD EXT. WARREN NJ 07059 USA 52 SECOND AVENUE WALTHAM MA 02451 USA 300 ERIE BOULEVARD WEST, SYRACUSE, NEW YORK, USA 1 – 3 STRAND, LONDON, WC2N 5EH

119	LANDWEST, INC	300 ERIE BOULEVARD WEST, SYRACUSE, NEW YORK, USA
120	LATTICE ENERGY SERVICES LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
121	LATTICE GROUP EMPLOYEE BENEFIT TRUST LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
122	LATTICE GROUP INTERNATIONAL HOLDINGS LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
123	LATTICE GROUP PLC	1 – 3 STRAND, LONDON, WC2N 5EH
124	LATTICE GROUP TRUSTEES LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
125	LATTICE OPSCO LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
126	LATTICE TELECOM FINANCE (NO 1) LIMITED	15 – 19 ATHOL STREET, DOUGLAS, ISLE OF MAN, IM1 1LB
127	MAINE YANKEE ATOMIC POWER COMPANY	EDISON DRIVE, AUGUST, ME 04330, UNITED STATES
128	MAINSTREAM FORTY-SEVEN LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
129	MARQUEZ DEVELOPMENT CORP.	175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA
130	MASSACHUSETTS ELECTRIC COMPANY	55 BEARFOOT ROAD, NORTHBOROUGH MA 01532, UNITED STATES
131	MELMAR LIMITED	THIRD FLOOR, ST. GEORGE'S COURT, UPPER CHURCH STREET, DOUGLAS, ISLE
		OF MAN, IM1 1EE
132	METRO ENERGY, L.L.C.	119 GREEN STREET, BROOKLYN NY11222 USA
133	METROWEST REALTY LLC	THE CORPORATION TRUST COMPANY, CORPORATION TRUST CENTER, 1209
		ORANGE STREET, WILMINGTON, DELAWARE, USA
134	MILLENNIUM PIPELINE COMPANY, LLC	ONE METROTECH CENTER, BROOKLYN NY11201 USA
135	MYHOMEGATE, INC.	ONE METROTECH CENTER, BROOKLYN NY11201 USA
136	MYHOMEKEY.COM, INC.	ONE METROTECH CENTER, BROOKLYN NY11201 USA
137	MYSTIC STEAMSHIP CORPORATION	ONE METROTECH CENTER, BROOKLYN NY11201 USA
138	NANTUCKET ELECTRIC COMPANY	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
139	NATGRID FINANCE HOLDINGS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
140	NATGRID FINANCE LIMITED	1-3 STRAND, LONDON, WC2N 5EH
141	NATGRID INVESTMENTS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
142	NATGRID LIMITED	1-3 STRAND, LONDON, WC2N 5EH
143	NATGRID ONE LIMITED	1-3 STRAND, LONDON, WC2N 5EH
144	NATIONAL GRID (IOM) UK LTD	2ND FLOOR, SIXTY CIRCULAR ROAD, DOUGLAS, ISLE OF MAN, IM1 1SA
145	NATIONAL GRID (IRELAND) 1 LIMITED	25/28 NORTH WALL QUAY, DUBLIN 1, REPUBLIC OF IRELAND
146	NATIONAL GRID (IRELAND) 2 LIMITED	25/28 NORTH WALL QUAY, DUBLIN 1
147	NATIONAL GRID (SOUTHALL) GENERAL PARTNER LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
148	NATIONAL GRID (SOUTHALL) LP LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
149	NATIONAL GRID (US) HOLDINGS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
150	NATIONAL GRID (US) INVESTMENTS	1-3 STRAND, LONDON, WC2N 5EH
151	NATIONAL GRID (US) INVESTMENTS 2	1-3 STRAND, LONDON, WC2N 5EH

152	NATIONAL GRID (US) INVESTMENTS 3	1-3 STRAND, LONDON, WC2N 5EH
153	NATIONAL GRID (US) INVESTMENTS 4 LIMITED	1-3 STRAND, LONDON, WC2N 5EH
154	NATIONAL GRID (US) PARTNER 1 LIMITED	1-3 STRAND, LONDON, WC2N 5EH
155	NATIONAL GRID (US) PARTNER 2 LIMITED	1-3 STRAND, LONDON, WC2N 5EH
156	NATIONAL GRID AUSTRALIA PTY LTD	LEVEL 21, 140 WILLIAM STREET MELBOURNE AUSTRALIA
157	NATIONAL GRID BLUE POWER FINANCE LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
158	NATIONAL GRID BLUE POWER LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
159	NATIONAL GRID BRAZIL B.V.	1 – 3 STRAND, LONDON, WC2N 5EH
160	NATIONAL GRID BRAZIL FINANCE	1-3 STRAND, LONDON, WC2N 5EH
161	NATIONAL GRID BRAZIL TRANSMISSION B.V.	ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS
162	NATIONAL GRID CHILE B.V.	ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS
163	NATIONAL GRID COMMERCIAL HOLDINGS LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
164	NATIONAL GRID EIGHT	1-3 STRAND, LONDON, WC2N 5EH
165	NATIONAL GRID EIGHTEEN LIMITED	1-3 STRAND, LONDON, WC2N 5EH
166	NATIONAL GRID ELECTRICITY TRANSMISSION PLC	1-3 STRAND, LONDON, WC2N 5EH
167	NATIONAL GRID ELEVEN	1-3 STRAND, LONDON, WC2N 5EH
168	NATIONAL GRID FIFTEEN LIMITED	1-3 STRAND, LONDON, WC2N 5EH
169	NATIONAL GRID FINANCE B.V.	ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS
170	NATIONAL GRID FIVE LIMITED	1-3 STRAND, LONDON, WC2N 5EH
171	NATIONAL GRID FOUR LIMITED	1-3 STRAND, LONDON, WC2N 5EH
172	NATIONAL GRID FOURTEEN LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
173	NATIONAL GRID GAS FINANCE (NO 1) PLC	1 – 3 STRAND, LONDON, WC2N 5EH
174	NATIONAL GRID GAS HOLDINGS PLC	1 – 3 STRAND, LONDON, WC2N 5EH
175	NATIONAL GRID GAS PLC	1 – 3 STRAND, LONDON, WC2N 5EH
176	NATIONAL GRID GOLD LIMITED	1-3 STRAND, LONDON, WC2N 5EH
177	NATIONAL GRID GRAIN LNG LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
178	NATIONAL GRID HOLDINGS B.V.	ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS
179	NATIONAL GRID HOLDINGS INC.	CORPORATION SERVICE COMPANY, 2711 CENTERVILLE ROAD, SUITE 400,
		COUNTY OF NEW CASTLE, CITY OF WILMINGTON DE 19808, UNITED STATES
180	NATIONAL GRID HOLDINGS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
181	NATIONAL GRID HOLDINGS ONE PLC	1-3 STRAND, LONDON, WC2N 5EH
182	NATIONAL GRID HOLDINGS PTY LIMITED(PREVIOUSLY KNOWN AS NATIONAL	LEVEL 21, 140 WILLIAM STREET MELBOURNE AUSTRALIA
	GRID BASSLINK PTY LIMITED)	
183	NATIONAL GRID HOLLAND LIMITED	1-3 STRAND, LONDON, WC2N 5EH

184	NATIONAL GRID INDIA B.V.
185	NATIONAL GRID INDUS B.V.
186	NATIONAL GRID INSURANCE COMPANY (IRELAND) LIMITED
187	NATIONAL GRID INSURANCE COMPANY (ISLE OF MAN) LIMITED
	NATIONAL ORIGINATED CONNECTORS (MITTER
188	NATIONAL GRID INTERCONNECTORS LIMITED
189	NATIONAL GRID INTERNATIONAL LIMITED
190	NATIONAL GRID JERSEY HOLDINGS FIVE LIMITED
191	NATIONAL GRID JERSEY INVESTMENTS LIMITED
100	NATIONAL ODID JEDOEV INVESTMENTS TWO LIMITED
192	NATIONAL GRID JERSEY INVESTMENTS TWO LIMITED
193	NATIONAL GRID LAND AND PROPERTIES LIMITED
194	NATIONAL GRID LAND DEVELOPMENTS LIMITED
195	NATIONAL GRID LAND INVESTMENTS LIMITED
196	NATIONAL GRID MANQUEHUE B.V.
197	NATIONAL GRID METERING LIMITED
198	NATIONAL GRID MIDDLE EAST FZCO
199	NATIONAL GRID NETHERLANDS ONE B.V.
200	NATIONAL GRID NETHERLANDS THREE B.V.
201	NATIONAL GRID NETHERLANDS TWO B.V.
202	NATIONAL GRID NINE LIMITED
203	NATIONAL GRID NINETEEN LIMITED
204	NATIONAL GRID ONE LIMITED
205	NATIONAL GRID OVERSEAS LIMITED
206	NATIONAL GRID OVERSEAS TWO LIMITED
207	NATIONAL GRID POLAND B.V.
208	NATIONAL GRID PROCUREMENT BV
209	NATIONAL GRID PROPERTY (HIGH WYCOMBE) LIMITED
210	NATIONAL GRID PROPERTY (NORTHAMPTON) LIMITED
211 212	NATIONAL GRID PROPERTY (NORTHFLEET) LIMITED
	NATIONAL GRID PROPERTY (MARVAICE) LIMITED
213	NATIONAL GRID PROPERTY (WARWICK) LIMITED

ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS 1-3 STRAND, LONDON, WC2N 5EH 38/39 FITZWILLIAM SQUARE, DUBLIN 2, REPUBLIC OF IRELAND THIRD FLOOR, JUBILEE BUILDINGS, VICTORIA STREET, DOUGLAS, ISLE OF MAN. IM1 2LR 1-3 STRAND, LONDON, WC2N 5EH 1-3 STRAND, LONDON, WC2N 5EH WHITELEY CHAMBERS, DON STREET, ST HELIER, JERSEY WHITELEY CHAMBERS, DON STREET,, ST. HELIER, , JERSEY, CHANNEL ISLANDS, JE4 9WG WHITELEY CHAMBERS, DON STREET,, ST. HELIER, , JERSEY, CHANNEL ISLANDS, JE4 9WG 1-3 STRAND, LONDON, WC2N 5EH 1 – 3 STRAND, LONDON, WC2N 5EH 1 – 3 STRAND, LONDON, WC2N 5EH ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS 1 – 3 STRAND, LONDON, WC2N 5EH DUBAI AIRPORT, FREE ZONE AUTHORITY, DUBAI, UNITED ARAB EMIRATES 1-3 STRAND, LONDON, WC2N 5EH ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS 1-3 STRAND, LONDON, WC2N 5EH 1 – 3 STRAND, LONDON, WC2N 5EH 1 – 3 STRAND, LONDON, WC2N 5EH

1-3 STRAND, LONDON, WC2N 5EH 1 – 3 STRAND, LONDON, WC2N 5EH

214	NATIONAL GRID PROPERTY DEVELOPMENTS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
215	NATIONAL GRID PROPERTY HOLDINGS LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
216	NATIONAL GRID PROPERTY LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
217	NATIONAL GRID PROPERTY NOMINEES (NO 1) LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
218	NATIONAL GRID PROPERTY NOMINEES (NO 2) LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
219	NATIONAL GRID PROPERTY REGENERATION LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
220	NATIONAL GRID SEVEN LIMITED	1-3 STRAND, LONDON, WC2N 5EH
221	NATIONAL GRID SEVENTEEN LIMITED	1-3 STRAND, LONDON, WC2N 5EH
222	NATIONAL GRID SIX LIMITED	1-3 STRAND, LONDON, WC2N 5EH
223	NATIONAL GRID SIXTEEN LIMITED	1-3 STRAND, LONDON, WC2N 5EH
224	NATIONAL GRID TEN	1-3 STRAND, LONDON, WC2N 5EH
225	NATIONAL GRID THREE LIMITED	1-3 STRAND, LONDON, WC2N 5EH
226	NATIONAL GRID TRANSMISSION SERVICES CORPORATION	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
227	NATIONAL GRID TWELVE LIMITED	1-3 STRAND, LONDON, WC2N 5EH
228	NATIONAL GRID TWENTY LIMITED	1-3 STRAND, LONDON, WC2N 5EH
229	NATIONAL GRID TWENTY ONE LIMITED	1-3 STRAND, LONDON, WC2N 5EH
230	NATIONAL GRID TWO LIMITED	1-3 STRAND, LONDON, WC2N 5EH
231	NATIONAL GRID UK LIMITED	1 – 3 STRAND, LONDON, WC2N 5EH
232	NATIONAL GRID US 6 LLC	CORPORATION SERVICE COMPANY, 2711 CENTERVILLE ROAD, SUITE 400, NEW
		CASTLE COUNTY, WILMINGTON DE 19808, UNITED STATES
233	NATIONAL GRID US 7 INC.	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
234	NATIONAL GRID US LLC	CORPORATION SERVICE COMPANY, 2711 CENTERVILLE ROAD, SUITE 400,
		WILMINGTON DE 19808, UNITED STATES
235	NATIONAL GRID USA	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
236	NATIONAL GRID USA SERVICE COMPANY, INC.	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
237	NATIONAL GRID ZAMBIA LIMITED	1-3 STRAND, LONDON, WC2N 5EH
238	NEES ENERGY, INC.	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
239	NETMAP LIMITED	1-3 STRAND, LONDON, WC2N 5EH
240	NETWORK MAPPING LIMITED	1-3 STRAND, LONDON, WC2N 5EH
241	NEW ENGLAND ELECTRIC TRANSMISSION CORPORATION	9 LOWELL ROAD, SALEM, NEW HAMPSHIRE, USA
242	NEW ENGLAND ENERGY INCORPORATED	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
243	NEW ENGLAND HYDRO FINANCE COMPANY, INC.	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
244	NEW ENGLAND HYDRO-TRANSMISSION CORPORATION	9 LOWELL ROAD, SALEM, NEW HAMPSHIRE, USA
245	NEW ENGLAND HYDRO-TRANSMISSION ELECTRIC COMPANY, INC.	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES

246 247 248 249 250	NEW ENGLAND POWER COMPANY NEW ENGLAND WHOLESALE ELECTRIC COMPANY NEWHC, INC. NEWPORT AMERICA CORPORATION NG CHICAGO I LLC
251	NG CHICAGO II, LLC
252 253 254 255 256 257	NG JERSEY LIMITED NG LEASING LIMITED NG LUXEMBOURG 3 SARL NG LUXEMBOURG 4 SARL NG LUXEMBOURG 5 SARL NG LUXEMBOURG GENERAL PARTNERSHIP
258 259 260 261 262 263 264 265 266 267 268 269 270	NG LUXEMBOURG HOLDINGS LIMITED NG LUXEMBOURG SA NG LUXEMBOURG TWO S.A.R.L NG NOMINEES LIMITED NG PROCUREMENT HOLDINGS LIMITED NG VILLIERS LIMITED PARTNERSHIP NGC DO BRASIL PARTICIPACOES LTDA NGC EMPLOYEE SHARES TRUSTEE LIMITED NGC INDUS LIMITED NGC TWO LIMITED NGC ZAMBIA LIMITED NGET FINANCE (NO 1) PLC NGG (DELAWARE) LLC
271 272 273 274 275	NGG FINANCE (NO 1) LIMITED NGG FINANCE PLC NGG LIMITED NGG TELECOMS HOLDINGS LIMITED NGG TELECOMS LIMITED

25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES 25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES 25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES 280 MELROSE STREET, PROVIDENCE, RHODE ISLAND, 02907, USA C/O CORPORATION SERVICE COMPANY, 2711 CENTERVILLE ROAD, SUITE 400, WILMINGTON. DE 19808 C/O CORPORATION SERVICE COMPANY, 2711 CENTERVILLE ROAD, SUITE 400. WILMINGTON, DE 19808 WHITELEY CHAMBERS, DON STREET, ST. HELIER, JERSEY, JE4 9WG 1-3 STRAND, LONDON, WC2N 5EH 2 RUE J HACKIN, L - 1746 LUXEMBOURG, LUXEMBOURG 2 RUE J HACKIN, L - 1746 LUXEMBOURG, LUXEMBOURG 2 RUE J HACKIN, L - 1746 LUXEMBOURG. LUXEMBOURG RL&F SERVICE CORP., ONE RODNEY SQUARE, TENTH FLOOR, TENTH AND KING STREETS, WILMINGTON, NEW CASTLE COUNTY, DELAWARE, 19801 1 – 3 STRAND, LONDON, WC2N 5EH 2 RUE J HACKIN, L - 1746 LUXEMBOURG, LUXEMBOURG 46A AVENUE J.-F KENNEDY, LUXEMBOURG, L-1855 1 – 3 STRAND, LONDON, WC2N 5EH 1-3 STRAND, LONDON, WC2N 5EH 57 HERBERT LANE, DUBLIN 2 IRELAND AV. RIO BRANCO NO. 1, ROOM 1608, RIO DE JANEIRO RJ, BRAZIL 1-3 STRAND, LONDON, WC2N 5EH 1 – 3 STRAND, LONDON, WC2N 5EH CORPORATION SERVICE COMPANY, 2711 CENTERVILLE ROAD, SUITE 400. WILMINGTON DE 19808, UNITED STATES 1 – 3 STRAND, LONDON, WC2N 5EH 1-3 STRAND, LONDON, WC2N 5EH

276 277	NGM1 (GBR) LIMITED NGT FIVE LIMITED	
278	NGT FOUR LIMITED	
279	NGT HOLDING COMPANY (ISLE OF MAN) LIMITED	
280 281 282 283 284 285 286 287	NGRID INTELLECTUAL PROPERTY LIMITED NGT LUXEMBOURG ONE LIMITED NGT ONE LIMITED NGT TELECOM NO.1 LIMITED NGT TELECOM NO.2 LIMITED NGT THREE NGT TWO LIMITED NIAGARA MOHAWK ENERGY, INC.	
288 289 290 291 292 293 294 295 296 297 298 299 300 301 302 303 304	NIAGARA MOHAWK HOLDINGS, INC. NIAGARA MOHAWK POWER CORPORATION NICODAMA BEHEER V B.V. NM PROPERTIES, INC. NM URANIUM, INC. NORTH EAST TRANSMISSION CO., INC. NORTHEAST GAS MARKETS LLC ONSTREAM METERING SERVICES LIMITED OPINAC NORTH AMERICA, INC. PATIENCE REALTY CORP. PAULUS, SOKOLOWSKI AND SARTOR, LLC PCC LAND COMPANY, INC. PHILADELPHIA COKE CO., INC. PORT GREENWICH LIMITED PORT OF ISLANDS NORTH LLC PRUDENCE CORPORATION RIVERVIEW, INC	
295 296 297 298 299 300 301 302 303	ONSTREAM METERING SERVICES LIMITED OPINAC NORTH AMERICA, INC. PATIENCE REALTY CORP. PAULUS, SOKOLOWSKI AND SARTOR, LLC PCC LAND COMPANY, INC. PHILADELPHIA COKE CO., INC. PORT GREENWICH LIMITED PORT OF ISLANDS NORTH LLC PRUDENCE CORPORATION	

NICMA (CDD) LIMITED

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LINE WALL ROAD, GIBRALTAR C/O MAPLES AND CALDER, UGLAND HOUSE., SOUTH GEORGE STREET, GEORGE TOWN, GRAND CAYMAN, P O BOX 309 GT, CAYMAN ISLANDS C/O M & C CORPORATE SERVICES, PO BOX 309GT, UGLAND HOUSE, SOUTH CHURCH STREET, GRAND CAYMAN, CAYMAN ISLANDS, CAYMAN ISLANDS 3RD FLOOR, ST GEORGE'S COURT, UPPER CHURCH STREET, DOUGLAS, IM1 1EE. ISLE OF MAN 1 – 3 STRAND, LONDON, WC2N 5EH 1-3 STRAND, LONDON, WC2N 5EH 1-3 STRAND, LONDON, WC2N 5EH CORPORATION SERVICE COMPANY, 84 STATE STREET, BOSTON MA 02109. **UNITED STATES** 300 ERIE BOULEVARD WEST, SYRACUSE, NEW YORK, USA 300 ERIE BOULEVARD WEST, SYRACUSE, NEW YORK, USA ONE METROTECH CENTER, BROOKLYN NY11201 USA SECRETARY OF STATE, 41 STATE STREET, ALBANY, NY, 12231-0001, USA 300 ERIE BOULEVARD WEST, SYRACUSE, NEW YORK, USA ONE METROTECH CENTER, BROOKLYN NY11201 USA 100 CUMMINGS CENTER, SUITE 457G, BEVERLEY MA 01915 USA

67 B MOUNTAIN BOULEVARD EXT. WARREN NJ 07059 USA 52 SECOND AVENUE WALTHAM MA 02451 USA 52 SECOND AVENUE WALTHAM MA 02451 USA

1 – 3 STRAND, LONDON, WC2N 5EH 300 EERIE BLVD.W. SYRACUSE NY13202

1 - 3 STRAND, LONDON, WC2N 5EH

280 MELROSE STREET, PROVIDENCE, RHODE ISLAND, 02907, USA

300 ERIE BOULEVARD WEST, SYRACUSE, NEW YORK, USA

300 ERIE BOULEVARD WEST, SYRACUSE, NEW YORK, USA

280 MELROSE STREET, PROVIDENCE, RHODE ISLAND, 02907, USA

305	SCC UNO S.A.
306	SENECA UPSHUR PETROLEUM, INC.
307	SOFRER SA
308	SSE TRANSCO LIMITED
309	SST TOWERS COMMUNICATIONS SAS
310	STARGAS NOMINEES LIMITED
311	STEUBEN GAS STORAGE COMPANY
312	SUPERGRID ENERGY TRANSMISSION LIMITED
313	SUPERGRID LIMITED
314	TELECOM INTERNATIONAL HOLDINGS LIMITED
315	THAMESPORT INTERCHANGE LIMITED
316	THE BROOKLYN UNION GAS COMPANY
317	THE ELECTRICITY TRANSMISSION COMPANY LIMITED
318	THE NARRAGANSETT ELECTRIC COMPANY
319	THE NATIONAL GRID GROUP QUEST TRUSTEE COMPANY LIMITED
320	THE NATIONAL GRID INVESTMENTS COMPANY
321	TRANSCO LIMITED
322	TRANSGAS, INC.
323	UPPER HUDSON DEVELOPMENT INC
324	UTILITY METERING SERVICES LIMITED
325	VALLEY APPLIANCE AND MERCHANDISING COMPANY
326	VILLIERS FINANCE SA
327	WAYFINDER GROUP, INC.
328	XOSERVE LIMITED
329	YANKEE ATOMIC ELECTRIC COMPANY

11TH FLOOR, AVENIDA VITACURA 4380, SANTIAGO, CHILE ROUTE 33 WEST, P.O. BOX 2048, BUCKHANNON WV 26201 1 PLACE DE LA BOULE, 92024 NANTERRE, FRANCE 1 – 3 STRAND, LONDON, WC2N 5EH 4 RUE MARIVAUX, 75002 PARIS, FRANCE 1 – 3 STRAND, LONDON, WC2N 5EH 535 BOYLSTON STREET, BOSTON MA 02116 USA 1-3 STRAND, LONDON, WC2N 5EH 1-3 STRAND, LONDON, WC2N 5EH 1 – 3 STRAND, LONDON, WC2N 5EH 1 – 3 STRAND, LONDON, WC2N 5EH ONE METROTECH CENTER, BROOKLYN NY11201 USA 1-3 STRAND, LONDON, WC2N 5EH 280 MELROSE STREET, PROVIDENCE, RHODE ISLAND, 02907, USA 1-3 STRAND, LONDON, WC2N 5EH 1-3 STRAND, LONDON, WC2N 5EH 1 – 3 STRAND, LONDON, WC2N 5EH 52 SECOND AVENUE WALTHAM MA 02451 USA 300 ERIE BOULEVARD WEST, SYRACUSE, NEW YORK, USA 1 – 3 STRAND, LONDON, WC2N 5EH 280 MELROSE STREET, PROVIDENCE, RHODE ISLAND, 02907, USA 5 RUE EUGENE RUPPERT, L-2453 LUXEMBOURG, LUXEMBOURG 25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES 1 – 3 STRAND, LONDON, WC2N 5EH 19 MIDSTATE DRIVE, SUITE 200, AUBURN, MA 01501, UNITED STATES BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: * Validation: N * Lines: * CRC: *

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[E/O] EDGAR 2 (212)924-5500 Operator: BNY99999T Date: 17-JUN-2008 03:10:51.35 BNY Y59930 930.00.00 0/4

Exhibit 12.1

I, Steve Holliday, certify that:

- 1. I have reviewed this annual report on Form 20-F of National Grid plc;
- 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
- 4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d) -15(f)) for the company and have:
 - Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
- 5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information: and
 - Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

June 17, 2008

/s/ Steve Holliday

Steve Holliday Title: Chief Executive National Grid plc

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[E/O] EDGAR 2 (212)924-5500 Operator: BNY99999T Date: 17-JUN-2008 03:10:51.35 BNY Y59930 940.00.00 0/2

EXHIBIT 12.2

I, Steve Lucas, certify that:

- I have reviewed this annual report on Form 20-F of National Grid plc; 1.
- 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
- The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and 4. procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d) -15(f)) for the company and have:
 - Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be (a) designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - Designed such internal control over financial reporting or caused such internal control over financial reporting to be (b) designed under our supervision, to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles:
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
- The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over 5 financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - All significant deficiencies and material weaknesses in the design or operation of internal control over financial (a) reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - Any fraud, whether or not material, that involves management or other employees who have a significant role in the (b) company's internal control over financial reporting.

June 17, 2008

/s/ Steve Lucas Steve Lucas Title: Finance Director National Grid plc

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EXHIBIT 13

Section 906 Certification

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18 of the United States Code) each of the undersigned officers of National Grid plc, a public limited company incorporated under the laws of England and Wales (the "Company"), hereby certifies to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ending March 31, 2008(the "Report") of the Company fully complies with the requirements of section 13(a) or 15 (d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

June 17, 2008 /s/ Steve Holliday

Steve Holliday Chief Executive National Grid plc

/s/ Steve Lucas June 17, 2008

Steve Lucas

Title: Finance Director National Grid plc

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Exhibit 15.1

This document is an extracted form of the Annual Report and Accounts 2007/08. Certain pages, images and text have been deleted from it. The Annual Report and Accounts is available in full on our website, at www.national grid.com.

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The Independent Corporate Responsibility Report on page 86 relates to the corporate responsibility elements of the full Annual Report and Accounts available on our website.

EXHIBIT 15.1

National Grid plc Board of Directors

Board of Directors

Sir John Parker, Chairman

Appointed October 2002, Age 66, N (ch)
Sir John Parker became Chairman following the merger of National Grid Group plc and Lattice Group plc having been Chairman of Lattice Group plc since its demerger from BG Group plc in 2000. Sir John's career has encompassed the engineering, shipbuilding and defence industries. He is Deputy Chairman of DP World (Dubai), joint Chairman of Mondi plc, a Non-executive Director of Carnival plc and Carnival Corporation, Inc., and the European Aeronautic Defence and Space Company (EADS), Senior Non-executive Director of the Court of the Bank of England and Chancellor of the University of Southampton. Sir John is a former Chairman of P&O Group and of RMC Group plc, a former Chairman and Chief Executive of Harland & Wolff plc and Babcock International Group PLC.

Steve Holliday, Chief Executive
Appointed March 2001, Age 51, E (ch), F
Steve Holliday became Chief Executive of National
Grid in January 2007 having joined National Grid
Group plc as Group Director, UK and Europe in
March 2001. Following the merger of National Grid
Group plc and Lattice Group plc in October 2002,
he was responsible for the electricity and gas
transmission businesses. He was appointed as
Group Director responsible for UK Gas Distribution
and Business Services in April 2003. He was
formerly an Executive Director of British Borneo Oil
and Gas. Previously, he spent 19 years with the and Gas. Previously, he spent 19 years with the Exxon Group, where he held senior positions in the international gas business and managed major operational areas such as refining and shipping. He is a Non-executive Director of Marks and Spencer

Bob Catell, Executive Director

& Deputy Chairman
Appointed September 2007, Age 71
Bob Catell was appointed to the Board in
September 2007 following the acquisition of
KeySpan Corporation of which he was Chairman
and Chief Executive Officer. He is a co-Chair of the
Roard of the Downtown Brooklyn Partership and Board of the Downtown Brooklyn Partnership and Board of the Downtown Brooklyn Partnership and the Chairman of the Long Island Association. He is an ex officio Director and Chairman Emeritus of The Partnership for New York City, Inc., past Chairman of the American Gas Association and the US Energy Association (USEA). He is a Vice-Chairman of the US National Petroleum Council's Natural Gas Committee and in on the Paral of the Purinces Committee and is on the Board of the Business
Council of New York, Keyera Energy Management
Ltd, Sovereign Bancorp Inc., Advisory Board and JP
Morgan Chase Inc., Metropolitan Advisory Board.

Steve Lucas, Finance Director

Appointed October 2002, Age 54, E, F
Steve Lucas has been Finance Director since his appointment in October 2002 and is additionally responsible for UK and US Shared Services. He joined the Board following the merger of National
Grid Group plc and Lattice Group plc. He had been Executive Director, Finance of Lattice Group plc since its demerger from BG Group plc. Previously he was Treasurer of BG Group plc having joined British Gas plc in 1994. Prior to this he was with Shell International Petroleum Company for 11 years occupying a number of finance management positions and treasury roles including seven years in Africa and the Far East. Steve is also a Non-executive Director of Compass Group PLC.

Nick Winser, Executive Director Appointed April 2003, Age 47, E Nick Winser joined the Board in April 2003 as

Executive Director responsible for Transmission. He was previously Chief Operating Officer of the US transmission business for National Grid Transco plc. he joined National Grid Company plc in 1993, becoming Director of Engineering in 2001. Prior to this, he had been with Powergen since 1991 as principal negotiator on commercial matters, having joined the Central Electricity Generating Board in 1983 where he served in a variety of technical engineering roles.

Mark Fairbairn, Executive Director

Appointed January 2007, Age 49, E
Mark Fairbairn was appointed to the Board in January 2007 as Executive Director with responsibility for Gas Distribution. He joined National Grid in 1989 from BNFL. He was awarded the OBE in 2002 for his services to the electrical industry in respect of his leadership of the fundamental changes implemented for the introduction of the New Electrical Trading Arrangements (NETA). Previously Chief Operating Officer of the UK gas distribution business, he has played a key role in helping to restructure the UK gas distribution market through the gas networks sale and the creation of National Grid's new gas distribution business.

Edward Astle, Executive Director

Edward Astle joined the Board as Group Director, Telecommunications in September 2001 and was Executive Director responsible for Non-regulated Business and Business Development. He left the Company on 30 April 2008.

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

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Back row: Front row:

Nick Winser

Tom King

Steve Holliday Edward Astle

Mark Fairbaim Sir John Parker Bob Catell

Steve Lucas

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Tom King, Executive Director Appointed August 2007, Age 46, E Tom King was appointed to the Board as Executive

Tom king was appointed to the Board as Executive Director in August 2007 with responsibility for Electricity Distribution & Generation operations. Tom was President of PG&E Corporation and Chairman and CEO of Pacific Gas and Electric Company from 2003 to 2007. Before that, he served as Senior Vice President of PG&E Corporation, and as President of PG&E National Energy Group having joined PG&E Gas Transmission as President in 1998. Prior to PG&E, he served as President and Chief Operating Officer of Kinder Morgan Energy Partners and served for nine years in officer positions in Enron's inter-state pipeline businesses.

Ken Harvey, Non-executive Director and Senior Independent Director

Appointed October 2002, Age 67, N, R, R&R Ken Harvey joined the Board following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in September 2000. He was appointed Senior Independent Director in October 2004. He is Chairman of Pennon Group plc. A chartered engineer, Ken is a former Chairman and Chief Executive of Norweb plc, and a former Chairman of Comax Holdings Ltd, The Intercare Group plc and Beaufort International Group plc.

Linda Adamany, Non-executive Director Appointed November 2006, Age 56, A, R&R Linda Adamany joined the Board in

November 2006. Until April 2008 she was Group Vice President, BP plc. Linda has over 25 years' experience in the energy sector, having held various roles for BP in the UK and US, including Chief Executive of BP Shipping and Senior Vice President of Commercial Development.

Philip Aiken, Non-executive Director
Appointed 15 May 2008, Age 59
Philip Aiken was appointed to the Board in
May 2008. He is Chairman of Robert Walters plc, a
Non-executive Director of Kazakhmys plc and
senior advisor to Macquarie Capital (Europe) Limited. Formerly, Group

President of BHP Billiton's Energy business, Executive Director of BTR plc and senior positions in BOC Group plc.

John Allan, Non-executive Director

Appointed May 2005, Age 59, A, R (ch)
John Allan was appointed to the Board in May 2005. He is CFO of Deutsche Post, having been appointed to the Management Board following its acquisition of Exel plc in December 2005 where he had been Chief Executive since September 1994. had been Chief Executive since September 1994.
John started his career in marketing, at Lever
Brothers, moving to Bristol-Myers Company Ltd and
then Fine Fare Ltd. He joined BET plc in 1985 and
was appointed to the board in 1987. He is a
member of the Supervisory Boards of both
Lufthansa AG and Deutsche Postbank and a member of the University of Edinburgh Campaign Board. John was previously Chairman of Samsonite Corporation, a Non-executive Director of PHS Group plc, Wolseley plc, Hamleys plc and Connell

Stephen Pettit, Non-executive Director Appointed October 2002, Age 56, F, R, R&R (ch) Stephen Pettit was appointed to the Board following

the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in 2001. He is a Non-executive Director of Halma plc and is Chairman of ROK plc. Stephen is also a member of BT plc's Equality of Access Board. He is a former Executive Director of Cable & Wireless plc. Before joining Cable & Wireless, he was Chief Executive, Petrochemicals at British Petroleum.

Maria Richter, Non-executive Director

Maria Hichter, Non-executive Director
Appointed October 2002, Age 53, A, F (ch), N
Maria Richter was appointed to the Board in
October 2003. Maria worked for Morgan Stanley
between 1993 and 2002, most recently as
Managing Director of its Corporate Finance Retail
Group. Prior to this, she was Managing Director of Investment Banking in the Southern Cone of Latin America, and Executive Director and Head of Independent Power and Structured Finance ness. Previous appointments include Vice

President of Independent Power Group for Salomon Brothers, and Vice President of Prudential Capital Corporation and Power Funding Associates. Maria is a Non-executive Director of Pro Mujer International, an international microfinance organisation, The Pantry, Inc., The Vitec Group plc and The Bessemer Group Inc.

George Rose, Non-executive Director
Appointed October 2002, Age 56, A (ch), N, R
George Rose was appointed to the Board following
the merger of National Grid Group plc and Lattice
Group plc, having been appointed to the Lattice
Group plc board in September 2000. He has been Finance Director of BAE Systems plc since 1998, having joined the company in 1992. He is a Non-executive Director of SAAB AB and a member of the Financial Reporting Review Panel. George is also a former Non-executive Director of Orange plc.

Helen Mahy, Company Secretary & General Counsel Appointed October 2002, Age 47, E

Helen Mahy was appointed Company Secretary following the merger of National Grid Group plc and Lattice Group plc, having been Company Secretary at Lattice Group plc since March 2002. She was additionally appointed as General Counsel from October 2003. She is a barrister and an Associate of the Chartered Insurance Institute. Helen was appointed a Non-executive Director of Aga Rangemaster Group plc in March 2003 and was chair of the GC100 Group in 2007.

Committee membership

Audit Executive Finance

Nominations

R Remuneration
R&R Risk & Responsibility
(ch) denotes Committee chairman



Maria Richter

Ken Harvey

Linda Adamany

George Rose Philip Aiken Stephen Pettit

Helen Mahy John Allan

Business Overview

Operating and Financial Review

Governance

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

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[E/O] CRC: 6768 EDGAR 2 **National Grid plc About National Grid**

Operating and Financial Review

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This Operating and Financial Review describes the main trends and factors underlying our development, performance and position during the year ended 31 March 2008 as well as those likely to affect our future development, performance and position. It has been prepared in line with the guidance provided in the Reporting Statement on the Operating and Financial Review issued by the UK Accounting Standards Board.

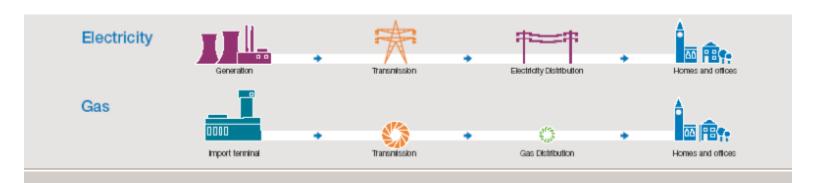
Principal operations

Our principal operations are the ownership and operation of regulated electricity and gas infrastructure networks in the UK and the US, serving around 19 million consumers directly and many more indirectly. We also have interests in related markets, including electricity interconnectors, metering services, liquefied natural gas (LNG) facilities and property in the UK, LNG storage and transportation, unregulated gas transmission pipelines and home energy services in the US.

We have approximately 27,600 employees located in the UK and the US.

The performances of our principal businesses are reported by segment, reflecting the management responsibilities and economic characteristics of each activity. Our principal businesses and segments, together with other activities and discontinued operations, are as follows:

Businesses and segments	Description of principal activities
Transmission UK	The transmission of electricity and gas in the UK as owner and operator of the high-voltage electricity transmission network in England and Wales, the gas national transmission system in Great Britain, electricity interconnectors with Scotland and with France and storage facilities for LNG. Operator of the electricity transmission networks in Scotland.
us	The transmission of electricity in the northeastern US as owner of high-voltage electricity transmission networks in upstate New York and in New England.
Gas Distribution UK	The distribution of gas in England as owner and operator of four of the UK's eight gas distribution networks.
us	The distribution of gas in the northeastern US as owner and operator of gas distribution networks in upstate New York, New York City, Long Island, Massachusetts, New Hampshire and Rhode Island.
Electricity US Distribution & Generation	The distribution and generation of electricity in the northeastern US as owner of electricity distribution networks in upstate New York, Massachusetts, New Hampshire and Rhode Island, as operator and manager of the electricity transmission and distribution network in Long Island on behalf of the Long Island Power Authority, and as a generator of electricity on Long Island.
Non-regulated businesses and other	The delivery of other services in markets related to our principal operations, principally in the UK where they comprise metering services, property management and our LNG import terminal on the Isle of Grain. They do not constitute a segment in their own right and so are reported together with other operations and corporate activities, including business development, under the heading 'other activities'.
Discontinued operations	Businesses that we have exited or are committed to exit, including the Ravenswood generation station in New York City that we have agreed to sell, our UK and US wireless infrastructure operations, sold on 3 April and 15 August 2007 respectively, and the Basslink electricity interconnector in Australia sold on 31 August 2007.



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Vision, strategy and objectives

Vision

Our vision is for National Grid to be the foremost international electricity and gas company, delivering unparalleled safety, efficiency and reliability, vital to the well-being of our customers and communities. We are committed to being an innovative leader in energy management and to safeguarding our global environment for future generations.

Strategy

Our strategy is based on focus, integration and discipline as follows:

Focus

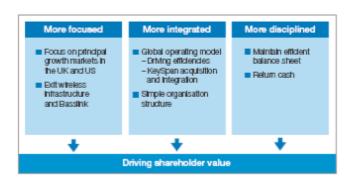
We are focused on a clear business model, based on the ownership and operation of large scale asset intensive businesses within our principal growth markets of electricity and gas delivery infrastructure in the UK and US

Integration

We aim to run our businesses in an integrated - organising our activities along lines of business, supported by effective and efficient shared services and information systems. This involves deploying proven processes, common systems and best practices within each business, supported by common operating principles and safety and environmental standards, seeking to maximise the competitive advantages that come from being an international organisation, balanced with the need to provide excellent service to customers and to maintain and build local relationships with other key stakeholders.

Discipline

We aim to be disciplined in the application of best practice, increasingly standardising our approach to the way we operate and finance activities. Our aim is for rigorous financial discipline, ensuring that we have the capital we need to grow, while maintaining the investor confidence that comes from a disciplined approach to our balance sheet.



Objectives

Building on our strategy, we have set ourselves objectives to deliver our vision of becoming the foremost international electricity and gas company. By achieving our objectives we aim to deliver sustainable growth and so create value for our shareholders.

Delivering our strategy

- Create lines of business
 Build operating model common systems
 and processes, sharing best practice
 Invest in new businesses where there is
- value for our shareholders
- Exit businesses not in our core markets

Operating performance

- Improve efficiency
- Improve reliability Improve customer
- Deliver our capital investment plans

Talent

- Identify and develop talent and skills Improve engagement and performance Enhance inclusion and diversity

Relationships

- Help investors understand our value
- Improve relationships with customers, regulators and governments Work effectively with suppliers
- Deepen our involvement with communities

Environment

- Lead on climate change Manage and remediate contaminated land
- Protect the environment Be efficient in our use of natural resources

Financial performance

- Increase profits and earnings per share Obtain appropriate returns on our
- investments Maintain financial discipline
- Increase dividends and shareholder returns

Our strategy is underpinned by our commitment to corporate responsibility, including the core values that we expect our management and employees to operate by.

Responsibility

- Operate to the highest standards of corporate
- governance Conduct our business in a lawful and ethical
- - Respect others and value diversity

 - Take ownership for driving performance Demonstrate integrity and openness in all relationships
 - Work together as one team

We describe what these objectives mean, how we plan to achieve them and the progress we have made this year, in the performance summary and performance against our objectives sections of this Operating and Financial Review on pages 24 to 43. More information on our corporate responsibility and business ethics objectives is included in the Corporate Governance section on pages 88 to 97.

Our vision is for National Grid to be the foremost international electricity and gas company, delivering unparalleled safety, efficiency and reliability, vital to the wellbeing of our customers and communities. We are committed to being an innovative leader in energy management and to safeguarding our global environment for future generations.

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National Grid plc

Business drivers, risks and opportunities

Business drivers

Our principal activities include the operation of highly complex energy infrastructure networks. As a consequence, there are many factors that influence the financial returns we obtain

We consider the following to be our principal business drivers:

and rate plans

The prices we charge for use of our electricity and gas transmission and distribution networks are determined in accordance with regulator approved price controls in the UK and rate plans in the US. The negotiation of these arrangements has a significant impact on our

Their duration is significant in providing stability to our operations, allowing us to plan ahead and invest with confidence that we will obtain financial returns.

Our price controls and rate plans contain incentive and/or penalty arrangements that can affect us financially based on agreed performance targets.

contracts

Revenues in our Long Island electricity distribution and generation operations are subject to long-term contracts with the Long Island Power Authority.

In addition, revenues in our UK metering services businesses and our Grain LNG import terminal are determined by contractual arrangements, which are long term and with 'blue chip' customers.

efficiency and reliability

Our ability to operate safely and reliably is of paramount importance to us, our employees, our contractors, our customers, our regulators and the communities we serve. Our financial performance is affected by our performance in

Our objective is to deliver services as efficiently as possible. This allows us to limit price increases or to reduce prices to our customers and improve our own financial performance to the benefit of our shareholders

Customer service

The quality of the service we deliver to customers, and the experiences that they have in dealing with us, whether through routine interactions or when problems arise, is important as it feeds through to the attitudes of regulators and is also linked to our financial

investment

Capital investment is a significant driver for

In our regulated energy networks, the prices we charge include an allowed return for capital investment determined in accordance with our price controls and rate plans. These provide incentives for us to enhance the quality and reach of our networks through capital

For other businesses, our capital investment in new assets allows us to develop new revenue streams or to increase revenues from existing

Other investment Investment in new businesses is also a significant driver of growth, provided we can create value through operational improvements, synergies and financial benefits.

Disposals can crystallise value for shareholders, where we believe the price on offer is better than the long-term return we can obtain ourselves or where a business does not fit with our long-term strategy.

Relationships responsibility

Our reputation is vitally important to us

Delivering sustainable value depends on the trust and confidence of our stakeholders and this can only be earned by conducting our business in a responsible manner.

A number of other factors also affect our financial performance but are either less significant than our principal business drivers, or are mitigated by the way our operations are structured:

Weather and volumes

Changes in the quantities of electricity and gas delivered through our transmission and distribution networks may result in an increase or decrease in our revenues. Volumes are affected by weather, consumer demand and network availability as well as other factors. The impact of changing volumes may sometimes be offset by changes in costs or may sometimes result in an under- or over-recovery against our allowable revenues, with a corresponding increase or decrease in revenues in future

Seasonality

Revenues from our gas distribution networks in the US are weighted towards the end of the financial year, as gas demand is typically higher during the winter months. This has also been the case for our gas transmission and distribution networks in the UK, but our current price control arrangements are less seasonal in nature.

Otherwise, seasonality does not have a significant impact on revenues.

With the exception of commodity and other volume-related costs passed through to customers, our operating costs are generally not

Exchange rates

The reported results, cash flows and financial position of our US operations are affected by movements in the US dollar to sterling exchange rate. However, we hedge a proportion of this exposure through the use of US dollar debt and derivative financial instruments.

Commodity and other pass-through

We are allowed to recover commodity costs in the US and certain other direct costs in both the UK and the US, through charges to customers. The timing of recovery of these costs can vary between financial periods leading to an under-or over-recovery within any particular financial

We are affected by commodity prices to the extent that they affect our own energy requirements, most significantly gas purchases for the operation of our gas transmis gas distribution networks in the UK. mission and

The discontinued Ravenswood generation station was also affected by commodity prices, in particular the spreads between prices for the electricity it generates and the prices of the gas and oil it uses as fuel.

Certain US commodity contracts are recorded i our balance sheet at their fair values. Although remeasurements of their contract values are reflected in our income statement, we expect to recover the net costs incurred under these contracts from customers in current or future

Inflation

Without action to improve efficiency, our operating costs increase each year as a result of wage increases and inflation in external costs. In general, our revenues also increase each year, although not necessarily at the same rate, depending on our regulatory or contractual arrangements. As a consequence, our ability to control costs and improve efficiency is important to our ability to increase operating profits.

Our price controls in the UK are linked to retail price inflation, as is a proportion of our UK borrowings, while certain of our electricity and gas regulatory settlements in the US allow us to recover additional distribution revenues from customers if there is a significant change in the rate of inflation.

Interest rates

The costs of financing our operations are affected by changes in prevailing interest rates, as some of our debt is at floating rates. We hedge some of our exposure to interest rates with fixed-rate debt and derivative financial instruments to maintain a proportion of our debt

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E/O] CRC: 11844 EDGAR 2 at fixed interest rates.

We believe that the principal opportunities to achieve our vision and to deliver growth in shareholder value have been identified in our strategy and objectives.

Conversely, we risk failure in achieving our vision and in delivering growth in shareholder value if we do not fulfil our strategy or if we fail to achieve our objectives.

Delivering our strategy

We believe that by implementing our strategy and transforming National Grid, we will be able to deliver increased value to our shareholders.

Conversely, if we do not achieve this transformation, or the benefits in efficiency and effectiveness are not achieved, then shareholder value will not grow as we hope or will diminish.

Operating performance The operating profits and cash flows we generate are dependent on our operating performance — operating safely, efficiently and reliably and providing a quality service to customers. Our future growth is dependent on the delivery of our capital investment plans.

Talent

The skills and talents of our employees, and their motivation and dedication, are critical to the achievement of our objectives. Failure to develop our existing employees or to attract and recruit talented new employees could hamper our ability to deliver in the future.

Relationships

Our relationships with our stakeholders are critical to our future success. Maintaining these good relationships is dependent on focusing on quality of service we provide to customers, the quality of information we provide to regulators and the way we address the concerns of, and interact with, all our stakeholders.

Environment

Safeguarding our global environment for future generations is dependent on integrating sustainability and climate change considerations into our business decisions influencing legislators and regulators to reshape energy markets to meet the climate change challenge and helping and supporting our employees, customers and suppliers in changing their behaviour to be more considerate of the environment.

Financial performance Strong financial performance and operating strong financial performance and operating cash flows are the basis for funding our future capital investment programmes, for servicing our borrowings and paying dividends, as well as for increasing our value to shareholders.

Responsibility

Strong corporate governance is essential to operating responsibly and the achievement of all our objectives.

Our reputation as a responsible business is dependent on ensuring all our behaviours are lawful and ethical, on complying with our policies and licences and on living up to our core values.

If we do not live up to these high standards we could be exposed to adverse financial or other consequences.

We set out how we intend to achieve our objectives and the progress we have made during the year against our objectives on pages 24 to 43.

Risk management

Our approach to risk management is described in the Corporate Governance section on page 94. This sets out how we have established an enterprise wide risk management process with the objective of identifying risks that could have an adverse impact on National Grid.

In addition, information on how we have addressed certain of our financial risks is included in the financial position and financial management section of this Operating and Financial Review on pages 74 to 81.

Risk factors

Through our risk management process, we have identified a number of significant risks and uncertainties in achieving our objectives as follows:

- changes in laws or regulations;
- breaches of environmental or health and safety law or regulations:
- network failure or inability to carry out critical non-network operations:
- achievement of business performance objectives, including regulatory targets and delivering anticipated cost and efficiency savings;
- business development activity, including acquisitions and disposals;
- regulatory treatment of commodity costs passed through to consumers:
- reputation damage from disruptions to supply, even if outside our control;
- fluctuations in exchange rates, interest rates and commodity prices and their impact on borrowings, derivatives and commodity contracts;
- restrictions in borrowings, adverse changes in the global credit markets and changes in credit ratings or in tax rates;
- future funding requirements of our pension schemes;
- changes in accounting standards;
- consumers, suppliers or other counterparties failing to perform their obligations; and
- impact of seasonal or weather-related fluctuations.

Not all of these factors are within our control and, in addition, there may be other factors besides those listed that may have an adverse effect on National Grid.

These risk factors are described in more detail within the Corporate Governance section on pages 95 to 97.

About National Grid continued

National Grid plc

External market and regulatory environment

Global utility sector

The global utility sector is expanding, driven by the development of new sources of energy and the requirement to replace existing plant and infrastructure which are nearing the end of their useful lives. Over the next 25 years there is expected to be \$14 trillion (£7 trillion) of utility investment globally, of which \$8 trillion (£4 trillion) is expected to be in electricity and gas transmission and distribution infrastructure. Although a substantial portion of this investment will be required in the developing world, significant investment is needed in the electricity and gas transmission and distribution infrastructure in developed economies such as the UK and the US.

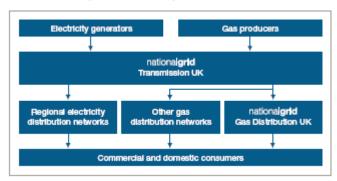
Markets in which we operate

The principal markets in which we operate are the electricity and gas markets in the UK and the northeastern US.

The generation and supply of electricity and gas in the UK and in most states in the northeastern US are competitive in that consumers can contract with different suppliers to obtain the energy they need. Those suppliers are then responsible for sourcing that energy from electricity generators or from gas extractors or importers as appropriate, as well as arranging for that energy to be delivered through physical delivery networks. These networks, including the ones we operate, are generally monopolies in their local areas as, for the majority of consumers, there are no alternative methods of receiving electricity or gas.

Energy delivery in the UK

In the UK, domestic and commercial consumers contract directly with energy suppliers who obtain the energy required from electricity generators and gas extractors or importers.



In general, energy is transported through electricity or gas transmission networks to regional electricity or gas distribution networks that then deliver energy to consumers on behalf of suppliers. Certain end customers, primarily large industrial users, receive electricity or gas direct from the relevant transmission network.

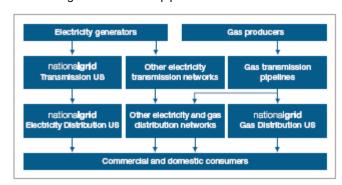
We are the owner and operator of the high-voltage electricity transmission network in England and Wales, operator (but not owner) of the two electricity transmission networks in Scotland and owner and operator of the gas national transmission system and of four of the eight regional gas distribution networks in Great Britain. We charge energy suppliers, electricity generators and gas shippers for our services, which they then incorporate into the prices charged to end consumers.

The other principal infrastructure owners and operators in the UK are Scottish & Southern, Iberdrola, E.ON, EDF, and MidAmerican Energy, each of which own two electricity distribution networks, and North West Electricity Networks and Western Power Distribution, both of which own one electricity distribution network. Scottish & Southern and Iberdrola also each own an electricity transmission network in Scotland, which we operate in both cases. The gas distribution networks in Scotland and southern England are owned by Scotia Gas Networks, in the north of England by Northern Gas Networks and in Wales and the west of England by Wales & West Utilities. Viridian is responsible for the transmission and distribution of electricity in Northern

Energy delivery in the northeastern US

In most states in the northeastern US, consumers are able to purchase their energy through independent energy suppliers, but the majority of consumers still purchase electricity or gas from their local electricity or gas distribution network business. The major alternative fuel source is oil, which is used by many consumers for domestic heating purposes.

Electricity is transported either direct from generators into local electricity distribution networks or via electricity transmission networks, while gas is obtained from import terminals or inter-state pipelines and then transported through local gas distribution networks. Certain end customers, primarily large industrial users, receive electricity or gas direct from the electricity transmission networks or inter-state gas transmission pipelines.



Our US electricity and gas distribution businesses support regulatory policies that encourage customers to purchase their energy from independent suppliers. Where this occurs, we deliver that energy to consumers on behalf of those suppliers. For the majority of consumers in our operating areas who continue to purchase their energy from us, we source energy from electricity generators or gas suppliers on behalf of our customers in accordance with regulatory approved arrangements. We are generally responsible for billing customers both for our delivery services and for electricity and gas consumed (on which we do not charge any additional margin).

On Long Island, we operate the electricity transmission and distribution network on behalf of its owner, the Long Island Power Authority. We have also sold the capacity of our Long Island generating plants to the Long Island Power Authority.

Electricity transmission and distribution networks, including the ones we own, are members of the regional transmission operators or independent system operators that have the responsibility for balancing electricity supply with demand and for the reliability of the regional transmission network. Gas distribution networks, including the ones we own, are each responsible for balancing gas supply with demand within their respective distribution area.

There are more than 25 companies and organisations that own or operate energy delivery infrastructure in the northeastern US, including National Grid, Consolidated Edison, NSTAR, Energy East and Northeast Utilities.

Other markets in which we operate

Our other businesses, with the exception of discontinued operations, primarily operate in energy related markets in the UK and the US or are directly connected to our regulated businesses as described above. This includes our metering services businesses in the UK, incorporating our legacy regulated metering business which owns approximately 80% of the domestic gas meters in the UK, and our competitive metering services business which has about an 8% market share for new and replacement gas meters.

Regulation

As a result of our position in, and importance to, the economies we serve, our electricity and gas transmission and distribution businesses are subject to UK, European Union and US federal and state laws and regulations. We have multiple regulators, each of which exercises power over how we operate within their respective jurisdictions.

Our businesses are also subject to safety legislation in the UK and the US, which is enforced by the Health and Safety Executive (HSE) in the UK and by federal safety bodies and by state and local authorities in the US. Our UK gas operations work under a permissioning regime, whereby our organisation, processes and procedures are documented in safety cases that are subject to acceptance by the HSE.

Our principal market regulators and associated rate plans and price controls can be summarised as follows:

In the UK, energy networks are regulated by the Office of Gas and Electricity Markets (Ofgem). Ofgem operates under the direction and governance of the Gas and Electricity Markets
Authority and has established price control
mechanisms that restrict the amount of revenue
that can be earned by regulated businesses.

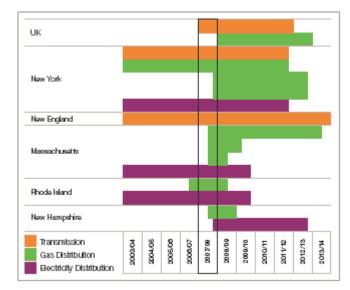
We have eight price controls in the UK, comprising two for our UK electricity transmission operations, two for our gas transmission operations, and one for each of our four regional gas distribution networks. These price controls provide a financial incentive to invest, as we receive a return on efficiently incurred capital expenditure increasing our regulatory asset base, and also provide incentives by which we can gain or lose for our performance in managing system operation, in controlling internal costs, pass-through costs and service quality.

In the US, public utilities are regulated by the Federal Energy Regulatory Commission (FERC) and by utility commissions in each of the states, including the New York Public Service Commission, the Massachusetts Department of Public Utilities, the Rhode Island Public Utilities Commission and the New Hampshire Public Utilities Commission. These US regulators set service standards and determine allowable levels of return. FERC also regulates public utility holding companies, including mergers and acquisitions of public utilities.

We have four electricity rate plans and nine sets of gas rates in the US, covering our electricity distribution operations in upstate New York, Massachusetts, Rhode Island and New Hampshire and our gas distribution networks in upstate New York, New York City, Long Island, Massachusetts, New Hampshire and Rhode Island. Our electricity rate plan in upstate New York also covers our electricity transmission network in that state. Our rates for our electricity transmission network in New England are subject to federal regulatory approval.

Our rate plans are based on our cost base, together with a return on capital expenditure. Some rate plans include earned savings mechanisms that allow us to retain a proportion of the savings we achieve through improving efficiency, with the balance benefiting customers. We are also permitted to recover commodity and other pass-through costs which we incur, together with the recovery of stranded costs. Our reliability performance under certain rate plans is subject to performance targets established by the relevant regulator, under which we can be assessed monetary penalties for failing to meet those targets.

The periods of our current price controls and rate plans can be summarised as follows:



More information about the regulatory environments in which we operate, and on the nature of our rate plans and price controls, is provided in the business sections on pages 44 to

In addition, as a public company with shares listed on both the London and New York Stock Exchanges, we are subject to regulation by the UK Financial Services Authority and by the US Securities and Exchange Commission.

Organisation and structure

Organisation

Our organisational structure and executive responsibilities are designed around a philosophy of ensuring that we have the appropriate balance between activities that are local, by lines of business and those that are common throughout National Grid.

The Board of Directors has overall responsibility for governance and management of National Grid. The Executive Committee, led by the Chief Executive, is responsible for day-to-day management of National Grid and for the execution of our strategy as approved by the Board.

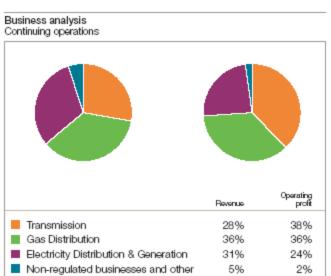
Executive Committee Chief Executive Steve Holliday Finance and **Deputy Chairman** Shared Services Bob Catell Steve Lucas Gas Distribution Transmission Mark Fairbairn Non-regulated **Electricity Distribution** businesses and other, & Generation including corporate Tom King functions Information Services

In addition to the Executive Committee, the Board has also established a number of other committees that exercise governance over National Grid's activities, including the Finance, Risk & Responsibility, Remuneration, Nomination and Audit Committees.

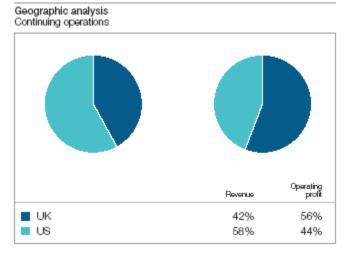
More information is available in the Corporate Governance section on pages 88 to 97.

Business and geographic analysis

Our continuing operations are organised by lines of business as follows:



Our businesses are divided between the UK and the US as follows:



The above charts are based on revenue and operating profit from continuing operations for the year ended 31 March 2008 including exceptional items, remeasurements and stranded cost recoveries.

Revenue in the US includes commodity charges to customers for the energy they use, and on which we make no margin; revenue in the UK does not include similar charges.



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Corporate structure

The following is a simplified diagram of our corporate structure and excludes most intermediate holding

National Grid plc National Grid Holdings One plc National Grid Electricity Transmission plc National Grid Gas plc British Transco Internat. Finance BV **British Transco** Finance, Inc. National Grid Grain LNG Limited Other UK operating companies NGG Finance plc National Grid USA Niagara Mohawk Power Corporation KeySpan Corporation The Brooklyn Union Gas Company Massachusetts Electric Company KeySpan Gas East New England The Narragansett Electric Company **Boston Gas** Company National Grid Electric Services New England Electric Transmission Corp. **National Grid** Nantucket Electric Company Other US operating companies

The majority of our operating subsidiary companies trade under the National Grid name. The above diagram excludes the Ravenswood generation station that we have agreed to sell, which is a discontinued operation.

History

National Grid originated from the restructurings of the UK gas industry in 1986 and the UK electricity industry in 1990. We entered the US electricity delivery market in 2000 in New England and expanded into upstate New York in 2002. We substantially increased our UK wireless infrastructure activities in 2004 and in 2005 we sold four UK regional gas distribution networks.

In 2006, we acquired from Southern Union Company its gas distribution network in Rhode Island and in 2007 we acquired KeySpan Corporation, expanding our interests in the US substantially. Also in 2007 we completed the sales of our UK and US wireless infrastructure operations and of the Basslink electricity interconnector in Australia, in line with our strategy to focus on our core energy infrastructure markets in the UK and the US.

On 31 March 2008 we announced that we had reached an agreement to sell the Ravenswood generation station.

Key mi	lestones
1986	British Gas incorporated as a public limited company.
1990	Electricity transmission network in England and Wales transferred to National Grid on electricity privatisation.
1995	National Grid listed on the London Stock Exchange.
1997	British Gas (BG) demerged Centrica.
1997	National Grid demerged Energis.
2000	Lattice Group demerged from BG and listed separately.
2000	New England Electric System and Eastern Utilities Associates acquired by National Grid.
2002	Niagara Mohawk Power Corporation merge with National Grid's US operations.
2002	Merger of National Grid and Lattice Group form National Grid Transco.
2004	Acquisition of UK wireless infrastructure network from Crown Castle International Corp.
2005	Sales of four UK regional gas distribution networks.
2005	Adoption of National Grid as our name.
2006	Acquisition of Rhode Island gas distributio network.
2006	Announcement of new strategy, including our decision to focus on core energy markets in the UK and US.
2007	Sales of UK and US wireless infrastructure operations and of the Basslink electricity interconnector in Australia.
2007	Acquisition of KeySpan Corporation.
2008	Agreement reached to sell the Ravenswood generation station.

The history of the operations we now own dates back much further than the dates listed above. In the UK, the first national electricity transmission network became operational in 1938, while the first national gas company commenced operations in 1812. In the US, the first electricity distribution operations in areas we now serve date back to 1896 in Buffalo, New York, while the earliest gas distribution network started in 1823 in Boston, Massachusetts.

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Current and future developments

External market developments

Market structure and ownership

There have been no significant changes in the structure of the UK energy infrastructure market since 2005, when we sold four of our regional gas distribution networks to other operators. The most significant changes in ownership during the year were the takeover of Scottish Power (owner of one of the Scottish transmission networks that we operate) by Iberdrola, a Spanish utility in April 2007 and the sale by United Utilities of its electricity distribution network to North West Electricity Networks in December 2007.

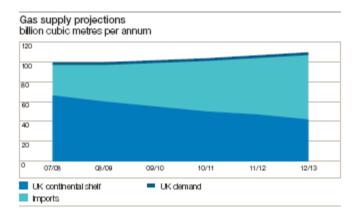
In the northeastern US, there have been no significant structural changes although the market continues to evolve, while the most significant ownership changes have been our acquisition of KeySpan in August 2007 and the proposed acquisition by Iberdrola of Energy East, a utility operating in New York, Connecticut, Massachusetts and Maine.

Energy market developments

In both the UK and the US, high energy prices have been a key feature during the last 12 months and this has led to significant increases in bills to consumers for their energy supplies.

Both the UK and the US continue to be in a period of changing energy supply patterns, as more reliance is placed on imported gas and on new sources of electricity generation, including renewables. In the UK, the decline in UK continental shelf gas reserves and the UK government's emphasis on combating climate change and encouraging renewable generation mean we continue to see a trend toward greater use of imported gas for both consumption and use in power generation. In the US, declines in conventional gas supplies are expected to be replaced from other sources, including liquefied natural gas (LNG). Furthermore, there is significant interest in the development of renewable power generation.

As a consequence of the decline in gas production from the UK continental shelf, our latest forecast is that the UK will import around 50% of its gas requirements by the end of the decade.



These changes are expected to impact all our electricity and gas transmission networks. In particular, significant investment is planned in our UK electricity and gas transmission networks and

gas distribution networks to link new power plants and gas import facilities with domestic, business and industrial consumers, while in the US asset replacement and renewable power developments will require increasing investment in our US electricity transmission and distribution

Activity to increase the UK's import capability has involved the development of new import infrastructure by National Grid and other market participants. During the year, a number of significant infrastructure projects were commissioned, including a major gas pipeline in south Wales, linking the Milford Haven LNG import terminals to our gas network.

In addition, we continue to invest in our own LNG import facility on the Isle of Grain and have commenced work in conjunction with TenneT on the construction of BritNed, an electricity interconnector which will link the UK and the Netherlands electricity markets. We are also investigating the feasibility of constructing a Belgian electricity interconnector in conjunction with Elia.

In the US, there has also been a significant increase in applications for the construction of new gas pipeline and LNG import terminal capacity, focused on the northeastern, midwest and southeastern US. This includes an offshore LNG import terminal in Massachusetts Bay, near Boston, that will provide additional gas supply capacity to New England gas consumers.

Regulatory developments

UK and European regulatory developments During the year ended 31 March 2008, there were no significant changes in the legislative and regulatory framework in the UK.

In September 2007, the European Commission published a third package of legislative proposals for energy markets within the European Union. The key areas include unbundling of transmission and distribution of energy from customer supply and generation activities, the creation of a European regulatory agency for energy and the establishment of a European network of transmission system operators for gas and electricity respectively to facilitate cooperation and coordination at both a European and regional level. While there are many complex issues for which resolution is required, there is a strong desire for political agreement to be reached during 2008.

This was complemented in January 2008 by a number of environmental proposals focusing on renewable energy, emissions trading, carbon capture and energy efficiency

In April 2008, Ofgem announced a review into the operation of the energy markets in the UK and how the regulatory model in the UK is functioning.

US regulatory developments
The principal US regulatory policy developments have been an increased focus on reducing carbon emissions, involving the need for significant increases in energy efficiency and the development of renewable generation.

State regulatory commissions and other policy makers in the various jurisdictions are taking different approaches to achieve this focus, including the establishment of targets for reductions in electric load growth, utility energy efficiency programmes, and renewable generation. There is also an ongoing debate about the potential for revenue decoupling mechanisms to address disincentives to implementing energy efficiency programmes.

Changes in price controls, rate plans and other agreements

UK price controls

In the UK, five year price controls for our electricity and gas transmission networks in the UK came into operation on 1 April 2007, together with one year system operator price controls. Our UK gas distribution networks were also subject to a one year price control review during 2007/08, the principal impact of which was to increase prices by approximately 11% and to reduce the seasonality of revenues.

We have accepted Ofgem's final proposals for new price controls with respect to our role as owner and operator of four of the eight gas distribution networks in Great Britain, covering the period from 1 April 2008 to 31 March 2013. The key elements are a 4.3% post-tax real rate of return on our regulatory asset value, a £2.9 billion baseline five year capital expenditure allowance and a £1.9 billion five year operating expenditure allowance. We have also accepted system operator price controls for our electricity and gas transmission operations for 2008/09.

US rate plans

In the US, in conjunction with our acquisition of KeySpan, we agreed rate plans with the New York Public Service Commission with respect to our gas distribution operations in New York City and Long Island. Under these plans, base delivery rates for our New York City operations increase by \$5 million (£2.5 million) for calendar year 2008, with further increases of \$5 million (£2.5 million) each year up to 2012. For our Long Island operations, base delivery rates increase by \$60 million (£30 million) for calendar year 2008, with increases of \$10 million (£5 million) each year up to 2012. Both rate filings allow for increases in taxes and environmental remediation costs to be deferred and recovered in future periods.

We have also filed, or are planning to file, rate plan applications that would increase gas distribution rates in upstate New York, Rhode Island and New Hampshire and decrease electricity distribution rates in New Hampshire. We have also applied for deferred recovery of incremental investment in upstate New York.

Other agreements

In conjunction with the acquisition of KeySpan, revised agreements were entered into with the Long Island Power Authority (LIPA) for the period until 2013 with respect to our role as operator of their electricity transmission and distribution network on Long Island, an option for LIPA to purchase two generation plants that we own, and the provision of energy procurement and management services. During the year we also entered into a joint venture arrangement with TenneT to construct an electricity interconnector between the UK and Netherlands and an agreement with Elia to explore the feasibility of constructing an electricity interconnector with Belgium.

We have entered contracts with E.ON, Iberdrola and Centrica for a further 6.7 billion cubic metres of long-term LNG importation capacity at our Isle of Grain LNG import terminal in the Thames Estuary, this being Phase III of our development of this facility. Work commenced during 2007 and a contract has been awarded to CB&I to deliver the second jetty, an additional 190,000m3 storage tank and associated works. National Grid is planning to invest £310 million in this additional development, which is expected to bring total planned investment in Grain LNG to approximately £830 million.

Legal and related matters **Metering competition investigation**

On 25 February 2008, Ofgem announced it had decided we had breached the UK Competition Act 1998 with respect to the development of term contracts with gas suppliers entered into by our UK metering services business in 2004 and imposed a fine of £41.6 million, which has been suspended pending our appeal to the Competition Appeal Tribunal. We believe that we have never been anti-competitive and that we will be successful in appealing this decision. We have therefore not provided for this fine in our financial statements

Environmental remediation

In last year's Annual Report and Accounts we noted that, together with the Environment Agency, we had sought judicial review to clarify the legal position with regard to the remediation of a site in Bawtry, Yorkshire. This former gas site was not part of the assets that formed part of the gas privatisation in 1986 and therefore had never been owned by National Grid. In June 2007, the House of Lords announced that it was allowing our appeal, and confirmed that National Grid has no legal liability with respect to the site in Bawtry, nor for other former UK gas sites which did not form part of the assets we acquired at the time of privatisation

KeySpan Department of Justice investigation In May 2007, KeySpan received a civil investigative demand from the Antitrust Division of the United States Department of Justice, requesting the production of documents and information relating to its investigation of competitive issues in the New York City electricity capacity market prior to our acquisition of KeySpan. The civil investigative demand is a request for information in the course of an investigation and does not constitute the commencement of legal proceedings, and no specific allegations have been made against KeySpan. In April 2008, we received a second civil investigation demand in connection with this matter. We believe that KeySpan's activity in the capacity market has been consistent with all applicable laws and regulations and will continue to cooperate fully with this investigation.

24 Performance summary and key performance indicators

National Grid plc

Performance summary and key performance indicators

Delivering our strategy

Lines of business

- · Established Transmission, Gas Distribution and Electricity Distribution & Generation as lines of business, with common management teams, each with a responsible Executive Director

 Commenced process of separating out functions and processes that support multiple lines of business

 Previously separated UK and US functions combined – including IS, human resources and procurement

model

- Established a shared services organisation, based in the UK and US to support the lines of business
 Commenced implementation of new back office systems, to provide a common platform in the future
 Commenced reviews within each line of business, shared services and information services to identify best practices within different parts of our UK and US operations, so that they can be shared across National Grid

New businesses

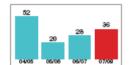
- Investment and integration of KeySpan Corporation acquired during 2007 for cash consideration of £3.8 billion, together with acquired debt of £2.2 billion
 Integration of Rhode Island gas distribution operations acquired during 2006/07 for cash consideration of £269 million

businesse

- Sale of UK and US wireless infrastructure operations on 3 April and 15 August 2007 for £2.6 billion Sale of Basslink electricity interconnector on 31 August 2007 for proceeds of £485 million Entered into agreement on 31 March 2008 to sell the Ravenswood generation station for \$2.9 billion (£1.4 billion)

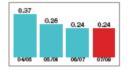
Operating performance Safety

Injuries to the public*



Employee lost time frequency rate*° (per 100,000 hours worked)

Target: zero



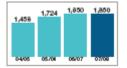
Employee sickness absence rate* (%)

Target: zero workrelated absences



UK gas distribution mains replacement

Target: 1.835 km in 2007/08



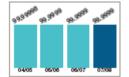
Efficiency

- Completed integration of Rhode Island gas operations acquired in the previous year
 Voluntary early retirement programme in the US accepted by 560 employees, as part of the integration of our operations following the acquisition of KeySpan
 Cost reduction programmes undertaken in Transmission UK and Gas Distribution UK

Reliability

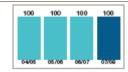
Transmission UK electricity system reliability (%)

Target: 99.9999%



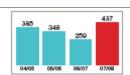
Transmission UK gas reliability (%)

Target: 100%



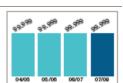
Transmission US system reliability (MWh)

Target: less than 264 MWh of losses



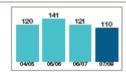
Gas Distribution UK network reliability (%)

Target: 99.999%



Electricity Distribution US network reliability

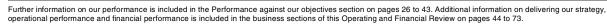
Target: less than 110 to 120 mins of outages



investment

Total capital





BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

Y59930.SUB, DocName: EX-15.1, Doc: 16, Page: 16

Description: EXHIBIT 15.1

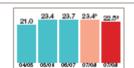
CRC: 36728 **EDGAR 2**

Talent

- Over 200 senior managers, led by the Executive Directors, have been through our Performance for Growth over 200 senior managers, led by the Executive Directors, have been timough our Performance for Growth programme, focusing on how to develop our employees, address skills gaps, increase employee engagement and coach for better performance
 We have developed, and calibrated, a single set of performance measures for our senior managers
 We achieved an 83.6% response rate to our employee engagement survey conducted in February 2008
 We have upgraded and aligned our talent review process across National Grid, involving talent planning sessions across our lines of business and covering both the UK and the US

Inclusion and diversity

Proportion of female employees (%)



Proportion of black and minority ethnic employees (%)



Relationships

Stakeholder relations and

- Over 350 equity investor roadshows in the year and presentations to debt investors in 17 countries
- Reliability programme in the US to address customer service Engaged independent experts to review our community investment activities First official partner of Special Olympics Great Britain

Environment

change

Percentage reduction against baseline*

Target: 80% by 2050



 We have increased our target for the reduction in greenhouse gas emissions against our baseline from a 60% reduction by 2050 to an 80% reduction by 2050

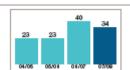
Historically

- Land contamination issues managed at 529 sites*
 Environmental work stages completed at 189 sites*
 Of these, 33 sites included remediation*

Protecting

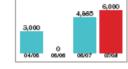
Significant direct environmental incidents* (number)

Target: zero



Total value of fines from prosecutions and citations* (\$)

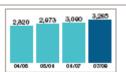
Target: zero



Financial performance

cash flow

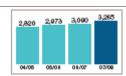
Adjusted operating profit†+ (£m)



Adjusted earnings per share†+ (pence)



Cash generated by continuing operations†



- Synergy savings
 Rhode Island \$18 million target achieved
- \$38 million of KeySpan target of \$200 million achieved

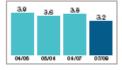
Returns from investment

Return on equity (% - three year average)

11.8%

Financial discipline Interest cover†

Long-term target: range 3.0-3.5



Share repurchases

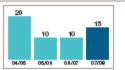
(£bn)

£1.5bn

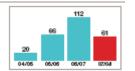
Shareholder returns

Dividend growth (%)

Target: 7% to 31 March 2008 (8% to 31 March 2012)



Total shareholder return (% - three year cumulative)



- * Excludes KeySpan will be included in key performance indicators from 1 April 2008 onwards and reported in the Annual Report and Accounts 2008/09
 † Includes operations acquired with KeySpan for the period from 24 August 2007 to 31 March 2008 or as at 31 March 2008
 † Adjusted operating profit and adjusted earnings per share exclude exceptional items, remeasurements and stranded cost recoveries (see page 36)
 ° Employee lost time injury frequency rate for 2006/07 has been restated to align UK and US definitions of a lost time injury (see page 29)

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

Y59930.SUB, DocName: EX-15.1, Doc: 16, Page: 17
Description: EXHIBIT 15.1

E/O] CRC: 65026 EDGAR 2 Includes KeySpan operations on a pro forma financial performance basis assuming the acquisition occurred on 1 April 2007 hocludes

National Grid plc

Performance against our objectives

Our performance and the progress we have made against the objectives we have set ourselves are described below and on the following pages. This includes commentary on our financial results on pages 36 to 43 and information on the performance and financial results of each business in the business sections on pages 44 to 73.

We measure the achievement of our objectives through the use of qualitative assessments and through the monitoring of quantitative indicators, called key performance indicators (KPIs). In line with our operating objectives, we use both financial and non-financial KPIs. Where relevant, KPIs are used as our primary measures of whether we are achieving our objectives; however, the scale and size of our operations means we use many other detailed performance measures in addition to KPIs. We also use KPIs to measure performance against our primary objective of growing our businesses to create value for our shareholders. We use qualitative assessments to judge progress against our objectives in areas where numerical measures are less relevant.

The majority of our KPIs are unchanged from last year, except that we have reflected the acquisition of the Rhode Island gas distribution business in all our KPIs this year. We have also included new KPIs measuring our financial performance.

These comprise indicators of our performance in: obtaining a return on investment through a return on equity measure; financial discipline through measures for interest cover and return of cash to shareholders through our share repurchase programme; and shareholder return through a dividend growth measure. Total shareholder return is now presented as a cumulative three year measure. We have retained the KPI for gas safety-related service standards in the UK, but it is now presented as part of the Gas Distribution section on

We have incorporated the KeySpan acquisition into certain of our KPIs, in particular financial KPIs which reflect the results of operations acquired from their acquisition on 24 August 2007, together with the associated increase in interest on debt used to finance the acquisition. To assist in understanding the financial impact of the acquisition we have also included 'pro forma' financial measures which illustrate what our financial performance might have been like if we had owned KeySpan for the entire financial year commencing on 1 April 2007. The remaining KPIs will be updated in next year's Annual Report and Accounts to reflect the integration of KeySpan into our businesses.

Responsibility

We believe operating responsibly is essential to the way we conduct our operations, invest, develop our people and manage our relationships. It underpins everything we do.

We always strive to operate to the highest standards of corporate governance and we believe in strong business ethics, based around our Framework for Responsible Business and our core values of respecting others and valuing diversity, demonstrating integrity and openness in all relationships, taking ownership for driving performance and operating as one team.

Our corporate responsibility performance is reported in line with our corporate responsibility reporting principles.

We continue to enjoy external recognition of our responsible business approach. We remain on the Dow Jones Sustainability World and FTSE4Good indices and once again have been rated as a 'platinum' company in the Business in the Community 2007 corporate responsibility index, confirming that our approach to responsible business is world-class.

In March 2007, we published our Standards of Ethical Business Conduct that replaced our UK Code of Business Conduct, and in December 2007, following the completion of the KeySpan acquisition, these Standards also replaced the US Standards of Conduct, thereby providing a single set of standards throughout National Grid. The new standards provide a common set of practical guidelines to help ensure that our behaviours are lawful, we comply with our policies and licences and we follow the values set out in our Framework for Responsible Business and our core values. In 2007/08, there were 11.6 substantiated breaches per 1,000 employees compared with 8.0 in 2006/07 and 4.8 in 2005/06. Offences include such things as fraud, internet and email abuse, drugs and alcohol abuse and misuse of company vehicles and other assets. Disciplinary actions can range from a verbal warning to dismissal.

In our 2008 employee engagement survey, which included for the first time employees who joined us on the acquisition of KeySpan, 61% (2006: 65%) of respondents considered something would be done if they reported an inappropriate business practice or an ethical issue, while 47% (2006: 65%) believed National Grid is a good company for customers to do business with.

Our approach to corporate governance and business ethics is described in more detail in the Corporate Governance section on pages 88 to 97.

£3.8bn

KeySpan acquisition completed for £3.8 billion consideration

£3.1bn

Wireless and Basslink sold for £3.1billion proceeds

£1.5bn

Share repurchases

£3.1bn

Capital expenditure

We are in the process of transforming National Grid in line with our strategy.

This means creating lines of business and focusing on delivering an improved service to our customers, supported by an operating model that delivers effective and efficient shared services and information systems. We will also invest in new businesses where there is identifiable value for our shareholders. We have successfully disposed of our noncore UK and US wireless infrastructure operations, the Basslink electricity interconnector in Australia and our Advantica engineering consultancy business, resulting in substantial completion of our plans to exit non-core businesses.

Operating model

Our operating model is based on ensuring that activities are carried out at the most appropriate level, either locally, within lines of business or across National Grid.

We have established lines of business focused on the delivery of services to customers, able to share best practice and positioned to deliver improvements in operating and financial performance in the future.

In designing and implementing an operating model to deliver our vision of being the foremost international electricity and gas company we believe we can deliver the following by 2011/12:

- a significantly improved customer experience;
- a high performance culture;
- common front office and back office systems across National Grid;
- structural changes in the way we operate;
- long-term labour agreements that enable us to deliver improved operational performance and rewarding work for our employees;
- rationalised locations from which we operate;
- refreshed system operation technology;
- improved productivity; and
- advanced decision support tools and analytic capabilities.

Activities during the year Lines of business

We have established Transmission, Gas Distribution and Electricity Distribution & Generation as lines of business, each led by an Executive Director. Finance and Shared Services, and other functions including information services, human resources and procurement are being organised to support our businesses in both the UK and the US.

Common functions

We have made significant progress in establishing a shared services organisation, led by an Executive Director, separate from the lines of business, but working with them to deliver an efficient service to our customers. Activities such as customer billing and cash collection, human resource services and payroll, facilities management, accounting and financial transactions processing have been transferred into our shared services organisation, supporting our businesses in the UK and the US.

As part of this transformation, we have combined formerly separate functions in the UK and the US into single functions that span National Grid to ensure that we have a common approach to the way we operate. This includes information services, human resources, corporate affairs, procurement and legal services.

Common systems and processes

Our aim is to reduce the number of systems that we have and to align processes so that there is a single National Grid method of operating. We have commenced a programme to implement a common suite of back office systems and applications, which will underpin the development of common processes and integrate with front office systems used by our businesses. While we are centralising activities we believe are common across National Grid, we are also focused on ensuring that our employees are able to deliver services to our customers locally.

Identification of best practice

We have commenced reviews within each line of business, within shared services, information services and other functions to identify best practices within different parts of our UK and US operations, so that they can be shared across National Grid.

Safety, health and environmental management

Our transformation programme includes restructuring our approach to managing safety, health and environmental issues, embedding responsibility directly into the lines of business for safety, health and environmental management, supported by safety, health and environmental expertise in support functions in the UK and the US. This means that all of our managers in National Grid will be accountable for safety, health and environmental management in their areas of operations. We are still at an early stage in this element of the transition and over the coming months we aim to develop new control structures, more clearly define responsibilities for certain cross-business accountabilities and improve the levels of documentation in line with our new operating model.

Lines of **business**

Established and focused on delivering improvements

Integration

Integration of KeySpan to deliver synergies to benefit customers and our shareholders

Transformation

Programme started to deliver common systems and processes

Performance for growth

Talent development for our managers

Performance against our objectives continued

National Grid plc

New businesses

We will consider acquiring new businesses in our core markets of electricity and gas delivery in the UK and the US. This may include generation assets where our exposure to commodity price fluctuations is limited.

We use the aggregate of consideration paid and debt assumed to monitor our investment in acquisitions. There is no numerical target as each investment is different and is considered on its own merits.

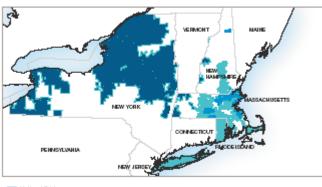
As part of our monitoring of financial performance we monitor synergy savings generated following an acquisition (see page 25).

Completion of our acquisition of KevSpan

Following an extensive approval process, we completed the acquisition of KeySpan on 24 August 2007 for consideration of £3.8 billion together with the assumption of £2.2 billion of debt. Goodwill arising on the acquisition was £2.3 billion.

Approvals were received from both National Grid and KeySpan shareholders and from a number of governmental and regulatory bodies, including the Federal Trade Commission in respect of the Hart-Scott-Rodino Antitrust Improvements Act, the Committee on Foreign Ownership in the US, the Federal Energy Regulatory Commission, the New Hampshire Public Utilities Commission and the New York Public Service Commission. We and KeySpan also reached an amended agreement with the Long Island Power Authority (LIPA), which was approved by the comptroller of New York.

National Grid and KeySpan



National Grid

KeySpan National Grid and KeySpan

operations in the northeastern US as KeySpan was the fifth largest distributor of natural gas in the US and the largest in the northeastern US, serving 2.6 million customers in New York, Massachusetts and New Hampshire. KeySpan also operates an electricity transmission and distribution network serving1.1 million customers in New York under a long-term contract with LIPA. KeySpan's other interests included 2.5 GW of merchant electricity generation and 4.1 GW of

The acquisition of KeySpan has significantly expanded our

contracted electricity generation, together with a small portfolio of non-regulated energy-related services, and strategic investments in certain gas pipelines, storage and LNG assets.

Other acquisitions

There were no other acquisitions during the years ended 31 March 2008 or 31 March 2006.

During the year ended 31 March 2007, we completed the acquisition from Southern Union Company of its Rhode Island gas distribution business for £269 million, including transaction costs of £3 million. Goodwill arising on the acquisition was £144 million. The Rhode Island gas distribution business served approximately 245,000 customers through a distribution network of over 3,000 miles of mains and substantially overlaps with our electricity distribution service area in Rhode Island.

Exit non-core businesses

Our decision to focus on our energy delivery markets in the UK and the US resulted in a commitment to exit from our wireless infrastructure operations in the UK and US and from the Basslink electricity interconnector in Australia.

We are also required to dispose of the Ravenswood generation station in New York City as a condition of our acquisition of KeySpan

Our principal objective on exiting a business is to maximise the proceeds we can generate from each sale.

Disposals

We have achieved our plans to dispose of non-core

- on 3 April 2007, we completed the sale of our UK wireless infrastructure business for proceeds of £2.5 billion;
- on 15 August 2007, we completed the sale of our US wireless infrastructure operations for £147 million;
- on 31August 2007, we completed the sale of the Basslink electricity interconnector in Australia for £485 million; and
- on 31March 2008, we entered into an agreement to sell the Ravenswood generation station for \$2.9 billion (£1.4 billion), subject to regulatory approval.

Our wireless infrastructure business in the UK was created through the combination of National Grid's then existing wireless infrastructure business with the UK operations of Crown Castle International Corp., which was acquired for cash consideration of £1.1billion during the year ended 31 March 2005. Our wireless infrastructure operations in the US were expanded during 2006/07 with acquisitions at a cost of £85 million. Its main operations are the construction and ownership of wireless telecommunications towers in the US. We constructed the Basslink electricity interconnector across the Bass Strait between Victoria and Tasmania.

During the year, we also completed the disposal of our Advantica engineering consultancy business for proceeds of £18 million and we entered into an agreement, subject to regulatory approval, to sell our 50% share in Intelig, a telecommunications business operating in Brazil.

On 31 March 2008, we entered into an agreement to sell the Ravenswood generation station for \$2.9 billion (£1.4 billion). Its disposal was a condition of regulatory approval for the KeySpan acquisition. Subject to regulatory approvals of the proposed disposal, completion is expected to occur during the summer of 2008.

In addition to exiting non-core businesses, we will also consider selling businesses where we believe we can obtain proceeds in excess of the value we can generate ourselves. During the year we explored the possibility of selling our UK property business, however our conclusion was that we could obtain better value through retaining this business.

□ Annual Report and Accounts 2007/08

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Operating performance

We aim for operational excellence by performing to the highest standards of safety, efficiency and reliability and by improving customer service. By delivering on our capital investment plans we can create value through organic growth.

Safety

Safety is paramount.

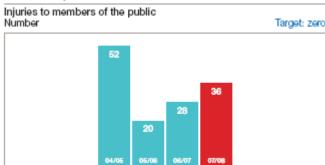
Our most important goals are: to ensure that members of the public are not injured as a direct result of our operations; to deliver a working environment where there are zero work-related injuries and illnesses; to reduce gas leaks on our distribution networks; and to improve the health of our employees so they are fit for work every day.

We use a range of lagging and leading indicators to monitor our performance against our safety objectives including members of the public injured as a direct result of our operations; employee lost time injury frequency rate; kilometres of gas distribution mains replaced in the UK; and employee sickness absence rate.

Safety and health performance relating to KeySpan are excluded from the metrics set out below. This is because the acquisition took place part way through the year and so would include a period when National Grid was not in control of the operations acquired.

During 2007/08, we have reviewed the critical safety risks across our business, ensuring they are effectively managed. To support this, we have developed a programme for improving safety performance in National Grid: 'Trusted to Work Responsibly'. This renewed approach builds upon our well established safety procedures and reinforces the need for individual and collective ownership of safety performance. It recognises that our workforce is well trained and should be trusted to deliver their work in the right way - the safe way. It was launched across National Grid in October 2007 and followed by the publication and implementation of Golden Rules that encompass all our businesses. These set consistent standards for good safety behaviours but are interpreted so that they reflect the risk profiles of different parts of the business and reinforce a culture whereby safety becomes second nature. We have also reinforced our approach to process safety. During 2007/08, we have reviewed the risk profile of our gas assets and have completed a culture survey to find out the views of employees on process safety. We have also trained our Executive Directors and senior managers on process safety and issued a new commitment statement agreed by the Board.

Public safety



- Includes fatalities, injuries requiring the person to attend hospital and, in the UK, any other injuries reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR)
- Excludes operations acquired with KeySpan. These will be included from 2008/09

During 2007/08, 36 members of the public were injured as a direct result of our operations compared with 28 during 2006/07 and 20 in 2005/06. There was 1 public fatality resulting from a road traffic accident in the US.

We discuss our performance relating to consumer gas safety in the Gas Distribution section on page 56.

Employee safety

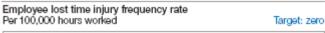
We have clarified our definition of employee lost time injuries (see page187) in order to align our approach to recording employee acute lost time injuries, chronic injuries and occupational ill health cases in the UK and the US. As a consequence, we are restating down the total employee lost time injuries for 2006/07 from 142 to 97 and the corresponding employee lost time injury frequency rate from 0.34 to 0.24. A more detailed explanation for the restatement is available on our website.

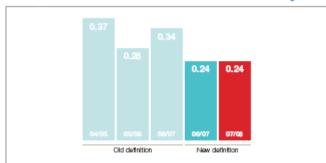
During 2007/08, 88 of our employees received injuries that resulted in them taking time off work, compared with 97 in 2006/07 and 117 (number not restated) in 2005/06.

If the US lost time injuries are recorded under US Occupational Safety & Health Administration (OSHA) definition, as in previous years, the total number of lost time injuries in 2007/08 is 140, compared with 142 and 117 in the previous two years. Similarly, the employee lost time injury frequency rate is 0.38 compared with 0.34 and 0.28 in 2006/07 and 2005/06 respectively.

Since joining National Grid in August 2007, 42 lost time injuries have been sustained by our employees acquired with KeySpan.

Employee lost time injuries track our progress towards our target of zero work-related injuries. However, our employee lost time injury frequency rate provides a more accurate indicator of year-on-year performance as it takes into account changing employee numbers resulting from acquisitions and disposals. Employee lost time injuries per 100,000 hours worked was 0.24 in 2007/08 compared with 0.24 and 0.28 (number not restated) in the two previous years.

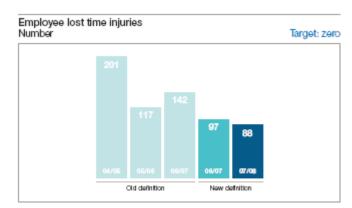




- 2006/07 restated to align UK and US reporting of lost time injuries
- Excludes operations acquired with KeySpan. These will be included from 2008/09

Performance against our objectives continued

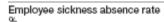
National Grid plc



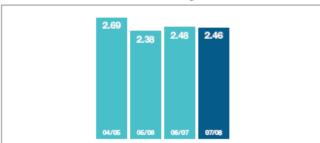
- 2006/07 restated to align UK and US reporting of lost time injuries
- Excludes operations acquired with KeySpan. These will be included from 2008/09

In our 2008 employee engagement survey, 71% of respondents felt confident that safety concerns or issues raised would be addressed, compared with 79% in the 2006 survey. In 2008, 73% of respondents also considered that National Grid never compromises safety in order to meet other goals (2006: not measured).

Employee health



Target: zero work-related sickness



* Excludes operations acquired with KeySpan. These will be included from 2008/09

We are committed to protecting employees' health during work activities. We have continued to develop our risk based approach and instigated further programmes of support for employees with musculoskeletal conditions. Across the business, employees have engaged in well-being and education programmes designed to encourage good lifestyle choices. Approaches to health promotion across National Grid are currently being reviewed with the aim of establishing and delivering an effective well-being programme encompassing health education, fitness and nutrition, work/life balance and health management and disease prevention.

We continue to be active participants in the UK Business in the Community 'Action on Health' and influential members of the Energy Networks Association's Occupational Health

2.46% of available work days were lost due to sickness absence in 2007/08 compared with 2.48% in 2006/07 and 2.38% in 2005/06.

Contractor safety

There was a decrease in the number of contractor lost time injuries from 131 in 2006/07 to 105 in 2007/08. The majority of these occurred on construction activities.

Efficiency

By improving efficiency, we can constrain the cost of our operations borne by customers and improve returns to shareholders. We review our operations continually to identify opportunities to improve the operational productivity of our assets and our employees, and to identify areas in which we can reduce costs or restrict cost increases. Planning ahead is essential in our approach to maintaining and improving efficiency.

Our primary method of measuring improvements in efficiency is through our financial performance.

We have continued to transform National Grid in line with our strategy of being more focused, more integrated and more disciplined. We have now created a shared service organisation covering both the UK and the US that supports all of our lines of business. We have also begun integrating the operations acquired with KeySpan in the US with our lines of business, which we believe will enable us to achieve significant synergies.

Information on our financial performance during the year is set out on pages 36 to 43.

Reliability

Our principal operations are critical to the functioning of the economies we serve. Th reliability of our energy networks is one of our highest priorities after safety.

We use business specific reliability performance indicators to measure our reliability performance

Our approach to maintaining and improving reliability involves: investing in infrastructure and systems to provide the operational tools and techniques necessary to manage our assets and operations to high standards and investing in the renewal of assets; investing in the skills and capabilities of our people to give them the ability to operate our networks to a high degree of service excellence; and maintaining a constant focus on reliability as one of our principal objectives, ensuring we are proactive about planning to ensure reliability and that we react quickly to factors that could compromise reliability.

Overall we continued to meet or exceed agreed performance targets. However, in upstate New York, we significantly improved the number of times the average customer was without power during 2007, but we still incurred a penalty of \$13.2 million (£6.6 million). We are seeing improved performance as a result of our comprehensive reliability improvement programme, which will involve investment of over \$930 million (£470 million) over the next five years.

More information on the reliability of each of our businesses is included in the business sections on pages 48, 56 and 65.

Customer service

Our objective is to impress our customers with the quality of the services we provide, with our responsiveness when things go wrong and with our dedication to continued improvement.

We use business specific service quality performance measures to measure our performance in this area

In addition to our plans to improve reliability, in particular for our US electricity distribution networks, we plan to improve the way we interact with our customers. We aim to achieve this by enhancing or replacing the systems we use, providing our employees with the training, empowerment and support they need to deliver, and by improving the quality of our internal and customer communications.

investment

Capital investment is one of the principal drivers to future growth, as the majority of the capital investment we make enables us to earn an increased financial return.

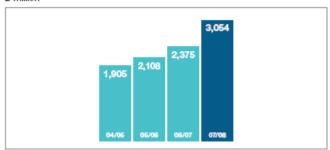
The principal measure we use to monitor organic investment is capital expenditure, which includes investment in property, plant & equipment as well as in internally created intangible assets such as software.

Our capital investment plans reflect changing energy infrastructure requirements.

Our capital investment programme in our regulated businesses is based on an assessment of what is needed to maintain or improve the performance of our regulated networks or to extend those networks where required to serve new sources of energy or to reflect changes in customer demand. This usually takes place within defined regulatory frameworks that permit us to earn a return on allowed investments. Capital investment in our non-regulated businesses is based on the financial return that we expect to generate.

Our total annual capital expenditure is expected to be in the order of £3 billion per year over the medium term, a substantial increase over levels in previous years.

Capital expenditure £ million



In the UK, there is increasing dependency on gas imports and plans for significant expansion of renewable energy sources, as well as the need to increase the rate of asset replacement in electricity transmission as assets built in the 1960s and 1970s approach the end of their useful lives. The UK transmission price controls for the next five years include an allowance of £4.4 billion for investment in our electricity and gas networks. This investment is to respond to changing sources of energy and to replace our ageing assets.

Investment is being made in New England to deliver the regional expansion plan and in upstate New York to address asset replacement requirements and to increase the safety and reliability of the network.

Grain LNG's second phase of development was announced in March 2005 and is expected to be completed during 2008. Further investment of £310 million in a third phase was confirmed in May 2007, with construction beginning in June 2007. Cumulative investment has now reached £519 million out of planned investment of approximately £830 million for all three phases. Phases I and II are underpinned by long-term contracts signed with BP Centrica, Gaz de France and Sonatrach. Phase III also has long-term contracts for capacity with E.ON, Iberdrola and Centrica.

Talent

We aim to maximise the contribution of our employees by motivating them to strive for continued improvement, developing their skills and talents and promoting a culture that recognises and respects inclusion and diversity. In addition to obtaining the views of employees on an ongoing basis, we now carry out employee surveys on an annual basis to identify areas where we can improve.

Talent and skills

Identifying, recruiting and developing talented people is critical to our future success. We aim to support all our employees so that they can operate to the best of their abilities by creating an environment that allows them to realise their full potential.

We have strengthened our talent management processes in 2007/08, creating talent management plans for senior management and for business critical roles. In addition, for the first time, we conducted cross-business talent planning sessions using consistent processes to support senior management in developing employees within each business area and to address succession issues.

Our focus on developing the talent of our current and future business leaders has intensified, with continued growth in the number of participants in our leadership and management development programmes. The main areas of focus have been on our performance for growth programme, change management, leadership development and developing future leaders programmes, including the expansion of our change agent networks.

We continue to invest in the recruitment and development of skilled employees for the future, recruiting 157 trainees on to our apprentice, foundation engineer, graduate and student programmes in the UK in the past year. Our UK Foundation Engineering Programme, launched in early 2006, is designed to facilitate the entrance, training and progression of talented people into key engineering roles. In conjunction with Aston University and our industry sector skills council in the UK, Energy Utility Skills, we have also designed an industry specific foundation degree. We are pleased with the results so far.

Our US university programme, used for engineering recruitment, brought in 29 new engineers in 2007. With the completion of the KeySpan acquisition, we are working with our university partners with the aim of implementing best practice and ensuring consistency across National Grid.

Through our e-futures strategy, we continue to organise actively and sponsor a number of educational initiatives in the UK. These initiatives are designed to increase the number and diversity of young people interested in engineering careers and, ultimately, to create and sustain a greater pool of skilled talent from which we can recruit. Over the last year, over 4,900 young people have participated in these initiatives. Key to this success has been the dedicated involvement of our employees.

The employee engagement survey completed during the first quarter of 2008 will help frame the human resource initiatives we will put in place to enhance how employees are supporting the delivery of our vision.

Performance against our objectives continued

National Grid plc

Engagement performance

To succeed, we need to engage our employees to strive for continued improvement. For that purpose our aim is to implement a world-class performance management process

Our approach involves adopting National Grid wide integrated common performance processes and a single set of performance criteria, with pay linked to leadership qualities (how we deliver) as well as operational and financial performance (what we deliver), providing for clearer differentiation between levels of performance.

Employee engagement

With the implementation of National Grid's new operating model the structure of our internal communications function has been reviewed and a new global internal communications team has been formed. Its role is to ensure that all our employees feel engaged and connected with our vision, strategy and objectives and live our core values. A survey was carried out to gather feedback on the communication routes that employees prefer and a suite of communication channels is now being rolled out across the whole of National Grid. The first edition of the new National Grid wide magazine, One, was produced in January 2008 and in March 2008, the second edition was accompanied by printed inserts for employees within each of our lines of business.

In February 2008, we conducted a comprehensive employee engagement survey, the first since completion of the KeySpan acquisition. Over 23,000 employees - 83.6% of our work force - took part in what will now be an annual exercise. This response rate was over 28% higher than that achieved in our last survey in 2006. The survey demonstrated that our employees see our safety focused and supportive work environment as real strengths. Where they think that we can make progress is in the areas of providing more open and honest communications, greater clarity about our vision and direction, and a stronger link between performance and reward. Action plans are being developed and built into managers' objectives for the coming vear.

Performance management

During the year we successfully launched our Performance for Growth programme involving over 200 senior managers across National Grid in both the UK and the US, led by our Executive Directors.

Following on from raising the bar on the performance of our leadership groups, through the Performance for Growth programme, we continue to expand and embed our performance management process. This includes an integrated common performance approach across the Company, including a single set of performance criteria, pay linked to leadership qualities, as well as operational and financial performance and a clearer differentiation between levels of performance. During 2007/08, significant effort was put into the calibration of performance across the levels and businesses with the objective of creating a fairer, more transparent and consistent process for evaluating and rewarding the performance of our employees.

Inclusion and diversity

In order to develop, recruit and retain talented people, we aim to achieve a more inclusive and diverse workforce, reflecting the composition of the communities in which we operate, and to be seen as an employer of choice across diverse communities.

Performance measures we use to monitor our objective of promoting inclusion and diversity include the percentage of female employees and the percentage of black and minority ethnic employees.

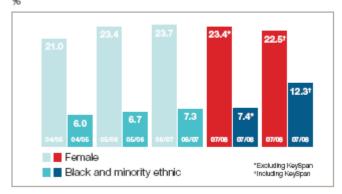
We are fortunate to have vibrant employee networks, focusing on gender, ethnicity and faith, disability, sexual orientation and new starters. They are helping us to understand better the different communities represented within our workforce and to provide support and information to our employees.

Our field force pilot programme in the UK is developing an inclusion and diversity best practice toolkit that can be replicated across our operational sites.

In addition to the inclusion and diversity steering group that advises the Executive Committee on overall strategy and policy, we have created action councils in the UK and the US to help to coordinate initiatives in each of our locations, to identify new initiatives and to ensure consistency across lines of business. Progress in achieving our goals is monitored as part of our regular performance review process.

At 31 March 2008, 22.5% of our employees were female and 12.3% were from black and minority ethnic groups. This reflects the acquisition of KeySpan and so is not directly comparable with prior years. Excluding KeySpan, the proportions were 23.4% and 7.4% respectively, compared with 23.7% and 7.3% respectively at 31 March 2007 and with 23.4% and 6.7% respectively at 31 March 2006.

Inclusion and diversity



Our progress has already received external recognition. We were in The Times newspaper Top 50 UK 'Where Women Want To Work' list for the second year running and we were shortlisted for a gender and ethnicity award. Both National Grid and KeySpan, prior to its acquisition, scored 100% in the US Human Rights Campaign's 2007 Corporate Equality Index. We have also had positive media coverage of our work programme for people with disabilities.

In our 2008 employee engagement survey, 61% (2006: 83%) of respondents considered they were treated fairly by the Company, while 76% of respondents considered that their colleagues treated them with respect and dignity.

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Relationships

We aim to enhance our relationships with all of our external stakeholders including investors, customers, regulators, governments, suppliers and the communities in which we operate.

Investor relations

Our aim is to ensure that the value of our business is reflected in our share price. We aim to make National Grid attractive to debt investors so that we can finance our operations as effectively as

We have been active this year in communicating with equity investors, conducting over 350 investor meetings during the

One of our objectives is to increase the number of shareholders in the US to reflect the increased size of our US operations, and we held a presentation to US investors in October 2007 following the completion of our acquisition of

We also presented to debt investors in 15 countries across Europe and North America, and held conference calls with debt investors in 2 other countries during the year. Despite turbulent market conditions, we have continued to issue long-term debt, raising £1.6 billion during the year.

We also operate a shareholder networking programme, the aim of which is to allow shareholders to gain a better understanding of the business. The programme includes visits to operational sites and presentations by senior managers and employees.

Customers, regulators and governments

The primary concern of our customers, regulators and governments is that we deliver a safe, efficient and reliable service, now and into the future. Hence our relationships reflect the quality of our operational performance.

For customers, it is important that we treat them with respect, that we communicate clearly and that we make interaction with them as straightforward as possible. Our focus on customer service and operational excellence is also a critical component of our relationship with our regulators and governments, underpinning the building of trust with both. This involves being responsive to the needs of our regulators for high quality information, complying with rules and regulations, operating in an ethical way and, most importantly, delivering on our promises.

In the UK, we continue to work very closely with Ofgem on the renewal of our electricity and gas transmission and gas distribution networks, and in expanding those networks to meet new and changing demand. In addition, we seek to maintain a professional approach with Ofgem in areas where we disagree, in particular with respect to their investigation into metering services in the UK as discussed on page 23.

In the US, we strive to achieve and maintain strong working relationships with our state regulatory commissions and the FERC.

Suppliers

We aim to work in partnership with our suppliers, developing constructive relationships and working together effectively. Our objective is to develop contractual arrangements with our suppliers that align their interests with our own as far as possible and share financial risks appropriately.

Our objective is to use the scale and breadth of our activities to get the best value for money from our suppliers. We have now established a single procurement function covering all of our supply chain activities in the UK and the US as a key step on the way to delivering this objective.

During the year we implemented a new back office system in the UK, which has improved our ability to manage procurement activities as well as providing other benefits. Unfortunately, relationships with certain suppliers were temporarily hampered by teething problems with the new system, leading to delays in payment in some circumstances. We have resolved many of the issues that have arisen and we continue to address those that remain, aiming to ensure suppliers are paid on time while maintaining appropriate financial controls.

We also aim to build on our achievements in creating alliances with contractors in the UK to deliver construction projects in our Transmission and Gas Distribution businesses, benefiting from a closer and more constructive working relationship that we believe can be achieved when project objectives are aligned and financial risks are shared.

In addition to focusing on efficiency and value for money, we have established clear principles and objectives concerning the impact of our supply chain economically, socially, environmentally and on human rights. We expect our suppliers to address these wider areas in working with us.

Community involvement

National Grid's role as a good corporate citizen supports our ambitions, and is delivered through a sustained and consistent approach.

Our community investment objectives include supporting communities, developing our business, supporting our employees and enhancing our reputation through targeted community involvement activities. Our approach continues to be centred on three key themes: energy and the environment; education and skills; and community development.

During the year, we have again reviewed our social policy to ensure our approach to community investment remains relevant to, and supports society's wider social and environmental priorities. This review has included analysis of existing activities and best practice, both across National Grid and externally.

We continue to use the model developed by the London Benchmarking Group to provide a framework for measuring and reporting our community investment contributions, by capturing, in accordance with the model, spend against our key themes. On this basis, we invested some £9 million in support of community initiatives and relationships across our operations in 2007/08 compared with £9 million in 2006/07 and £8 million in 2005/06.

We have engaged independent experts to review our community investment activities and to ascertain whether our work in this area meets with the needs and expectations of relevant stakeholders. This review will also benchmark our activities against leading UK and US peers.

In our 2008 employee engagement survey, 55% (2006: 68%) of respondents considered National Grid makes a positive contribution to the communities in which we operate.

Performance against our objectives continued

National Grid plc

Environment

We are committed to safeguarding the global environment for future generations, taking positive action to reduce our contribution to climate change and our other impacts on the environment.

Climate change

Climate change is possibly one of the greatest challenges facing society in the 21st century.

Our objective is to reduce National Grid's emissions of greenhouse gases by 80% against our baseline.

Our key performance indicator to monitor our performance in this area is the percentage reduction in our greenhouse gas emissions against our baseline. We also measure absolute emissions.

We report our greenhouse gas emissions in line with our corporate responsibility reporting principles, which includes our interpretation of the World Resources Institute Greenhouse Gas Protocol. The Protocol provides a breakdown of direct emissions (Scope 1), indirect emissions resulting from purchased electricity (Scope 2) and other indirect emissions (Scope 3). We believe our breakdown provides greater transparency and focuses attention on those emissions over which we have the greatest control.

During 2007/08, we reviewed our climate change strategy (first approved in 2006), and concluded that we should increase our target of reducing our Scope 1 and 2 emissions of greenhouse gases to 80% against our baseline ahead of 2050, compared with our prior 60% reduction target. This target is ambitious and will challenge us to develop, now and over the next 42 years, new ways of conducting our business to reduce greenhouse gas emissions.

We will deliver our revised 80% reduction target through our climate change initiative, with a corporate team that will work with each of our lines of business to deliver the target. The initiative is structured around three elements which we believe will transform our business:

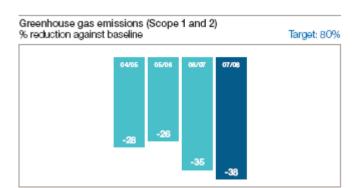
- fully integrating sustainability and climate change considerations into our business decisions, including the setting of carbon budgets within each of our lines of business;
- influencing legislators and regulators to reshape energy markets to meet the climate change challenge; and
- helping and supporting our customers, employees and suppliers in changing their behaviours so as to be more considerate of the environment.

For this reporting period, we have not included the emissions associated with the operations acquired with KeySpan because we need to conduct an emission inventory and verification process before we can include those emissions in our baseline and in our reported absolute emissions. During 2008/09, we will carry out a review of our greenhouse gas inventory to ensure that we are capturing data from all material emission sources, in particular identifying and quantifying those associated with the operations we acquired with KeySpan.

Against our baseline, to date we have achieved an approximate 38% reduction. The derivation of our baseline is included in the responsibility section of our website.

During 2007/08, our Scope 1 and Scope 2 greenhouse gas emissions amounted to some 4.1 million tonnes CO₂ equivalent,

compared with 4.3 million tonnes in 2006/07 and 4.8 million tonnes in 2005/06.



Excludes operations acquired with KeySpan. These will be included from 2008/09 onwards. Totals are approximate and prepared where possible on a combination of fiscal and calendar year data

Greenhouse gas emissions Million tonnes CO₂ equivalent



- † Tonnes per £m revenue excludes emissions and revenue from KeySpan
- Excludes operations acquired with KeySpan. These will be included from 2008/09 onwards. Totals are approximate and prepared where possible on a combination of fiscal and calendar year data

Total Scope 1 and 2 emissions per £million of revenue amounted to some 457 tonnes CO2 equivalent in 2007/08 compared with 471 tonnes in 2006/07 and 521 tonnes in 2005/06.

Methane leakage from our gas networks accounts for some 61% of this year's reported Scope 1 and 2 emissions. During the year, we replaced approximately 1,850 kilometres of old iron pipes in the UK, the largest source of these emissions.

Losses from our electricity transmission and distribution networks account for a further approximate 5.6 million tonnes CO₂ equivalent, compared with 5.1 million tonnes in 2006/07 and 5.0 million tonnes in 2005/06. These losses, and consequently the resulting emissions, are largely driven by factors outside our direct control (for example, the fuel used by individual generators and the physical distance between generation and centres of demand). For this reason, we class these as Scope 3 emissions. A more detailed rationale behind this decision, together with a breakdown of the constituent emission sources for the three categories, is included in our reporting principles on our website.

Although greenhouse gas emissions from the operations acquired with KeySpan are not included in the above performance metrics, the most significant emissions are made from our electricity generation plants in New York City and Long Island, including the Ravenswood generation station. Since we acquired them up until 31 March 2008, these plants emitted approximately 5.7 million tonnes of carbon dioxide.

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

Y59930.SUB, DocName: EX-15.1, Doc: 16, Page: 26
Description: EXHIBIT 15.1

CRC: 52137 **EDGAR 2**

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Historically contaminated land

We manage an inherited portfolio of historically we manage an innerited portfolio or nistorically contaminated land including former manufactured gas plants, industrial landfills, former gas holders and older substations on our transmission and distribution networks. Sites can sometimes have a complex mix of contamination dating back over 100 years.

The main focus of our remediation programme is on managing the environmental risk by targeting those with the highest environmental risk profile and those where we have a legal or regulatory requirement to remediate, while returning land to productive public or private use where we can, and where it is surplus to operational requirements.

National Grid manages land contamination issues on 529 sites (not including KeySpan sites), the majority of which were previously used for gas production. In the US, this includes obligations in relation to land owned by third parties.

During 2007/08, environmental work stages were completed on some 189 sites of which 33 included remediation.

Protecting the environment

Our objective is to help protect the environment for future generations and so we are committed to continuous improvement in our environmental performance by:

- efficient use of natural resources;
- keeping our waste to minimum and increasing the economic value of any waste we produce;
- acting to prevent environmental incidents: and
- improving, where we can, the environmental status of the land on which we operate.

Key performance indicators that we monitor in this area comprise the number of significant direct environmental incidents and the total value of fines from prosecutions and citations.

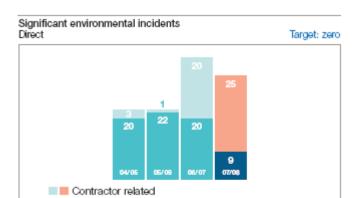
We aim to implement environmental management systems certified to the international standard ISO 14001 in all our businesses to help us deliver improvements in these areas.

At 31 March 2008, approximately 66% of our employees worked to certified ISO 14001 environmental management systems compared to over 90% at the same time last year. The main reasons for this reduction were the acquisition of KeySpan operations that were not ISO 14001 certified and the disposal of our wireless infrastructure operations that were certified. During 2008/09, we will work to bring KeySpan operations in line with the rest of the Company

The number of significant environmental incidents in 2007/08 arising directly from our operations was 34, which included 25 contractor-related incidents, compared with 40, including 20 contractor-related incidents in 2006/07 and 23, including 1 contractor-related incident in 2005/06. Incidents outside of our control resulting from third party or weather-related damage to our networks was 1 compared with 13 in 2006/07 and 25 in 2005/06.

There were no prosecutions by enforcing bodies resulting from these incidents. In the US, we received 6 environmental citations in 2007/08 compared with 9 in 2006/07 and 10 in 2005/06. Of these, 1 attracted a fine of \$6,000 (£3,000). Prosecutions and citations for operations acquired with KeySpan will be reported from 2008/09.

In our 2008 employee engagement survey, 55% (2006: 73%) of respondents considered National Grid acts responsibly in all its business dealings, including environmental management.



Excludes operations acquired with KeySpan. These will be included from 2008/09

Significant environmental incidents Third party/weather

Own fault



* Excludes operations acquired with KeySpan. These will be included from 2008/09

We also take the issues that surround electric and magnetic fields seriously and in all our operations, as a minimum, we aim to comply with the regulations, guidelines or practices relating to them in force in the different jurisdictions in which

We recognise there is some scientific evidence suggesting certain adverse health effects may be linked to electric and magnetic fields. There is also evidence linking an increased risk of certain diseases to proximity to power lines, though the cause of this is unclear. As a consequence, there is public concern and we take these issues very seriously. The balance of evidence remains against both power-frequency and radio-frequency electric and magnetic fields causing ill health. The World Health Organization has classified powerfrequency magnetic fields as 'possibly' carcinogenic. Our public position statement on electric and magnetic fields, which we review annually, helps set the framework within which we continually assess the scientific evidence in this area, determine any implications for the way in which we conduct our business and explain to society what the science is telling us. We actively support high-quality research and open communication and we look for more constructive and less confrontational ways of handling issues such as electric and magnetic fields. In the UK we continue to support the Stakeholder Advisory Group on electric and magnetic fields, which we initiated, and which published its first assessment of the issues in April 2007 (available at www.emfs.info/sage).

On our website (www.nationalgrid.com), we provide further information on the steps we are taking to reduce our impact on the environment, including our use of natural resources and minimising the impact on the environment of waste.

Performance against our objectives continued

National Grid plc

Financial performance

We aim to continue to improve our financial performance, to deliver returns appropriate to our risk profile and to be financially disciplined. We also aim to ensure that the value that we create is reflected in our share price.

cash flow

If we achieve our objectives we should be able to deliver continued improvements in financial performance, so that we deliver on our commitment to growing our dividend each year.

The principal measures we use to monitor our financial performance are adjusted operating profit, adjusted earnings per share and operating cash flows. Adjusted operating profit and adjusted earnings per share are operating profit and basic earnings per share before exceptional items, remeasurements and stranded cost recoveries.

addition, we monitor the amount of synergy savings we generate following an acquisition

We report our financial results and position in accordance with International Financial Reporting Standards (IFRS).

Continuing and discontinued operations

The financial results of our businesses and segments and of our other activities (as described on page 14) are presented within continuing operations.

Our financial results incorporate activities acquired with KeySpan subsequent to 24 August 2007. In accordance with the requirements of IFRS we also present, in note 28 to the financial statements, illustrative pro forma financial performance information as if we had acquired KeySpan on 1 April 2007. The purpose of these pro forma financial results is to illustrate the impact on our financial results that might have occurred had we owned KeySpan for a full year instead of the seven and a quarter months included in our actual reported results. However, as we have been required to make a number of assumptions in preparing the pro forma results, they do not necessarily reflect the actual results that would have occurred had we actually acquired KeySpan on 1 April 2007, nor are they necessarily indicative of the future results of the enlarged National Grid.

The results of our UK and US wireless infrastructure operations and the Basslink electricity interconnector in Australia that we sold during the year ended 31 March 2008 are included within discontinued operations.

Discontinued operations also include the results of the Ravenswood generation station, KeySpan Communications and KeySpan Engineering Associates from 24 August 2007 onwards, being businesses acquired with KeySpan that we expect to sell within one year of the acquisition. On 31 March 2008 we agreed to sell the Ravenswood generation station for \$2.9 billion (£1.4 billion). The sale is subject to approval from the various regulatory bodies concerned, with completion expected by summer 2008.

£11,423m

Revenue

£3,265m

Cash generated from continuing operations £2,595m

Adjusted operating profit

£2,964m

Operating profit

Measurement of financial performance and use of adjusted profit measures

In considering the financial performance of our businesses and segments, we analyse each of our primary financial measures of operating profit, profit before tax, profit for the year attributable to equity shareholders and earnings per share into two components, comprising firstly business performance, which excludes exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles, and secondly exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles. Exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles are excluded from the measures of business performance used by management to monitor financial performance as they are considered to distort the comparability of our reported financial performance from year to year.

Measures of business performance are referred to in this Annual Report and Accounts as adjusted profit measures in order to clearly distinguish them from the comparable total profit measures of which they are a component. Adjusted operating profit, adjusted profit before tax, adjusted earnings and adjusted earnings per share differ from total operating profit, profit before tax, profit for the year attributable to equity shareholders, and earnings per share respectively by the exclusion of exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisitionrelated intangibles.

Exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles are items of income and expenditure that, in the judgement of management, should be disclosed separately on the basis that they are material, either by virtue of their nature or size, and are relevant to an understanding of our financial performance. Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, writedowns or impairments of non-current assets, significant changes in environmental or decommissioning provisions, integration of acquired businesses and gains or losses on disposals of businesses or investments. 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. These fair values increase or decrease as a consequence of changes in commodity and financial indices and prices over which we have no control. Stranded cost recoveries comprise income from additional charges that we are allowed to recover from certain of our US customers arising from the divestiture of generation activities in the late 1990s. This income is scheduled to cease largely by the end of calendar year 2011.

Amortisation of acquisition-related intangibles arises from

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intangible assets, principally customer relationships, that are only recognised as a consequence of the accounting required for a business combination. In particular, such amortisation distorts the comparison of the financial performance of acquired businesses compared with nonacquired businesses.

Adjusted profit measures are limited in their usefulness compared with the comparable total profit measures as they exclude important elements of our underlying financial performance, namely exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisitionrelated intangibles. We believe that in separately presenting financial performance in two components it is easier to read and interpret financial performance between periods, as adjusted profit measures are more comparable by excluding the distorting effect of exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisitionrelated intangibles, and exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisitionrelated intangibles are more clearly understood if separately identified and analysed. The presentation of these two components of financial performance is additional to, and not a substitute for, the comparable total profit measures presented.

Management uses adjusted profit measures as the basis for monitoring financial performance and in communicating financial performance to investors in external presentations and announcements of financial results. Internal financial reports, budgets and forecasts are primarily prepared on the basis of adjusted profit measures, although planned exceptional items, such as significant restructurings, amortisation of acquisition-related intangibles, and stranded cost recoveries are also reflected in budgets and forecasts. Management compensates for the limitations inherent in the use of adjusted profit measures through the separate monitoring and disclosure of exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles as a component of our overall financial performance.

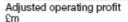
Exchange rates

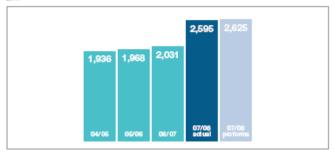
Our financial results are reported in sterling. Transactions for our US operations are denominated in US dollars and so the related amounts that are reported in sterling depend on the US dollar to sterling exchange rate. As the average rate of \$2.01:£1 in 2007/08 was weaker than the average rate of \$1.91:£1 in 2006/07 (which was in turn weaker than the average rate of \$1.79:£1 in 2005/06), the same amount of revenue, adjusted operating profit and operating profit in US dollars earned in 2006/07 would have been reported as £193 million, £26 million and £51 million lower if earned in 2007/08 (£250 million, £31 million and £58 million lower for 2005/06 if earned in 2006/07).

However, the effect of movements in the US dollar exchange rate on adjusted operating profit and operating profit in 2007/08 was largely offset by the impact of interest and tax charges denominated in US dollars, when translated into sterling. This reflects the effect of derivative financial instruments that swap debt raised in other currencies into US dollars as part of the financing of our US operations. As a result, adjusted profit for the year and profit for the year from continuing operations for 2006/07 would have been £4 million and £17 million lower respectively if translated at the 2007/08 average exchange rate of \$2.01:£1 (2005/06: £10 million and £27 million higher respectively if translated at the 2006/07 average exchange rate of \$1.91:£1).

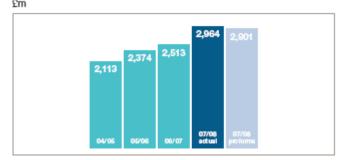
The balance sheet at the end of the financial year has been translated at an exchange rate of \$1.98:£1 at 31 March 2008 (\$1.97:£1 at 31 March 2007).

Operating financial performance





Operating profit £m



Details of the financial results of business segments and other activities are included in the business reviews on pages 44 to 73.

KeySpan contributed £368 million and £453 million to the adjusted operating profit and operating profit for continuing operations respectively. On a pro forma basis, assuming we acquired KeySpan on 1 April 2007 our adjusted operating profit and operating profit for continuing operations would have been £2,625 million and £2,901 million respectively.

48.0p

Adjusted earnings per share

60.5p

Earnings per share

15%

Growth in ordinary dividends

11.8%

Return on equity average over three years

Financial Statements

Performance against our objectives continued

National Grid plc

Our actual financial performance compared to the pro forma performance illustrates the seasonality effect reflected in the timing of the KeySpan acquisition. The actual results of KeySpan that have been consolidated from 24 August 2008 provide a larger contribution on a time apportioned basis compared to a full year contribution. Weather driven seasonality results in higher revenues and operating profit in the second half of the financial year. This seasonality is due to higher energy demands during the colder winter period.

	Years ended 31 March		
Continuing operations	2008 £m	2007 £m	2006 £m
Continuing operations	£M	LIII	2.111
Revenue	11,423	8,695	8,868
Other operating income	75	83	80
Operating costs	(8,534)	(6,265)	(6,574)
Total operating profit	2,964	2,513	2,374
Analysed as:			
Adjusted operating profit	2,595	2,031	1,968
Exceptional items	(242)	(22)	(34)
Remeasurements	232	81	(49)
Stranded cost recoveries	379	423	489
Total operating profit	2,964	2,513	2,374

The following tables set out the consolidated revenue. adjusted operating profit and operating profit by business segment.

Revenue by business segment

	Years ended 31 March		
	2008	2007	2006
Continuing operations	£m	£m	£m
Transmission UK	2,956	2,816	2,710
Transmission US	299	270	310
Gas Distribution UK	1,383	1,193	1,222
Gas Distribution US	2,845	638	571
Electricity Distribution & Generation US	3,508	3,430	3,651
Other activities	642	567	701
Total segmental revenues	11,633	8,914	9,165
Less: sales between business segments	(210)	(219)	(297)
Total	11,423	8,695	8,868

Segmental operating profit before exceptional items, remeasurements and stranded cost recoveries

	Years ended 31 M		
	2008	2007	2006
Continuing operations	£m	£m	£m
Transmission UK	1,021	946	844
Transmission US	128	108	127
Gas Distribution UK	595	409	483
Gas Distribution US	392	71	47
Electricity Distribution & Generation US	330	364	317
Other activities	129	133	150
Adjusted operating profit	2.595	2.031	1.968

Segmental total operating profit

	Years ended 31 Mar		
	2008	2007	2006
Continuing operations	£m	£m	£m
Transmission UK	1,013	936	843
Transmission US	122	107	127
Gas Distribution UK	574	412	432
Gas Distribution US	487	67	47
Electricity Distribution & Generation US	696	859	757
Other activities	72	132	168
Total operating profit	2,964	2,513	2,374

2007/08 compared with 2006/07

Changes in revenue and other operating income, operating costs and operating profit for 2007/08 compared with 2006/07 can be summarised as follows:

	Revenue and other		
	operating income £m	Operating costs £m	Operating profit £m
2006/07 results	8,778	(6,265)	2,513
Add back exceptional items and			
remeasurements	_	(59)	(59)
Deduct stranded cost recoveries	(426)	3	(423)
2006/07 adjusted results	8,352	(6,321)	2,031
Exchange on US operations	(193)	167	(26)
2006/07 constant currency results	8,159	(6,154)	2,005
Transmission UK	134	(59)	75
Transmission US	42	(17)	25
Gas Distribution UK	192	(6)	186
Gas Distribution US	2,239	(1,915)	324
Electricity Distribution & Generation US	272	(288)	(16)
Other activities	71	(75)	(4)
Sales between businesses	7	(7)	
2007/08 adjusted results	11,116	(8,521)	2,595
2007/08 exceptional items and			
remeasurements	_	(10)	(10)
2007/08 stranded cost recoveries	382	(3)	379
2007/08 results	11,498	(8,534)	2,964

Revenue and other operating income excluding stranded cost recoveries was £2,764 million higher than in 2006/07, reflecting a £193 million decrease as a result of exchange movements on US operations and a £2,957 million increase in revenue and other operating income on a constant currency basis. KeySpan contributed £2,498 million to this increase in revenue. There was a decrease of £8 million in other operating income, which primarily relates to reduced gains on the sales of property by our property management business in the UK. Operating costs excluding exceptional items, remeasurements and stranded cost recoveries increased by £2,200 million, reflecting a £167 million decrease as a result of exchange movements on US operations and a £2,367 million increase in operating costs on a constant currency basis. KeySpan contributed £2,130 million to this increase in operating costs.

Excluding the significant uplift in revenue and costs associated with KeySpan there was a £459 million increase in revenue and other operating income and a £237 million increase in costs on a constant currency basis. This primarily related to higher allowed revenues in Transmission UK, and from Gas Distribution US with the first full year of contribution from the Rhode Island gas business.

Adjusted operating profit in 2007/08 was £564 million higher than 2006/07, comprising a £26 million decrease as a result of exchange on US operations and an increase of £590 million from the movements in revenue, other operating income and costs on a constant currency basis.

Net operating exceptional charges of £242 million in 2007/08 related to restructuring costs incurred in the UK and US and to increases in environmental provisions, also in the UK and the US. The majority of the restructuring costs related to the current integration programme underway following the KeySpan acquisition.

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There was a £151 million increase in operating remeasurement gains to £232 million in 2007/08 compared to £81 million in 2006/07. The gains relate to changes in the value of commodity contracts in the US carried in the balance sheet at fair value, primarily arising from movements in energy prices.

Stranded cost recoveries relate to the recovery of historical generation-related costs in the US that are no longer owned following divesture of generation assets. Such costs can be recovered from customers as permitted by regulatory agreements. Stranded cost recoveries revenue and costs were £382 million and £3 million respectively (2006/07: £426 million and £3 million, 2005/06: £517 million and £28 million).

As a consequence of the increase in adjusted operating profit of £564 million, the net movement in operating exceptional items and remeasurements of £69 million and decrease in operating profit from stranded cost recoveries of £44 million, total operating profit increased by £451 million in 2007/08 to £2,964 million compared to £2,513 million in 2006/07.

2006/07 compared to 2005/06

Changes in revenue and other operating income, operating costs and operating profit for 2006/07 compared with 2005/06 can be summarised as follows:

	Revenue		
	and other		
	operating income	Operating	Operating
	£m	£m	profit £m
2005/06 results	8,948	(6,574)	2,374
Add back exceptional items and			
remeasurements	-	83	83
Deduct stranded cost recoveries	(517)	28	(489)
2005/06 adjusted results	8,431	(6,463)	1,968
Exchange on US operations	(250)	219	(31)
2005/06 constant currency results	8,181	(6,244)	1,937
Transmission UK	112	(10)	102
Transmission US	(21)	10	(11)
Gas Distribution UK	(27)	(47)	(74)
Gas Distribution US	103	(76)	27
Electricity Distribution & Generation US	65	2	67
Other activities	(137)	120	(17)
Sales between businesses	76	(76)	_
2006/07 adjusted results	8,352	(6,321)	2,031
2006/07 exceptional items and			
remeasurements	_	59	59
2006/07 stranded cost recoveries	426	(3)	423
2006/07 results	8,778	(6,265)	2,513

Revenue and other operating income excluding stranded cost recoveries was £79 million lower than in 2005/06, reflecting a £250 million decrease as a result of exchange movements on US operations and a £171 million increase in operating revenues on a constant currency basis. Operating costs excluding exceptional items, remeasurements and stranded cost recoveries decreased by £142 million, reflecting a £219 million decrease as a result of exchange movements on US operations and a £77 million increase in operating costs on a constant currency basis.

Significant movements in operating revenues and costs relate to higher allowed revenues in Transmission in the UK, reduced volumes in Gas Distribution in the UK as a result of warmer weather, revenues and costs from the acquired gas distribution network in Rhode Island, higher commodity costs in Electricity Distribution in the US passed through to customers and lower

connections revenues and costs in other activities relating to the regional gas distribution networks sold in 2005/06. There was an increase of £3 million in other operating income, which primarily relates to gains on the sales of property by our property management business in the UK. As a consequence, adjusted operating profit in 2006/07 was £63 million higher than 2005/06, comprising a £31 million decrease as a result of exchange on US operations and an increase of £94 million from operations on a constant currency basis.

Net operating exceptional charges of £22 million in 2006/07 related to restructuring costs incurred in the UK and US, including the establishment of a UK shared services function, the business process review undertaken in Transmission and the integration of the acquired Rhode Island gas distribution network into our Gas Distribution business.

Operating remeasurement gains of £81 million (2005/06: losses of £49 million) relate to changes in the value of commodity contracts in the US carried in the balance sheet at fair value, arising from movements in energy prices

Stranded cost recoveries revenue and operating profit in 2006/07 of £426 million (2005/06: £517 million) and £423 million (2005/06: £489 million) respectively related to the recovery of historical generation-related costs in the US that are no longer owned following divesture of generation assets. Such costs can be recovered from customers as permitted by regulatory agreements.

As a consequence of the increase in adjusted operating profit of £63 million and the movement in operating exceptional items and remeasurements of £142 million and decrease in operating profit from stranded cost recoveries of £66 million total operating profit rose by £139 million from £2,374 million in 2005/06 to £2,513 million in 2006/07.

Net finance costs

Net interest excluding exceptional items and remeasurements was £760 million in 2007/08 compared to £547 million in 2006/07. The increase was a consequence of higher average debt balances following the KeySpan acquisition.

Net interest excluding exceptional finance costs and remeasurements in 2006/07 decreased by £55 million compared with 2005/06, primarily as a consequence of lower average debt balances, a reduction in the interest charge related to pensions and the weaker US dollar in 2006/07.

Exceptional finance costs and remeasurements

There were no exceptional finance costs in 2007/08. This compares with exceptional finance costs of £45 million in 2006/07 and £49 million in 2005/06 primarily relating to the early repayment of debt.

Financial remeasurements relate to net losses on derivative financial instruments of £7 million (2006/07: £153 million, 2005/06: gains of £6 million) and the financial element of commodity contract revaluations, totalling £9 million (2006/07: £19 million, 2005/06: £14 million). Net losses on derivative financial instruments in 2007/08 includes £3 million (2006/07: £126 million, 2005/06: £nil) arising from a difference in the tax treatment of certain derivative instruments that offset on a post-tax basis.

Performance against our objectives continued

National Grid plc

Taxation

A net charge of £611 million arose in 2007/08 comprising £583 million on profit before tax excluding exceptional items, remeasurements and stranded cost recoveries and £28 million on exceptional items, remeasurements and stranded cost recoveries, compared with £441 million in 2006/07 (comprising £442 million and a credit of £1 million respectively) and £535 million in 2005/06 (comprising £369 million and £166 million respectively). This reflected an exceptional tax credit in 2007/08 of £170 million relating to the release of deferred tax provisions arising from the change in the UK corporation tax rate from 30% to 28% enacted during the year and which takes effect from 1 April 2008.

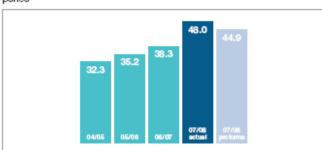
The effective tax rate before and after exceptional items, remeasurements and stranded cost recoveries was 31.7% and 27.9% respectively (2006/07: 29.7% and 25.2%, 2005/06: 27.0% and 31.1%).

Profit for the year from continuing operations

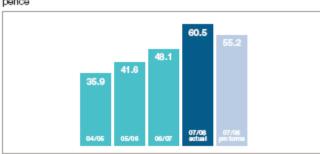
Profit for the year from continuing operations increased from £1,310 million in 2006/07 to £1,581 million in 2007/08 (from £1,183 million in 2005/06 to £1,310 million in 2006/07) as a consequence of the above changes.

Earnings from continuing operations

Adjusted earnings per share pence



Earnings per share from continuing operations



Adjusted earnings

	Years ended 31 March		
	2008	2007	2006
Continuing operations	£m	£m	£m
Adjusted operating profit	2,595	2,031	1,968
Net finance costs excluding exceptional	•		
items and remeasurements	(760)	(547)	(602)
Share of post-tax results of joint ventures	4	` 2 [']	<u>``3</u>
Adjusted profit before taxation	1,839	1,486	1,369
Taxation excluding tax on exceptional			
items, remeasurements and stranded			
cost recoveries	(583)	(442)	(369)
Adjusted profit from continuing operations	1,256	1,044	1,000
	pence	pence	pence
Adjusted earnings per share from			
continuing operations	48.0	38.3	35.2

Earnings

Continuing operations £m £m £m Total operating profit 2,964 2,513 2,3 Net finance costs (776) (764) (6 Share of post-tax results of joint ventures 4 2 Profit before taxation 2,192 1,751 1,7	 -		131 March 2006
Continuing operations £m £m £m Total operating profit 2,964 2,513 2,3 Net finance costs (776) (764) (6 Share of post-tax results of joint ventures 4 2 Profit before taxation 2,192 1,751 1,7	 -	8 2007	2006
Total operating profit 2,964 2,513 2,3 Net finance costs (776) (764) (6:5) Share of post-tax results of joint ventures 4 2 Profit before taxation 2,192 1,751 1,7	the state of a second transfer		2006
Net finance costs (776) (764) (6 Share of post-tax results of joint ventures 4 2 Profit before taxation 2,192 1,751 1,7	tinuing operations £	m £m	£m
Share of post-tax results of joint ventures 4 2 Profit before taxation 2,192 1,751 1,7	al operating profit 2,96	4 2,513	2,374
Profit before taxation 2,192 1,751 1,7	t finance costs (77	6) (764)	(659)
—, · · · · · · · · · · · · · · · · · · ·	are of post-tax results of joint ventures	4 2	3
Taxation (611) (441) (5	ofit before taxation 2,19	2 1,751	1,718
	kation (61	1) (441)	(535)
Profit from continuing operations 1,581 1,310 1,1	ofit from continuing operations 1,58	1 1,310	1,183
pence pence per	pen	e pence	pence
Earnings per share from continuing	rnings per share from continuing		
operations 60.5 48.1 41	operations 60.	5 48.1	41.6

Earnings per share from continuing operations

The following table sets out the adjusted earnings per share and earnings per share from continuing operations for 2007/08, 2006/07 and 2005/06 and reconciles the differences between them. Reconciling items are net of tax.

	Yea	ars ended 3	1 March
	2008	2007	2006
Continuing operations	pence	pence	pence
Adjusted earnings per share	48.0	38.3	35.2
Exceptional items	(0.1)	(1.5)	(2.2)
Commodity cost remeasurements Derivative financial instruments	5.1	1.3	(1.3)
remeasurements	(1.3)	0.6	(0.4)
Stranded cost recoveries	8.8	9.4	10.3
Earnings per share – continuing operations	60.5	48.1	41.6

Adjusted earnings per share for 2007/08 increased by 9.7 pence, an increase of 25% compared with 2006/07 (2006/07: increased by 3.1 pence, an increase of 9% compared with 2005/06).

This reflected the increase in adjusted profit for the year from continuing operations, the effects of the share repurchase programme that returned £1.5 billion of value to shareholders (2006/07: the increase in adjusted profit for the year from continuing operations and the share consolidation in August 2005).

Diluted earnings per share from continuing operations were 60.1 pence per share in 2007/08, 0.4 pence lower than basic earnings per share, compared with 47.8 pence per share in 2006/07 (0.3 pence lower) and 41.4 pence per share in 2005/06 (0.2 pence lower). The principal reason for the dilution in 2007/08, 2006/07 and 2005/06 relates to employee share plans.

Adjusted profit measures

The following tables reconcile the adjusted profit measure to the corresponding total profit measure in accordance with IFRS.

a) Reconciliation of adjusted operating profit to total operating profit

	Years ended 31 March		
	2008	2007	2006
Continuing operations	£m	£m	£m
Adjusted operating profit	2,595	2,031	1,968
Exceptional items	(242)	(22)	(34)
Commodity contract remeasurements	232	81	(49)
Stranded cost recoveries	379	423	489
Total operating profit	2,964	2,513	2,374

Adjusted operating profit is presented on the face of the income statement under the heading 'Operating profit before exceptional items, remeasurements and stranded cost recoveries'.

b) Reconciliation of adjusted profit before taxation to profit before taxation

	Years ended 31 March			
	2008	2007	2006	
Continuing operations	£m	£m	£m	
Adjusted profit before taxation	1,839	1,486	1,369	
Exceptional items	(242)	(67)	(83)	
Commodity contract remeasurements	223	62	(63)	
Derivative financial remeasurements	(7)	(153)	6	
Stranded cost recoveries	379	423	489	
Total profit before taxation	2,192	1,751	1,718	

Adjusted profit before taxation is presented on the face of the income statement under the heading 'Profit before taxation before exceptional items, remeasurements and stranded cost recoveries'.

c) Reconciliation of adjusted earnings to earnings (profit for the year from continuing operations attributable to equity shareholders of the parent)

	Ye	ars ended	31 March
Continuing operations	2008 £m	2007 £m	2006 £m
Adjusted earnings	1,253	1,042	998
Exceptional items	(2)	(41)	(61)
Commodity contract remeasurements	133	37	(38)
Derivative financial remeasurements	(35)	16	(11)
Stranded cost recoveries	229	254	293
Farnings	1.578	1.308	1 181

Adjusted earnings is presented in note 10 to the consolidated financial statements, under the heading 'Adjusted earnings – continuing operations'.

Discontinued operations

Years ende	ed 31 March
8 2007	2006
n £m	ı £m
1 383	493
6) (266	(362)
5 117	131
- (55	(20)
5 62	111
8 37	_
- (2	(4)
3 97	107
7) (11) (45)
6 86	62
2 –	2,605
8 86	2,667
	Years ende

Discontinued operations at 31 March 2008 comprised the Ravenswood generation station, KeySpan Communications and KeySpan Engineering Associates, all of which were acquired with KeySpan on 24 August 2007 and are classified as businesses held for sale. During 2007/08, discontinued operations also included our wireless infrastructure operations in the UK and the US that we sold on 3 April 2007 and 15 August 2007 respectively and the electricity interconnector in Australia that we sold on 31 August 2007, as a consequence the results of these operations for 2006/07 and 2005/06 have also been included within discontinued operations. Further information on the results of these operations is included on page 73.

On 31 March 2008 we agreed to sell the Ravenswood generation station for \$2.9 billion (£1.4 billion). The sale is subject to approval from the various regulatory bodies and completion is expected by summer 2008.

The results of discontinued operations for 2005/06 also includes two months of trading for the four regional gas distribution networks that we sold on 1 June 2005. The exceptional charge of £20 million in 2005/06 arose from the payment of a £15 million fine relating to one of the sold networks and £5 million of restructuring costs.

The gain on disposal of discontinued operations in 2005/06 relates to the sales of gas distribution networks.

Earnings per share from discontinued operations in 2007/08 was 62.0 pence per share, including 60.6 pence per share relating to gains on the businesses sold during the year, compared with 3.2 pence per share in 2006/07 with no gains from disposals, and 94.0 pence per share in 2005/06 of which 91.8 pence per share related to the disposal of the four regional gas distribution networks.

Net profit and total earnings per share for the year

Net profit from both continuing and discontinued operations was £3,199 million in 2007/08, compared with £1,396 million in 2006/07 and £3,850 million in 2005/06

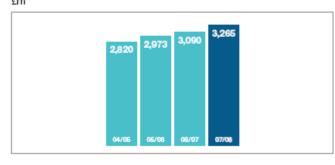
Total earnings per share from both continuing and discontinued operations were 122.5 pence per share in 2007/08, 51.3 pence per share in 2006/07 and 135.6 pence per share in 2005/06.

Performance against our objectives continued

National Grid plc

Cash flows

Operating cash flows



Cash flows from operating activities

Cash generated from continuing operations was £3,265 million in 2007/08, compared with £3,090 million in 2006/07 and £2,973 million in 2005/06. This reflected cash outflows of continuing operations relating to exceptional items of £132 million, £86 million and £115 million respectively and cash inflows from stranded cost recoveries of £278 million, compared with £288 million and £432 million respectively.

After reflecting cash flows relating to discontinued operations and tax paid, net cash inflow from operating activities was $\pounds 3,165$ million, compared with $\pounds 2,958$ million in 2006/07 and £2,971 million in 2005/06.

This included net corporate tax payments amounting to £110 million in 2007/08, £313 million in 2006/07 and £140 million in 2005/06.

Cash flows from investing activities

Cash outflows from investing activities were £3,023 million in 2007/08, compared with an outflow of £4,061 million in 2006/07 and an inflow of £4,052 million in 2005/06. This reflected £3,502 million spent on acquiring KeySpan in 2007/08 net of cash acquired, compared with £269 million spent on acquiring businesses in 2006/07 and £nil in 2005/06, partially offset by net sales of financial investments of £45 million (2006/07: net purchases of £1,725 million, 2005/06: net sales of £25 million). Proceeds from disposals of businesses in 2007/08 were £3,064 million (2006/07: £27 million, 2005/06: £5,750 million) and sales of joint ventures and other investments of £55 million (2006/07: £19 million, 2005/06: £8 million).

Excluding acquisitions, disposals and financial investments, cash outflows increased in 2007/08 compared with 2006/07 as a result of purchases of property, plant and equipment within continuing operations increasing to £2,832 million during the year (2006/07: £2,185 million, 2005/06: £1,657 million). Investing activities of discontinued operations in the period resulted in a cash outflow of £14 million in 2007/08 (2006/07: £47 million, 2005/06: £209 million).

Cash flows from financing activities

Net cash outflows from financing activities were £1,592 million in 2007/08, compared with a £1,278 million inflow in 2006/07 and a £5,842 million outflow in 2005/06. This reflected net inflows from borrowings of £1,589 million (2006/07: £3,045 million, 2005/06: net outflow of £2,304 million) and £1,498 million of share repurchases (2006/07: £169 million, 2005/06: £7 million).

In addition, £26 million was incurred in respect of the final amounts payable under the B share £2 billion return of value to shareholders (2006/07: £26 million, 2005/06: £1,957 million).

Payments to providers of finance, in the form of net interest and dividends, totalled £1,680 million in 2007/08 compared with £1,588 million in 2006/07 and £1,628 million in 2005/06.

Net interest cash outflows increased from £597 million in 2006/07 to £694 million in 2007/08 (decreased from £704 million in 2005/06 to £597 million in 2006/07). The increase in 2007/08 compared with 2006/07 reflected higher average net debt during the year (primarily as a consequence of the acquisition of KeySpan); this was partially offset by the beneficial impact of the weaker US dollar. The decrease in 2006/07 reflected lower average net debt during the year, the weaker US dollar and the beneficial impact of refinancing debt.

Returns on our investments

We aim to generate value from our investments by improving the operating performance of our networks, by selecting investments that will provide the best return or, in the case of acquisitions, by selecting businesses where we can obtain synergies for the benefit of our customers and our shareholders.

Measures we use to monitor the value we generate from our investments include the returns generated by our regulated businesses and our consolidated return on equity.

Our return on equity measure allows us to monitor our performance in generating value from our businesses and from the investments we make. For 2007/08, our return on equity is 12.2%, down from 13.5% in 2006/07. The decrease is primarily driven by lower average UK retail price inflation in 2007/08 that reduced the inflation uplift on the regulatory asset value recognised in our return. In addition, the reduction reflects the disposal of our UK wireless communications business in the year which, being a nonregulated business, produced higher levels of return. This is partially offset by an improvement in the performance of our continuing businesses.

The average return on equity over the past three years was 11.8% (2006/07: 12.0% three year average).

Financial discipline

In order to deliver sustainable growth we must be disciplined in the way we manage our balance sheet. This means that we will return cash to shareholders to the extent it is not required for our investment objectives.

The principal measure we use to monitor financial discipline is interest cover, being the ratio between the profits we generate and the net interest cost of servicing our borrowings. We also measure our progress against our promise to return cash to shareholders

Our long-term target range for interest cover is between 3.0 and 3.5. Interest cover for the year ended 31 March 2008 decreased to 3.2 from 3.8 for the year ended 31 March 2007.

In 2006 we committed to return approximately \$1.9 billion cash between calendar years 2006 and 2011 to shareholders through a share repurchase programme based on the after-tax cash flows generated from the recovery of stranded costs in the US. In addition, following the successful disposal of our UK wireless infrastructure operations in the UK for £2.5 billion on 3 April 2007, we announced the return of a further £1.8 billion to shareholders.

During the year to 31 March 2008 we repurchased £1.5 billion of our shares, which together with the £169 million repurchased in 2006/07 totals £1.7 billion on share repurchases.

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This followed the return of £2.0 billion to shareholders in 2005/06 through a B share scheme, following the successful completions of the sales of four regional gas distribution networks.

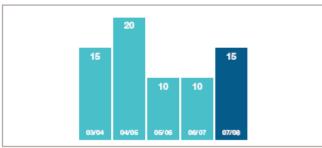
Shareholder returns

We aim to increase our dividend each year to ensure shareholders receive an appropriate level of return on their investment in us. We also endeavour to communicate with investors so that as much as possible of the value that we create is reflected in our share price to the benefit of shareholders.

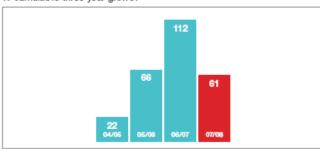
We measure our overall performance through dividend growth and through total shareholder return, being the increase in our share price over the course of the financial year, assuming dividends are reinvested.

Our target until 31 March 2008 was to increase dividends by 7% each year. Following an increase of 15% for 2007/08, our target until 31 March 2012 is to increase dividends by 8% each year.

Dividend growth chart



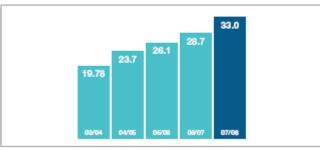
Total shareholder return % cumulative three year growth



Over the past five years, dividends have grown by a cumulative 92% and cumulative total shareholder return between 1 April 2003 and 31 March 2008 has been 117%.

Dividends in respect of the financial year

Dividends per share pence



Dividends	2008 pence	2007 pence	2006 pence	2005 pence	2004 pence
Interim	11.7	10.9	10.2	8.5	7.91
Final	21.3	17.8	15.9	15.2	11.87
Total	33.0	28.7	26.1	23.7	19.78
Dividends per ADS	\$	\$	\$	\$	\$
Interim	1.21	1.03	0.88	0.79	0.67
Final	2.05	1.76	1.51	1.38	1.05
Total	3.26	2.79	2.39	2.17	1.72

The proposed total ordinary dividend for 2007/08 amounts to £831 million or 33.0 pence per ordinary share. This represents an increase of 15% over the previous year's ordinary dividend per share of 28.7 pence. The above amounts exclude the return of £1,516 million and £169 million to shareholders in 2007/08 and 2006/07 respectively through a share repurchase programme and the return of £2 billion to shareholders in 2005/06 through the B share scheme.

The total ordinary dividend per share was covered 1.5 times by adjusted earnings from continuing operations per ordinary share (2006/07 covered 1.3 times, 2005/06 covered 1.3 times) and covered 1.8 times by earnings per ordinary share from continuing operations (2006/07 covered 1.7 times, 2005/06 covered 1.6 times).

The table above shows the ordinary dividends paid or payable by National Grid for the past five financial years.
These dividends do not include any associated UK tax credit in respect of such dividends.

Dividends expressed in US dollars per American Depositary Share (ADS) in the table above reflect the amounts paid or payable to ADS holders, rounded to two decimal places.

In accordance with IFRS, the final dividend proposed in respect of each financial year is reported in the financial statements for the subsequent year. As a consequence the final dividend proposed to shareholders for 2007/08 of 21.3 pence per share, amounting to approximately £531 million, will be reported in the financial statements for the year ending 31 March 2009.

National Grid plc 44 Transmission

Transmission

We own and operate the electricity transmission network in England and Wales, the gas transmission network in Great Britain, and electricity transmission networks in the northeastern US. We are also responsible for the operation of the electricity transmission networks in Scotland.

This year has seen a fundamental shift in our ways of working with contractors, with the formation of electricity alliances, working on the same principles as the successful gas distribution alliances. The alliance structure means that our supply chain partners share in the risks and rewards of capital investment, and are jointly responsible with us for work

The formation of the electricity alliances has helped provide the platform for us to deliver our ramped up capital investment programme. This year we have delivered £1.7 billion worth of electricity and gas projects to upgrade and reinforce ageing infrastructure and adapt our networks to cope with changing sources of energy.

Kev Facts

- Over 20,800 kilometres of electrical overhead lines
- Over 800 kilometres of electrical underground cable
- 303 TWh electricity transmitted in the UK
- Nearly 7,400 kilometres of gas pipeline
- 1,134 TWh of gas throughput

A Transmission linesman beside a high voltage tower.



£1,149m

Adjusted operating profit

£1,711m

Capital investment

3,678

Employees

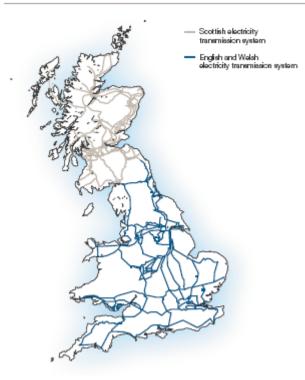
1.5 PWh

Energy transmitted (1.5 trillion kWh)

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

Y59930.SUB, DocName: EX-15.1, Doc: 16, Page: 36 [E/O]
Description: EXHIBIT 15.1

CRC: 58906 EDGAR 2



About Transmission

Our Transmission business operates in both the UK and the US. As a consequence of the differences in economic and regulatory environments, we report the results of Transmission as two segments: Transmission UK and Transmission US.

This section should be read in conjunction with the rest of this Operating and Financial Review, in particular our vision, strategy and objectives, business drivers and risks and external and regulatory environments, set out on pages 15 to

Principal operations

Our transmission operations in the UK encompass both electricity and gas transmission, comprising the following principal activities:

Electricity transmission

We own the electricity transmission system in England and Wales.

Our electricity assets comprise approximately 7,200 kilometres of overhead line, about 675 kilometres of underground cable and 337 substations at 244 sites.

transmission

We own the gas national transmission system in Great Britain. This comprises approximately 7,400 kilometres of high pressure pipe and 26 compressor stations, connecting to 8 distribution networks and to third party independent systems for onward transportation of gas to end

Transmission UK - gas system



We are the Great Britain System Operator, responsible for managing the operations of both the England and Wales transmission system that we own and also the two high-voltage electricity transmission networks in Scotland.

Day-to-day operation of the Great Britain electricity transmission system involves the continuous real-time matching of demand and generation output, ensuring the stability and security of the power system and the maintenance of satisfactory voltage and frequency.

system

We operate the gas national transmission system.

Day-to-day operation includes balancing supply and demand, maintaining satisfactory system pressures and ensuring gas quality standards are

interconnector

We own and operate the UK assets, and a portion of the subsea cables, that comprise the electricity interconnector between England and France as part of a joint arrangement with the French transmission operator.

LNG storage

We own and operate four liquefied natural gas (LNG) storage facilities in Great Britain

838 and 26

Electricity substations and gas compressor stations

99.9999%

UK electrical system reliability

100%

UK gas system reliability

98.6%

US electrical system availability

Transmission continued

National Grid plc

As electricity transmission owner and gas transmission owner, we own and maintain the physical assets, develop the networks to accommodate new connections and disconnections, and manage a programme of asset replacement and investment to ensure the long-term reliability of the respective networks.

As electricity system operator and gas system operator, we undertake a range of activities necessary for the successful, efficient delivery, in real-time, of secure and reliable energy In the case of electricity, this involves the continuous realtime balancing of supply and demand, and balancing services that include commercial arrangements with market participants that enable electricity demand or generation output to be varied. In the case of gas, we ensure the system is balanced with supply and demand at the end of each day. We are also required to maintain levels of short-term gas reserves to ensure domestic and other non-interruptable gas supplies can be maintained during prolonged cold conditions.

Transmission US

In the US, we are involved in electricity transmission and our Transmission US segment has the following principal activities:

transmission

We own and operate an electricity transmission network of approximately 13,800 kilometres spanning upstate New York, Massachusetts, Rhode Island, New Hampshire and Vermont. Our US electricity transmission facilities operate at voltages ranging from 69 kV to 345 kV, utilising nearly 13,700 kilometres of overhead line, nearly 160 kilometres of underground cable and 501 substations.

We are the largest electricity transmission service provider in New England and New York by reference to the length of these high-voltage transmission lines

Canadian

We own and operate a 224 kilometre direct current transmission line rated at 450 kV that is a key section of an interconnector between New England

In New England and New York, our transmission business operates within two independent system operators, one in New England and one in New York. These non-profit entities are the system operators for the New England and New York networks and are responsible for operating organised wholesale markets for energy, for operating reserves and capacity, for maintaining the operating reliability of the New England and New York networks, for coordinating the activities of the transmission owners, and for managing transparent transmission expansion planning processes.

We are one of several transmission owners operating within each of these independent system operators. The transmission owners are responsible for certain aspects of the operation of the facilities they each own, such as maintenance, equipment restoration and switching

National Grid works closely with the independent system operators in New England and New York to support efficient market and network operations and transmission investment.

Transmission US - electricity networks



Regulation Transmission UK

Through our subsidiary, National Grid Electricity Transmission plc, we are the sole holder of an electricity transmission licence for England and Wales. This licence also covers our role as system operator for the transmission networks in Great Britain. Under the Electricity Act 1989 we have a duty to develop and maintain an efficient, coordinated and economical system of electricity transmission and to facilitate competition in the supply and generation of electricity. Under the Energy Act 2004, the holder of a transmission licence is prohibited from operating an interconnector and so the elements of the interconnector assets that we operate were transferred to a new subsidiary on 14 August 2006, the date at which the relevant part of the legislation came into force.

Through our subsidiary, National Grid Gas plc, we hold a gas transporter licence in respect of the national transmission system in Great Britain. Under the Gas Act 1986 we have a duty to develop and maintain an efficient and economical pipeline system for the conveyance of gas. Our LNG storage business is managed as a separate business from the gas transmission business; however, it is regulated under our gas transporter licence.

Ofgem sets price controls in respect of the amounts that can be recovered by the owners and operators of electricity and gas network infrastructure in the UK. These controls are reviewed every five years and the current price control for both electricity and gas transmission activities covers the period 1 April 2007 to 31 March 2012.

The key elements of the current price control for both gas and electricity transmission are that we earn a 4.4% post-tax real rate of return on our regulatory asset value, a £4.4 billion baseline five year capital expenditure allowance and a £1.2 billion five year operating expenditure allowance.

The charges that we can make for access to our UK electricity and gas transmission systems are determined by formulae linked to the UK retail price index (RPI). These formulae are based upon Ofgem's estimates of operating expenditure, capital expenditure and asset replacement, together with an allowed rate of return. In addition, we are subject to a number of incentives that can adjust our transmission network revenue.

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The transmission network reliability incentive scheme is based on the reliability of the electricity transmission network in England and Wales. For 2007/08, there was the potential to earn additional revenue of up to 1% if loss of supply was less than 237 MWh. For loss of supply in excess of 263 MWh, up to a collar of 619 MWh, we could potentially have lost up to 1.5% of revenue. For 2008/09, an identical incentive scheme is in place.

The SF_6 incentive, a reward-only scheme, is based on reducing SF_6 gas emissions. The 2007/08 target was for SF_6 losses to be below 3%, with a sliding target over the regulatory period, with the 2011/12 target of 2%.

Both our UK electricity and gas system operation activities are subject to financial incentive schemes to promote efficiency. If we operate our networks more efficiently than Ofgem's forecasts, we can increase our revenues, with penalties for reductions in performance.

For electricity transmission, we also have a balancing services incentive scheme that covers the external costs incurred in balancing the system. For 2008/09, we have accepted an incentive scheme with a cost target between £529 million and £544 million, such that we retain 25% (up to a cap of £15 million) of any savings below £529 million, and we lose 25% (down to a collar of £15 million) of any costs in excess of £544 million.

For gas transmission, we have a number of incentive schemes covering activities such as cost of investment for additional capacity to facilitate new connections to the system, managing constraints, the provision of market information, the cost of purchasing shrinkage gas (gas used in operating the system) and other gas system operation

Transmission US

Revenue for our transmission business in New England and New York is collected from transmission customers, including from our Electricity Distribution & Generation business, pursuant to tariffs approved by state utility commissions and by the Federal Energy Regulatory Commission.

In New York, our rates allow for capital expenditure on our transmission network based on historic levels, which are significantly lower than required to maintain a safe and reliable network. Over the past few years, we have overspent rate plan levels by a factor of around two. We are permitted to petition for additional revenues with respect to capital expenditure, which we have done with respect to the 2008 calendar year. We anticipate that we will also petition for deferred recovery of qualifying incremental investment for calendar years 2009 to 2011.

In New England, the tariff allows for recovery of, and a return on, capital expenditures as new investment enters service, bringing immediate revenue benefits.

In New York, Massachusetts and Rhode Island, we are subject to penalties if the reliability of our electricity distribution and transmission networks fails to meet specific targets related to customer impacts.

The New York rate plan is orientated around efficient operations. To the extent that we perform necessary activities and spend less than the forecast operating costs set in the rate plan, it equates to increased income for us. Part of the rate plan deals with forecast energy delivery. To the extent that more energy is delivered, we increase revenue. Conversely, if we deliver less than forecast, our revenue goes down. In New England, efficient operations are also key. However, the rate structure is such that network availability, energy delivery and operational expenditure are all pass-through items.

Current and future developments

In addition to the current and future developments described on pages 22 and 23, the following developments are relevant to the Transmission business.

UK price controls

The previous price control arrangements for our electricity and gas transmission networks in the UK ceased on 31 March 2007 and the current price control period covers the period from 1 April 2007 to 31 March 2012.

Following our acceptance in principle of the proposals, we have worked closely with Ofgem to agree the necessary licence amendments to enact the final proposals.

We also accepted Ofgem's final proposals for the system operator schemes that applied to 2007/08 for both gas transportation and electricity transmission and their proposals for the one year period from 1 April 2008.

Other UK developments

Following the price control allowances of approximately £350 million for transmission reinforcement works to accommodate the growing impact of renewable energy from Scotland, works are underway. In particular, the upgrade of the two double circuits connecting Scotland and England and associated works will be undertaken over the price control period. At this time, network access is being sought by approximately 10 GW of renewable generation projects in Scotland consisting of over 100 projects, each with connection agreements with National Grid. For England and Wales, connection offers have been made to an additional 7 GW of renewable generation.

The 316 kilometre pipeline connecting the new LNG importation terminals at Milford Haven has been completed on time and in advance of the terminals. The pipeline has been delivered to a very challenging timetable. It was formally opened by UK Energy Minister Malcolm Wickes in November 2007.

The pipeline will initially have to operate at 70 bar pressure rather than its design pressure of 94 bar because, following a public inquiry, planning permission has been refused for a pressure reduction installation at the end of the pipeline at Tirley in Gloucestershire. The effect of this is to reduce the pipeline's capacity by approximately 25% and a force majeure notice for this shortfall has been issued under our contracts with gas shippers. Work is progressing towards the submission of revised planning applications in autumn 2008.

Transmission continued

National Grid plc

Major pipelines have also been completed and commissioned from Nether Kellett in Lancashire to Pannal in North Yorkshire as part of works to import gas from Norwegian gas fields at Easington and in south west England to meet increased demand requirements.

US regulatory developments

In the US, consistent with the Federal Energy Regulatory Commission's (FERC) transmission pricing policy, we applied for an increased rate of return on our investment in transmission assets in New England. FERC approved our application in October 2006. In March 2008, FERC also approved incentive returns for new transmission investment completed and in service between 1 January 2004 and 31 December 2008. Incentives applicable to transmission investments in service after 31 December 2008 require a separate petition filing with the FERC. Opposing parties may seek appeal of these FERC determinations.

We have been pursuing a regional planning process with the New York independent system operator to identify regional reliability and economic transmission needs. Progress has been made and the New York independent system operator is in its third year of its reliability planning process implementation. We have proposed a regulated transmission solution to reliability needs identified by the New York independent system operator. In addition, as part of FERC's recent open access transmission tariff reform, the New York independent system operator has made a filing on a process to address economic planning.

On 21 December 2007 we petitioned the New York Public Service Commission for deferred recovery of incremental investment on major capital programmes for calendar year 2008, as permitted under our rate plan. We anticipate that we will also petition for deferred recovery of qualifying incremental investment for calendar years 2009 to 2011.

Performance against our objectives

Descriptions of our progress against our overall objectives in the areas of delivering our strategy, operating performance, talent, relationships, environment, financial performance and responsibility are set out on pages 24 to 43. We include below further information specific to Transmission with respect to the progress we have made on transformation, our operating performance and our financial performance.

Delivering our strategy

Key areas of focus for our Transmission business for 2007/08 have been to improve safety performance and to improve processes for network operations, within-year planning, transmission construction and asset management.

Achievements so far have been the sharing of best practice with regard to safety, comparing processes and procedures across the electricity control rooms, and the development of a common financial approval process. Our Transmission business has progressively integrated its gas and electricity transmission activities in the UK and its electricity transmission activities in the US into a single line of business.

Throughout 2007/08 we have continued implementing the improvements identified in our business process review last year. We have focused on improving the efficiency of delivery of our capital investment programme and operational efficiencies to meet the challenges within our UK price control and US rate plans. This has been based on improving our operational planning, managing a higher volume of work that is potentially more volatile if not managed effectively and improving the process of connecting new sources of energy to our networks. We have also been working with our suppliers to constrain or reduce costs wherever possible, with the aim of using the scale of our operations, and the increased level of capital expenditure, to increase efficiency.

Operating performance

Safety

Our aim is for zero lost time injuries.

In the UK during 2007/08 there were 15 lost time injuries compared with 13 in 2006/07 and 14 in 2005/06. The lost time injury frequency rate was 0.28 in 2007/08 compared to 0.25 in 2006/07 and 0.28 in 2005/06.

Our US electricity transmission lost time injury frequency rate increased to 0.24 in 2007/08 from 0.19 for 2006/07 as a result of two lost time injuries during the year.

Efficiency

Our objective is to be more efficient in the delivery of services, in the context of higher expectations from our customers and cost pressures.

We have been undertaking a number of internal business process reviews to seek out further savings without compromising our other objectives. Efficiency is reflected in our financial performance, which is discussed on pages 49 to

Reliability

Our aim is to meet or exceed network reliability and availability objectives.

In the UK, the total amount of electricity transmitted in 2007/08 was 303.0 TWh compared with 303.7 TWh for 2006/07 and 312.4 TWh for 2005/06, while gas transmitted amounted to 1,134 TWh compared with 1,086 TWh in 2006/07 and 1,120 TWh in 2005/06.

In the UK, the winter of 2007/08 saw demand from the electricity transmission network in England and Wales hit a peak of 54.2 GW. This compares with 52.1 GW for 2006/07 and 53.8 GW for 2005/06.

2007/08 saw a maximum gas demand of 419 million cubic metres on 17 and 20 December 2007. This is lower than last year's peak of 436 million cubic metres.

In the US, the summer of 2007/08 saw demand from the electricity transmission networks in New England and New York hit a combined peak load of 13.2 GW. This compares with 14.0 GW for 2006/07 and 13.2 GW for 2005/06.

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Our reliability and availability performance during the year can be summarised as follows:

	Years ended 31 March		
Measure	2008	2007	2006
UK electricity transmission network reliability – target 99.9999%	99.9999%	99.9999%	99.9999%
UK gas transmission network reliability – target 100%	100%	100	100
US electricity transmission network reliability – target < 264 MWh	437 MWh	259 MWh	348 MWh
UK average annual availability for electricity transmission network	95.09%	95.02%	95.09%
UK electricity system availability at winter peak demand	98.0%	98.2%	97.9%
UK gas compressor fleet performance – mean time between failures	259 hours	430 hours	n/a (changed definition)
US annual network availability	98.6%	98.1%	98.5%

Our UK electricity transmission network reliability in 2007/08 of 99.9999% excludes interruptions that affect three or fewer directly connected consumers and, in 2007/08, also excluded one incident (equivalent to 0.0003%) relating to supply interruptions that occurred following flooding in central England that was outside of our control.

In the US our electricity system reliability performance declined. Improvement is an objective for 2008/09.

In order to improve gas compressor resilience and to support variations in operating conditions such as we experienced this year, we are progressing investments in electrical drive compressors at approximately 20% of our sites.

service

Our aim is to support generators and distribution network customers, including our own networks operated by Gas Distribution in the UK and Electricity Distribution & Generation in the US, in delivering energy efficiently and effectively to consumers, in particular in connecting new sources of supply to our transmission networks.

Our transmission customer service activities principally relate to facilitating new connections and maintaining existing connections and relationships with the customers who are already connected. In the US, much of the interconnection work with our transmission customers is performed in conjunction with the independent system operators in the areas that we operate.

Capital investment

Our aim is to deliver our planned capital investment programme involving approximately £7 billion of capital expenditure between 1 April 2007 and 31 March 2012.

Investment in electricity and gas transmission systems is, by its nature, variable and is largely driven by changing sources of supply and asset replacement requirements. The gas transporter and electricity transmission licences also oblige us to provide connections and capacity upon request.

We have increased our level of investment as, over the next few years, we replace parts of our UK electricity network as these assets become due for renewal. In addition, parts of the gas transmission network are reaching the end of their lives. These are mainly compressor stations, control systems and valves (ie above ground assets and not the high pressure pipes). This, together

with work required to meet changing supply sources, means that the UK electricity and gas transmission business will continue to see a significant increase in investment and

Capital investment in the replacement, reinforcement and extension of the UK electricity and gas transmission systems in 2007/08 was £1,600 million, compared with £1,235 million in 2006/07 and £849 million in 2005/06. 2007/08 has seen a substantial increase in the level of investment in gas pipeline projects, some £138 million higher than 2006/07 (2006/07: £244 million higher than 2005/06). Capital investment included £22 million with respect to intangible assets, principally software applications (2006/07: £17 million, 2005/06: £9 million).

Capital investment continues to include high levels of expenditure on the replacement of electricity transmission network assets, many of which were commissioned in the 1960s, and also increasing expenditure on load related infrastructure. Total investment in electricity network assets amounted to £800 million in 2007/08, compared with £607 million in 2006/07 and £530 million in 2005/06.

Capital investment in the replacement, reinforcement and extension of the US electricity transmission networks in 2007/08 was £111 million compared with £108 million in 2006/07 and £91 million in 2005/06. The increase principally reflects additional asset replacement in New York to increase system reliability.

We expect increasing investment in New England to deliver our regional system expansion projects. Investment in New York will also continue to rapidly deliver on our asset replacement plans and to improve the reliability of the

Financial performance

Profit

Our objective is to drive continuous profit growth.

Our combined adjusted operating profit, excluding exceptional items, for Transmission in the UK and the US of £1,149 million is 10% higher than 2006/07 on a constant currency basis, which in turn was 9% higher than in 2005/06, also on a constant currency basis.

Returns on investment

Our objective is to deliver strong financial returns compared to the regulatory allowances within our UK price controls and US rate plans and agreements.

We measure the financial performance of our UK regulated business using an operational return metric comparable to the vanilla return defined in the UK price controls from 1 April 2007. In our electricity transmission operations we achieved a 4.6% operational return in 2007/08, performing broadly in line with regulatory assumptions. In our gas transmission operations we achieved a 7.2% return in 2007/08, significantly outperforming regulatory assumptions mainly as a result of performance under our incentive

In the US we measure our financial performance against the allowed regulatory return on equity under the terms of our rate plan or rate agreement. For New England Power we achieved an 11.9% regulatory return on equity for 2007/08, 0.9% lower than

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

Y59930.SUB, DocName: EX-15.1, Doc: 16, Page: 41 [E/O]
Description: EXHIBIT 15.1

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Transmission continued

National Grid plc

for 2006/07. The reduction related to non-Transmission activities of New England Power.

In New York, our electricity transmission activities are combined with electricity distribution under a single rate plan and the combined returns for these activities are included within our Electricity Distribution & Generation business commentary on page 66.

Financial results - Transmission UK

The results for the Transmission UK segment for the years ended 31 March 2008, 2007 and 2006 were as follows:

		Years en	ded 31 March
_	2008	2007	2006
Continuing operations	£m	£m	£m
Revenue	2,956	2,816	2,710
Other operating income	_	6	_
Operating costs excluding			
exceptional items	(1,935)	(1,876)	(1,866)
Adjusted operating profit	1,021	946	844
Exceptional items	(8)	(10)	(1)
Operating profit	1,013	936	843

2007/08 compared with 2006/07

The principal movements between 2006/07 and 2007/08 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2006/07 results	2,822	(1,886)	936
Add back 2006/07			
exceptional items	_	10	10
2006/07 adjusted results	2,822	(1,876)	946
Allowed revenues	176		176
Timing on recoveries	10	_	10
Lower French			
interconnector and LNG			
storage auctions	(62)	_	(62)
Depreciation and			
amortisation	_	(20)	(20)
Other	10	(39)	(29)
2007/08 adjusted results	2,956	(1,935)	1,021
2007/08 exceptional items	_	(8)	(8)
2007/08 results	2,956	(1,943)	1,013

Revenue and other operating income increased by £134 million in 2007/08 compared with 2006/07. Allowed revenues increased by £176 million, driven by the five year transmission price controls that came into effect on 1 April 2007. As expected, revenues from our French interconnector and LNG storage businesses were lower in 2007/08, down by a combined £62 million on 2006/07, as demand for capacity returned closer to normal levels following the abnormal demand in 2006/07.

Operating costs, excluding exceptional items, increased by £59 million in 2007/08 compared with 2006/07. As expected, depreciation and amortisation increased by £20 million as a result of increasing capital investment. Other items increased costs by £39 million, principally because of higher pass through costs and increased non-price controlled activities, both recovered through revenue.

The £8 million exceptional charge in 2007/08 relates to costs incurred in establishing a shared services function in the UK and from the continuation of our review of business processes, compared with £10 million in 2006/07.

As a consequence, adjusted operating profit, excluding exceptional items, increased by £75 million in 2007/08 compared to 2006/07, while operating profit increased by £77 million.

2006/07 compared with 2005/06

The principal movements between 2005/06 and 2006/07 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit
2005/06 results	2,710	(1,867)	843
Add back 2005/06 exceptional items	_	1	1
2005/06 adjusted results	2,710	(1,866)	844
Allowed revenues	106	(3)	103
Timing on recoveries	(64)	_	(64)
Transmission owner			
depreciation	_	27	27
Other	70	(34)	36
2006/07 adjusted results	2,822	(1,876)	946
2006/07 exceptional items	_	(10)	(10)
2006/07 results	2,822	(1,886)	936

Revenue and other operating income increased by £112 million in 2006/07 compared with 2005/06, driven by an increase of £85 million in electricity transmission owner revenue from the regulatory settlement with Ofgem for the extension of the previous price control for 2006/07, a 6% increase in real terms. The balance of the increase arose from higher incentivised costs associated with balancing the electricity system, which flow through to revenue, higher pass-through costs, partly offset by unfavourable timing impacts on gas revenue and lower interconnector auction

Operating costs, excluding exceptional items, increased by £10 million in 2006/07 compared with 2005/06. Transmission owner depreciation and amortisation decreased by £27 million due to the impact of accelerated depreciation charges and early asset write offs in 2005/06 partly offset by an increase in depreciation reflecting the increasing capital programme. Higher other operating costs reflected higher incentivised BSIS costs resulting from higher response and constraint costs partly offset by lower margin costs, higher pass-through costs and higher

£2,956m

Transmission UK revenue

£299m

Transmission US revenue

£1,600m

Transmission UK capital expenditure

£111m

Transmission US capital expenditure

The £102 million increase in UK electricity and gas transmission adjusted operating profit comparing 2006/07 with 2005/06 reflects the movements in revenue and operating costs, excluding exceptional items, as described above.

The £10 million exceptional charge in 2006/07 was driven by the establishment of shared services functions in the UK and the implementation of a review of our business processes.

Financial results - Transmission US

The average exchange rates used to translate the results of US operations during 2007/08, 2006/07 and 2005/06 were \$2.01:£1, \$1.91:£1 and \$1.79:£1 respectively.

	Years ended 31 Ma			
	2008	2007	2006	
	£m	£m	£m	
Revenue	299	270	310	
Operating costs excluding				
exceptional items	(171)	(162)	(183)	
Adjusted operating profit	128	108	127	
Exceptional items	(6)	(1)	_	
Operating profit	122	107	127	

2007/08 compared with 2006/07

The principal movements between 2006/07 and 2007/08 can be summarised as follows:

	Revenue £m	Operating costs £m	Operating profit £m
2006/07 results	270	(163)	107
Add back exceptional items	_	1	1
2006/07 adjusted results	270	(162)	108
Exchange movements	(13)	8	(5)
2006/07 constant currency results	257	(154)	103
Allowed revenues	27	` _	27
Timing of recoveries	15	_	15
Other	_	(17)	(17)
2007/08 adjusted results	299	(171)	128
Exceptional items	_	(6)	(6)
2007/08 results	299	(177)	122

Revenue and operating costs decreased by £13 million and £8 million in 2007/08 respectively as a consequence of exchange rate movements when compared with 2006/07. On a constant currency basis revenue and operating costs increased by £42 million and £17 million respectively. This reflected an increase in allowed revenues of £27 million and £15 million arising from the timing of revenue recoveries, while operating costs increased by £17 million as a consequence of higher wages and other expenditure.

The £6 million exceptional charge in 2007/08 relates to the integration of the operations acquired with KeySpan, in particular costs arising from voluntary early redundancies, compared with £1 million incurred in 2006/07. As a consequence adjusted operating profit increased by £25 million in 2007/08 compared to 2006/07 on a constant currency basis and by £20 million in total. After reflecting exceptional items, operating profit was £15 million higher in 2007/08 than in 2006/07.

2006/07 compared with 2005/06

The principal movements between 2005/06 and 2006/07 can be summarised as follows:

	Revenue	Operating costs	Operating profit
	£m	£m	£m
2005/06 results and adjusted			
results	310	(183)	127
Exchange movements	(19)	11	(8)
2005/06 constant currency results	291	(172)	119
Tariff adjustment not repeated	(7)	7	_
GridAmerica	(4)	3	(1)
Other changes	(10)	_	(10)
2006/07 adjusted results	270	(162)	108
Exceptional items	_	(1)	(1)
2006/07 results	270	(163)	107

The £21 million decrease in revenue comparing 2006/07 with 2005/06 on a constant currency basis was due to the impact of the timing of a revenue adjustment mechanism in New York, lower US interconnector revenues reflecting a declining investment base and the November 2005 closure of GridAmerica, a multi-system independent transmission company that managed electricity transmission operations for other utilities in the US (£4 million in 2005/06). In addition, there was no repeat of the one-off tariff adjustment of £7 million in 2005/06 to revenues collected from another business segment. Partly offsetting these decreases was higher revenue from New England due to a higher investment base.

Operating costs, excluding exceptional items, decreased by £10 million in 2006/07 compared with 2005/06 on a constant currency basis. This is mainly due to the non-recurrence of the one-off £7 million operating cost adjustment reflected in 2005/06 as referred to above and a £3 million reduction in operating costs following the closure of GridAmerica in 2005/06. The £19 million overall decrease in adjusted operating profit and £20 million decrease in operating profit in 2006/07 compared with 2005/06 reflects the £11 million movement in revenue and operating costs as described above, together with unfavourable exchange movements of £8 million and, in the case of operating profit, £1 million exceptional costs relating to the then anticipated acquisition of KeySpan.

£1,021m

Transmission UK adjusted operating profit £128m

Transmission US adjusted operating profit 8%

Transmission UK increase in adjusted operating profit

Transmission US increase in adjusted operating profit at constant currency

Gas Distribution

We own and operate gas distribution systems in the UK and the northeastern US.

With the acquisition of KeySpan, our Gas Distribution business is now roughly equally split between the UK and the US. We have been sharing best practice ideas between countries and we have changed our operating structure to reflect this.

In the UK we have entered a new price control period which will bring considerable challenge and opportunity over the next five years, as we look to become more efficient and consistent with our processes.

Once again we have achieved our objective to replace iron main with plastic in the UK this year, totalling 1,850 kilometres, improving the safety and reliability of our networks.

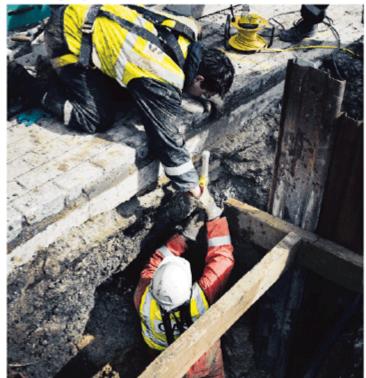
Key Facts

- Around 190,000 kilometres of gas pipe
- Over 14.3 million consumers
- Around 13,000 pressure reduction sites, including district governors
- Over 9.2 million cubic metres of gas storage capacity

A distribution crew working on an underground governor.



Repairing a gas escape in the highway.



£987m

Adjusted operating profit

£702m

Capital investment

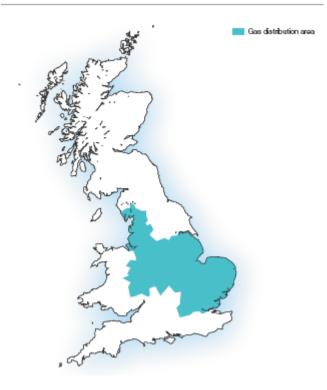
9,136

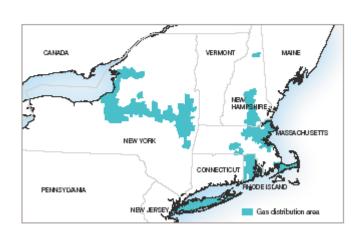
Employees

455 TWh

Gas delivered

Gas Distribution US - operating area





About Gas Distribution

Our Gas Distribution business operates in both the UK and the US. As a consequence of the differences in the respective economic and regulatory environments, we report the results of Gas Distribution as two segments: Gas Distribution UK and Gas Distribution US.

This section should be read in conjunction with the rest of this Operating and Financial Review, in particular our vision, strategy and objectives, business drivers and risks and external and regulatory environments, set out on pages 15 to

Principal operations

Gas Distribution UK

Our Gas Distribution UK segment comprises four of the eight regional gas distribution networks in Great Britain.

Our networks comprise approximately 132,000 kilometres of gas distribution pipelines and we transport gas on behalf of approximately 33 active gas shippers from the gas national transmission system to around 10.8 million consumers.

We also manage the national emergency number (0800 111 999) for all of the gas distribution networks and for other transporters in the UK. During 2007/08 we handled approximately 3.5 million calls to the national emergency

Gas Distribution US

Our Gas Distribution US segment comprises gas distribution networks providing services to 3.5 million consumers across the northeastern US, located in service territories in upstate New York, New York City, Long Island, Massachusetts, New Hampshire and Rhode Island.

Our network of approximately 58,000 kilometres of gas pipelines covers an area of approximately 28,800 square kilometres.

In the US, our core services are the operation and emergency response for each of our gas distribution networks, in addition to billing, customer service and supply services.

Except for residential and small commercial consumers in Rhode Island, customers may purchase their supply from independent providers, with the option of billing for those purchases to be provided by National Grid. The gas industry is less deregulated in the US than in the UK, in that the majority of gas supplied is still sold by local regulated utilities such as National Grid, to customers. Regulated utilities purchase gas from gas producers, and gas transporters then transport this gas on the independent inter-state pipeline system and into regulated utilities' gas distribution networks for delivery to customers. In our case, we receive gas from the inter-state pipeline system at 94 gate stations. The interstate pipeline system and local gas distribution

1,850km

Gas pipe replaced under our UK gas mains replacement programme

Safety

UK and US targets met to attend gas escapes

3.5m

Calls handled by the national emergency number in the UK

14.3m

Gas consumers served in the UK and the US

Gas Distribution continued

National Grid plc

networks are also used to deliver gas on behalf of customers who have purchased gas from independent suppliers or direct from gas producers.

Regulation

Gas Distribution UK

We hold a single gas distribution transporter licence in the UK, which authorises us to operate the four gas distribution networks we own. Detailed arrangements for transporting gas are provided through the Uniform Network Code. This defines the obligations, responsibilities and roles of industry participants and is approved by Ofgem.

Our four regional gas distribution networks each have a separate price control which determines the prices we can charge to gas shippers for our gas delivery service. These maximum prices are based on Ofgem's allowances for operating, capital and replacement expenditure, together with depreciation of, and a return on, Ofgem's allowances for our regulatory asset value.

The price controls that applied to our UK gas distribution networks during the year ended 31 March 2008 were an extension of our previous price controls, based on an allowed rate of return at a real pre-tax rate of 6.25% on our regulatory asset value.

The next full price control period came into force on 1 April 2008 and covers the period up to 31 March 2013. This review allows for capital expenditure of £0.7 billion and mains replacement expenditure of £2.2 billion over that period, together with an allowed rate of return of 4.3% on a post-tax basis. These allowances are expected to grow our asset base by almost 25% over the next 5 years.

As at 31 March 2008, our regulatory asset value is estimated at approximately £6.5 billion.

In the UK, the price control formulae specify a maximum allowed revenue assigned to each network. Each formula consists of a fixed core revenue, cost pass-through items, a mains replacement adjustment mechanism and shrinkage and exit capacity incentive terms. Transportation charges are set broadly to recover allowed revenue but in any year collected revenue can be more or less than allowed. Any difference is carried forward and our charges are adjusted accordingly in future periods.

Replacement expenditure maintains the safety and reliability of the network, by replacing older gas pipes with modern pipes. Ofgem treats 50% of projected replacement expenditure as recoverable during the price control period and 50% as recoverable over future years. Each network is subject to its own mains replacement incentive mechanism and retains 33% of any outperformance against Ofgem's annual cost targets as additional return or, alternatively, bears 50% of any overspend if it underperforms.

Ofgem has established standards of service we are required to meet that apply to our operations. These include: overall standards of service, for example answering 90% of all calls to the national gas emergency number within 30 seconds of the call being connected and attending 97% of reports of a gas escape or other gas emergency within the required timescale; connections standards of service that require us to provide connections to customers to agreed timescales after an unplanned interruption;

and guaranteed standards of service for our other transportation services. Compensation is payable for any failures to meet both these and the connections standards of

Gas Distribution US

Gas Distribution US operates under franchise agreements that provide us with certain rights and obligations regarding gas facilities and the provision of gas service within each state in which we operate. In addition, there are federal and state laws and regulations covering both general business practices and the gas business in particular, especially with respect to safety, energy transactions, customer sales and service, levels of performance, rates, finances and environmental concerns. The jurisdictions include, but are not limited to: the US Department of Transportation, the US Environmental Protection Agency, the US Federal Energy Regulatory Commission (FERC), several state utility commissions, departments of transportation, and environmental agencies. Local building departments, fire departments and departments of transportation also impose regulations upon our operations. A number of these agencies issue licences and permits governing activities under their jurisdiction.

The prices we set in the US for our customers are based on a cost of service model, whereby the prices that we agree with our regulators are designed to recover the costs we incur in providing services to customers, together with a return on equity invested. Customer bills typically comprise a commodity rate to recover the cost of gas delivered and a delivery rate to cover our gas delivery service. Delivery rates comprise a combination of a per customer charge and an additional price per therm of gas delivered. The allocation between these components varies by jurisdiction, type of customer and size of customer.

Depending on the jurisdiction, prices are set either by actual sales volumes and costs incurred in a historical test year or by rate plans based on estimates of costs and our return and estimates of volumes expected to be delivered, which may differ from actual amounts. Gas purchases for supply to customers, which represent a substantial proportion of our costs, are pass-through costs, in that prices are adjusted on a regular basis to ensure that over- or under-recovery of these costs is returned to or recovered from customers with interest. As a consequence, we have no economic exposure to such costs assuming they were prudently incurred. However, as prices are typically established based on estimates of costs and volumes, there can be timing differences between the financial period when we incur such costs and the financial period when our prices are adjusted to return or charge for any over- or under-recovery.

Our rate plans include sharing arrangements, which allow us to retain some of the benefit of efficiency improvements in excess of those built into rate plan assumptions. Typically, we retain all the benefits up to a certain level of return on equity, after which we retain only a proportion of the benefits with the balance returned to customers.

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Rate plan	Equity return	Equity to debt ratio	Sharing arrangements
New York City and Long Island	9.8%	45/55	100% to 10.5%, 50% to 12.5%, 35% to 13.5%, nil above 13.5%
Upstate New York	10.6%	42/58	100% to 10.6%, 50% above 10.6%
Boston, MA	10.2%	50/50	100% up to 14.2%, 75% above 14.2%
Essex, MA	11.2%	55/45	None
Colonial, MA	11.2%	46/54	None
Rhode Island	11.3%	44/56	None
New Hampshire	10.4%	49/51	None

We also have a number of service standards for our operations. These vary between our rate plans but include such measures as: reliability levels; responsiveness to gas emergency calls; customer satisfaction levels; customer complaints; customer meter reading performance; customer call answering; enrolment of customers into the low income customer assistance programme; outstanding gas leaks requiring repair; and other measures. Many of these service standards have penalties if we do not achieve certain specified minimum standards.

Current and future developments

In addition to the current and future developments described on pages 22 and 23, the following developments are relevant to the Gas Distribution business.

Acquisition of KeySpan

The most significant development for Gas Distribution during the year was the acquisition of KeySpan, which substantially expanded the size of our activities in the US, with the addition of gas distribution networks in New York City, Long Island, Massachusetts and New Hampshire to our existing upstate New York and Rhode Island operations.

UK regulatory price control reviews

Ofgem extended the previous five year gas distribution price controls for a further year to cover the year ending 31 March 2008. The principal impact of these one year price control extensions is to increase prices by approximately 11% and to reduce the seasonality of revenues. In addition, the balance between fixed and variable elements in our revenue changed, reducing the impact that volume changes, including weather, had on our revenue in 2007/08 compared with previous years.

On 18 December 2007 we accepted Ofgem's final proposals for new price controls with respect to our role as owner and operator of four of the eight gas distribution networks in Great Britain, covering the period from 1 April 2008 to 31 March 2013. The key elements of these proposals are a 4.3% post-tax real rate of return on our regulatory asset value, a £2.9 billion baseline five year capital expenditure allowance and a £1.9 billion five year operating expenditure

Rhode Island gas rate plan filing

Following the acquisition of the Rhode Island gas distribution network from Southern Union Company on 24 August 2006 rates were frozen for one year. We filed a request on 1 April 2008 with the Rhode Island Public Utilities Commission for a \$20.4 million (£10.3 million) rate increase, representing a 4.6% increase on a

total bill basis. The filing includes a revenue decoupling proposal, a gas marketing programme, a discrete funding mechanism for an accelerated bare-steel and cast-iron mains replacement programme, a new rate for low-income customers, and full reconciliation of commodity related bad debt expense.

Upstate New York gas rate plan filing

We plan to file with the New York Public Service Commission on 23 May 2008 for an \$84 million (£42 million) rate increase in natural gas delivery rates, representing a 9.6% increase on a total bill basis. The filing includes a revenue decoupling proposal, a gas marketing programme, a new rate for low-income customers, and full reconciliation of commodity related bad debt expense. The filing also seeks recovery of \$11 million (£6 million) of costs associated with an energy efficiency programme proposal submitted to the Commission on 30 April 2008.

New Hampshire gas rate plan filing

On 25 February 2008, we filed a request with the New Hampshire Public Utilities Commission to increase distribution rates by approximately \$9.9 million (£5 million). The filing marks the first request for an increase in distribution rates in 15 years and is necessary to fund ongoing operations and significant infrastructure improvements. If the request is approved, the typical residential heating customer will experience a 6.4% increase in total monthly bill. The average increase for all rate classifications and usage levels is 5.6%. We have requested that a portion of the increase be put into effect in August 2008, with the remainder implemented in February 2009. If approved, the provision for a temporary rate increase would result in an average initial increase of 3.75%. The filing also includes a commitment on the part of the Company to improve emergency response times and call answering times and reflects annual permanent savings to consumers of \$619,000 (£313,000) realised as a result of National Grid's acquisition of KeySpan.

Performance against our objectives

Descriptions of our progress against our overall objectives in the areas of delivering our strategy, operating performance, talent, relationships, environment, financial performance and responsibility are set out on pages 24 to 43. We include below further information specific to Gas Distribution with respect to the progress we have made on delivering our strategy, our operating performance and our financial performance.

Delivering our strategy

Key areas of focus

Our objective is to utilise the scale and breadth of our enlarged Gas Distribution operations, together with the benefits of common support services, to drive improvements in our operating and financial performance. In particular, we aim to adopt best practices across Gas Distribution.

Following the acquisition of KeySpan in August 2007, we have integrated our newly acquired gas networks in New York City, Long Island, Massachusetts and New Hampshire with those of our existing gas networks in upstate New York and Rhode Island and our four gas distribution networks in England to create a single Gas Distribution business operating in both the UK and the US.

A new management team for the enlarged business has been appointed, reporting to Mark Fairbairn, the Executive Director

Gas Distribution continued

National Grid plc

with responsibility for Gas Distribution. Activities such as customer billing, human resources, property services, accounting and financial transactions processing have been transferred into the shared services organisation, and we have started to implement common operating procedures across the business.

One of the key benefits of the KeySpan acquisition is the sharing of best practices. Six initiatives have already been identified to improve the performance of our gas distribution operations in both the UK and US. Standardising these technologies should drive operating and financial improvements. Ongoing programmes include the use of keyhole technology, compaction supervisor, and the implementation of active pressure control on low pressure gas mains.

A number of new approaches have already been implemented with tangible benefits. For example, advanced excavation techniques employing a coring machine and vacuum unit has allowed holes, on average one quarter the size of conventional excavations. This technique also improves the safety of the crew, limits traffic congestion, and reduces the volume of material disposed of to landfill. This technique was adopted from our US operations and is now being utilised in the UK on gas leakage repairs.

Our compaction supervisor equipment, a disposable monitoring pad placed at pipe depth levels, allows the measuring of backfill compaction during reinstatement. Over 50 units have been purchased and deployed within the US. This improves the efficiency of repairing roads and surfaces by reducing the need for reworking following work on underground gas pipes, thereby also reducing disruption to the public.

Currently, the pressures in gas mains in the US are changed seasonally to meet expected customer demand, while in the UK, an active control system is utilised, changing the pressure in the gas mains automatically as customer demand conditions require. This active control results in a reduction of average pressure in the mains, thereby reducing natural gas escapes that impact climate change. This approach is currently being deployed in test areas in the US.

Operating performance

Safety

Our objective is to reduce employee lost time injuries to zero.

Lost time injuries numbered 15 in the UK in 2007/08, compared with 21 in 2006/07, equivalent to a lost time injury frequency rate of 0.17 (2006/07: 0.16). In the US, lost time injuries numbered 18 (excluding KeySpan), compared with 30 in 2006/07, both of which include Rhode Island. The lost time injury frequency rate for 2007/08 in the US was 0.63 (no comparison for 2006/07 due to changes in reporting lines).

In both the UK and US, we again exceeded our regulatory agreed targets on safety-related standards as follows:

Gas escapes	Time	Target	Actual
UK – uncontrolled	One hour	97%	98%
UK – controlled	Two hours	97%	99%
Upstate New York	30 minutes	75%	83%
	45 minutes	90%	96%
	60 minutes	95%	99%
Rhode Island	30 minutes	91%	95%
	45 minutes	93%	97%

We will report on KeySpan safety performance from 1 April 2008 onwards.

In the UK, we have decommissioned approximately 1,850 kilometres of iron gas mains in 2007/08, exceeding the target agreed with the UK Health & Safety Executive for the second consecutive year, which this year was 1,835 kilometres. We decommissioned 1,850 kilometres in 2006/07 and 1,724 kilometres in 2005/06.

Efficiency

Our objective is to increase the efficiency of Gas Distribution operations

We have undertaken a number of internal process reviews to advance the alignment of our operations with the aspiration of removing duplication and waste.

Following the integration of KeySpan, we have consolidated office locations within the US to centralise many activities. An example of this is the closure of the Rhode Island gas control centre and consolidation into Waltham, near Boston.

Within the UK we have improved the efficiency of our mains replacement activities by tackling larger projects through taking a zonal approach. We have also used technology, such as vacuum excavation, transferred from the US, to allow jobs to be completed more efficiently.

Our objective is to meet regulatory targets and to e zero loss of supply incidents

In the UK, actual gas consumption was 315 TWh compared with 303 TWh in 2006/07 and 347 TWh in 2005/06. This was equivalent to underlying levels of gas demand, excluding the effects of weather, of 329 TWh in 2007/08 compared with 331 TWh in 2006/07 and 347 TWh in 2005/06.

In the US, gas consumption in upstate New York was 40 TWh (136 million decatherms) for 2007/08 and 11 TWh (38 million decatherms) in Rhode Island. This was slightly above the previous year due to colder temperatures and increased usage among customers with dual fuel capability. Gas consumption in the KeySpan service territory was 89 TWh (304 million decatherms) for 2007/08.

Over the year, we have achieved all our standards of service set by Ofgem that relate to our gas transportation services in the UK. In the US there was a significant improvement in reliability, in particular in the area of gas escapes. Workable gas escape backlogs have been reduced by more than 20% over the past year and all our operations are in regulatory compliance.

Customer service

In addition to meeting customer service objectives agreed with our regulators, our objective is to be within the upper quartile of customer satisfaction in the territories we operate in.

In the UK, we have achieved all our connections standards of service over the year, along with all other standards of service set by Ofgem that relate to our gas transportation services.

During 2007/08, we made around 45,000 new connections to our UK networks (2006/07: 40,000, 2005/06: 50,000). The proportion of planned service interruptions in 2007/08 was 99.175% (2006/07: 98.92%, 2005/06: 93%) compared with a target of 95%, while the proportion of customer complaints responded to within five working days was 96.1% (2006/07: 94.7%, 2005/06: 94.7%) compared with a target of 90%.

Our gas operations in the US met all customer service standards over the past year. We installed around 14,000 new services and added 911 kilometres of new gas main connections to the network.

Capital investment

Our aim is to deliver around £4 billion of capital investment by 2012 in line with our price control allowance.

During 2007/08 we successfully delivered £702 million of capital investment and plan to invest a further £4 billion by 2012.

UK capital investment

Gross investment including reinforcement, extension and replacement of the UK gas distribution network was £514 million in 2007/08 compared with £490 million in 2006/07 and £444 million in 2005/06. Of these amounts £353 million in 2007/08 related to the replacement expenditure (2006/07: £333 million, 2005/06: £295 million) and £161 million of other capital investment including new connections, new pipelines and minor capital expenditure (2006/07: £157 million, 2005/06: £149 million). Expenditure on software applications included within the above amounts was £18 million (2006/07: £12 million, 2005/06: £1 million).

Replacement expenditure has increased by 20% since 2005/06 reflecting the substantial increase in planned work load under the long-term mains replacement programme agreed with the Health & Safety Executive.

During the third year of our alliance partnerships for Gas Distribution, we have replaced approximately 1,850 kilometres of iron gas mains with an increasing proportion of our workload comprising complex replacement of large diameter mains. Performance under the mains replacement incentive scheme has been held broadly neutral in 2007/08. The increase in other capital expenditure in 2007/08 compared with 2006/07 and in 2006/07 compared with 2005/06 was because of a higher level of investment in the reinforcement of high pressure pipelines, such projects being dependent on forecasts of future demand, as well as higher expenditure on new connections and the replacement of commercial vehicles. The level of investment in high pressure pipelines and reinforcement mains continued during 2007/08 together with higher information technology expenditure to replace obsolete equipment in system control, operational and support activities.

US capital investment

Capital expenditure in the replacement, reinforcement and extension of our US gas distribution networks was £188 million in 2007/08, £36 million in 2006/07, and £25 million in 2005/06.

Capital expenditures related to our Gas Distribution US segment are primarily for the renewal, replacement, and expansion of the distribution system.

After excluding the effect of exchange movements of £2 million in 2007/08 compared with 2006/07, capital expenditures increased by £154 million. The primary reason for the increase was the inclusion of £144 million representing seven months of capital expenditure on the operations acquired with KeySpan.

After excluding the effect of exchange movements of £2 million in 2006/07 compared with 2005/06, capital expenditures increased by £13 million due to increased spending of £6 million in Rhode Island.

Financial performance

Profits

Our objective is to increase profits each year.

The adjusted operating profit for Gas Distribution was £987 million in 2007/08 compared with £480 million in 2006/07 and £530 million in 2005/06.

Returns on investment

Our aim is to meet or exceed the base financial returns in our price controls in the UK and our rate plans in the US.

In the UK, we measure our return on investment using a vanilla return measure as defined in our UK price controls from 1 April 2008. In the US, we measure our return on investment using our defined return on equity under the terms of each rate plan.

Gas Distribution UK achieved a 5.1% vanilla return in 2007/08, broadly in line with the regulatory allowance.

Financial results - Gas Distribution UK

The results for our Gas Distribution UK segment for the years ended 31 March 2008, 2007 and 2006 were as follows:

	Years ended 31 Mai		
	2008	2007	2006
Continuing operations	£m	£m	£m
Revenue	1,383	1,193	1,222
Other operating income	8	6	4
Operating costs excluding exceptional			
items and remeasurements	(796)	(790)	(743)
Adjusted operating profit	595	409	483
Exceptional items	(21)	3	(51)
Operating profit	574	412	432

2007/08 compared with 2006/07

The principal movements between 2006/07 and 2007/08 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2006/07 results	1,199	(787)	412
Add back 2006/07 exceptional items		(3)	(3)
2006/07 adjusted results	1,199	(790)	409
Allowed revenues	146	` -	146
Timing on recoveries	59	_	59
Depreciation and amortisation	_	(11)	(11)
Pass-through costs	_	(18)	(18)
Other revenue and costs	(13)	23	10
2007/08 adjusted results	1,391	(796)	595
2007/08 exceptional items	_	(21)	(21)
2007/08 results	1,391	(817)	574

Gas Distribution continued

National Grid plc

Revenue and other operating income in Gas Distribution UK increased by £192 million in 2007/08 compared with 2006/07. Net formula income was up £165 million due to the outcome of the one year price control extension. In addition there was a £59 million timing impact on recoveries. This was offset by lower non-formula income as a result of the cessation of transitional service agreements with the independent distribution networks and lower meter work activities, which is reflected in the improvement in other

The allowed formula revenue is no longer linked to delivery volumes, this decoupling now eliminates the sensitivity to warm weather and lower underlying volumes. Furthermore, a smaller proportion of our income is recovered through the volume delivery component of our charges.

Cooler temperatures than the prior year increased consumption by 14 TWh, which was partially offset by the impact of underlying volumes being lower by 2 TWh. The net year-on-year timing impact against allowed revenues was £59 million as in 2007/08 there was a net benefit of £26 million (comprising the recovery of £43 million relating to the previous year, partially offset by a £17 million under-recovery for 2007/08), compared with a net detriment of £33 million in 2006/07 (comprising a £43 million underrecovery for 2006/07, partially offset by £10 million recovered relating to 2005/06).

Operating costs, excluding exceptional items, were £6 million higher in 2007/08 compared with 2006/07. Depreciation and amortisation costs were £11 million higher reflecting the increased capital investment in the distribution network. In line with 2006/07, there was a £12 million increase in business rates following the changes in rateable values introduced from 1 April 2005. From 2007/08 there is an extra allowance of £12 million for the recovery of non-active members pensions costs. This was offset by a reduction in operating costs of £11 million partly driven by the cessation of the transitional services agreement with the Independent Distribution Networks and partly efficiency savings

Exceptional charges of £21 million in 2007/08 related primarily to the creation of the new shared services organisation in the UK and global information services function, together with pension costs associated with these restructuring programmes. This compared with a £3 million net gain in 2006/07.

As a consequence of the above, adjusted operating profit excluding exceptional items was £186 million higher in 2007/08 than 2006/07, an increase of 45%. Including exceptional items, operating profit was £162 million higher in 2007/08 than 2006/07, an increase of 39%.

2006/07 compared with 2005/06

The principal movements between 2005/06 and 2006/07 can be summarised as follows:

	Revenue and other		
	operating	Operating	Operating
	income £m	costs £m	profit £m
2005/06 results	1,226	(794)	432
Add back 2005/06 exceptional items	, –	` 51 [′]	51
2005/06 adjusted results	1,226	(743)	483
Price changes	73	· -	73
Weather and volumes	(69)	_	(69)
Timing on recoveries	(32)	_	(32)
Depreciation and amortisation	_	(9)	(9)
Business rates	_	(23)	(23)
Other revenues and costs	1	(15)	(14)
2006/07 adjusted results	1,199	(790)	409
2006/07 exceptional items	_	3	3
2006/07 results	1,199	(787)	412

Revenue and other operating income in Gas Distribution UK fell by £27 million in 2006/07 compared with 2005/06. Net formula income was up by £4 million with the benefit of an average price increase of 8.8% implemented on 1 October 2006 giving rise to a £73 million increase in revenue, but largely offset by delivery volumes being significantly lower than the prior year reducing revenue by £69 million.

The weather in 2006/07 was significantly warmer than 2005/06 lowering consumption by 28 TWh which, combined with the impact of underlying volumes being lower by 16 TWh (caused principally by the continuing effect of high wholesale gas prices), led to an under-recovery of income of £43 million in 2006/07. This was partically offset by a £10 million recovery relating to 2005/06.

Operating costs, excluding exceptional items were £47 million higher in 2006/07 compared with 2005/06. Depreciation and amortisation costs were £9 million higher reflecting the increased capital investment in the distribution network. As in 2005/06 (see below) there was a £23 million increase in business rates following the changes in rateable values introduced from 1 April 2005. The remaining increase in operating costs of £15 million was mainly driven by workload including significant investment in maintenance and other safety-related activities.

Adjusted operating profit was £74 million lower in 2006/07 than 2005/06, a reduction of 15%. An exceptional credit of £3 million in 2006/07 related to pension elements of restructuring programmes offsetting costs associated with the creation of the new shared services organisation in the UK. Operating profit was £20 million lower in 2006/07 than 2005/06, a reduction of 5%.

£1,383m

Gas Distribution UK

£2,845m

Gas Distribution US

£514m

Gas Distribution UK capital expenditure

£188m

Gas Distribution US capital expenditure

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In summary, revenue and other operating income were £27 million lower, operating costs were £47 million higher and exceptional charges were £54 million lower.

Financial results - Gas Distribution US

The average exchange rates used to translate the results of US operations during 2007/08, 2006/07 and 2005/06 were \$2.01:£1, \$1.91:£1 and \$1.79:£1 respectively.

	Y	ears ended 3	31 March
	2008	2007	2006
	£m	£m	£m
Revenue	2,845	638	571
Operating costs excluding exceptional			
items and remeasurements	(2,453)	(567)	(524)
Adjusted operating profit	392	71	47
Exceptional items and remeasurements	95	(4)	_
Operating profit	487	67	47

2007/08 compared with 2006/07

The principal movements between 2006/07 and 2007/08 can be summarised as follows:

	Revenue £m	Operating costs £m	Operating profit £m
2006/07 results	638	(571)	67
Add back exceptional items	_	4	4
2006/07 adjusted results	638	(567)	71
Exchange movements	(32)	29	(3)
2006/07 constant currency results	606	(538)	68
KeySpan	2,181	(1,832)	349
Rhode Island gas operations	61	(74)	(13)
Bad debt expense	_	(3)	(3)
Pension and benefit costs	_	(3)	(3)
Other	(3)	(3)	(6)
2007/08 adjusted results	2,845	(2,453)	392
2007/08 exceptional items	_	(46)	(46)
2007/08 remeasurements	_	141	141
2007/08 results	2,845	(2,358)	487

Revenue and operating costs excluding exceptional items and remeasurements increased by £2,239 million and £1,915 million respectively in 2007/08 compared with 2006/07 on a constant currency basis, an increase of 369% and 356% in each case. The rise in revenue and operating cost primarily arose from five months of additional activities from the gas distribution network in Rhode Island we acquired from Southern Union Company in August 2006 and seven months of activities from the gas distribution networks we acquired with KeySpan in August 2007.

Adjusted operating profit was £324 million higher in 2007/08 than 2006/07 on a constant currency basis, an increase of 476%. Exceptional charges of £46 million in 2007/08 related to integration initiatives, including the cost of voluntary early redundancies, while favourable mark-to-market commodity contract remeasurement gains were recorded as a consequence of higher energy prices

compared with contracted amounts as at 31 March 2008. The benefit of these gains will be realised in subsequent periods and passed back to consumers

Operating profit was £420 million higher in 2007/08 than 2006/07, an increase of 627%. In summary, revenue was £2,207 million higher, operating costs were £1,886 million higher, exceptional charges were £42 million higher and remeasurement gains were £141 million.

2006/07 compared with 2005/06

The principal movements between 2005/06 and 2006/07 can be summarised as follows:

		Operating	Operating
	Revenue	costs	profit
	£m	£m	£m
2005/06 results and adjusted results	571	(524)	47
Exchange movements	(36)	33	(3)
2005/06 constant currency results	535	(491)	44
Purchased gas	(77)	79	2
Rhode Island gas operations	176	(159)	17
Bad debts	_	(3)	(3)
Pension and benefit costs	_	5	5
Other	4	2	6
2006/07 adjusted results	638	(567)	71
Exceptional items	_	(4)	(4)
2006/07 results	638	(571)	67

Revenue increased by £103 million in 2006/07 compared with 2005/06 on a constant currency basis, an increase of 19%. The rise in revenue was primarily due to seven months of revenue from the gas distribution network in Rhode Island we acquired from Southern Union Company in August 2006. This increase was partially offset by a reduction of purchase gas recovery due to lower purchased gas costs.

Operating costs increased by £76 million in 2006/07 compared with 2005/06 on a constant currency basis, an increase of 15%. This rise is largely due to £159 million of costs incurred in the gas distribution network in Rhode Island in the seven months subsequent to its acquisition in August 2006. This increase was partially offset by lower purchased gas costs of £79 million due to lower gas prices and lower sales volumes.

Adjusted operating profit was £27 million higher in 2006/07 than 2005/06 on a constant currency basis, an increase of 61%. Exceptional charges of £4 million in 2006/07 related to merger integration initiatives.

Operating profit was £20 million higher in 2006/07 than 2005/06, an increase of 43%. In summary, revenue was £67 million higher, operating costs were £43 million higher and exceptional charges were £4 million higher.

£595m

Gas Distribution UK adjusted operating profit

£392m

Gas Distribution US

Gas Distribution UK increase in adjusted operating profit

476%

increase in adjusted operating profit at constant currency

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National Grid plc

Electricity Distribution & Generation

We supply electricity to approximately 3.4 million customers in the northeastern US through our distribution systems and own generation plants capable of generating 4.1GW.

We are also responsible for maintaining and operating the electricity transmission and distribution system on Long Island on behalf of the Long Island Power Authority (LIPA).

With the introduction of revenue decoupling, we are working with energy policy makers and our markets, to develop, support and promote the right structure under a carbon constrained business environment. This is a fundamental change in the way our revenues are determined, basing our earnings on the reliability of our networks and efficiency programmes rather than energy usage.

We have engaged in a reliability enhancement programme to improve the experience of our customers as well as refreshing our approach to customer service.

Key Facts

- **Över 116,000 kilometres** of circuit
- 3.4 million customers
- 31 TWh of electricity delivered
- 680 substations
- 57 generation plants at 13 locations across Long Island
- LIPA network serving 1.1 million customers over 21,000 kilometres of circuit and 170 substations, delivering 20 TWh of electricity

Working on an electricity distribution line.



£330m

Adjusted operating profit

£257m

Capital investment

5,543

Employees

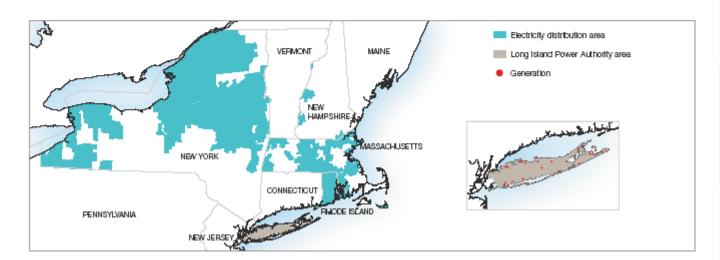
266 GWh

Energy saved through energy efficiency measures – \$38 million saved by our customers BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

Y59930.SUB, DocName: EX-15.1, Doc: 16, Page: 52 Description: EXHIBIT 15.1

[E/O] CRC: 47017 EDGAR 2

Electricity Distribution & Generation service area



About Electricity Distribution & Generation

Our Electricity Distribution & Generation business operates in the northeastern US. It is reported as a single segment in our financial statements as Electricity Distribution & Generation US.

We describe below the principal operations, current and future developments and performance of the Electricity Distribution & Generation US segment, however, this section should be read in conjunction with the rest of this Operating and Financial Review, in particular our vision, strategy and objectives, business drivers and risks and external and regulatory environments, as set out on pages 15 to 19.

Principal operations

Electricity Distribution

We are one of the leading electricity distribution service providers in the northeastern US, as measured by energy delivered, and one of the largest utilities in the US, as measured by the number of electricity distribution customers.

Our electricity distribution system spans upstate New York, Massachusetts, Rhode Island and New Hampshire, which, together with the system on Long Island owned by the Long Island Power Authority (LIPA), provides energy to customers that include homes, small and large commercial and industrial enterprises.

We are responsible for building, operating and maintaining our electricity distribution networks in New England and New York, and LIPA's transmission and distribution networks on Long Island. What we do is essential to the economies of the regions in which we operate and the comfort and well-being of the millions of people who depend on our services.

Our aim is to provide a reliable, high quality electricity distribution network to our customers, and a high level of customer service. In providing these services, we are committed to safeguarding our global environment for future generations.

Through our electricity distribution networks we serve approximately 3.4 million electricity customers over a network of approximately 116,000 circuit kilometres (72,000 miles) in New England and New York.

On Long Island, we are responsible for managing the electricity transmission and distribution system on behalf of LIPA. The LIPA service territory consists of most of Nassau and Suffolk counties on Long Island, together with the Rockaway Peninsula which forms part of Queens county (part of New York City). It covers approximately 3,200 square kilometres, encompassing nearly 90% of Long Island's total land area. LIPA owns approximately 2,100 kilometres (1,300 miles) of transmission line facilities that deliver power to approximately 170 substations in its electricity

Generation facilities on Long Island

\$930m

Planned spend on reliability enhancement programme over next five years

minutes

Reduction in system average interruption duration

\$28m

Investment in energy efficiency measures in 2007/08

Electricity Distribution & Generation continued

National Grid plc

system. From these substations, approximately 21,000 circuit kilometres (13,000 miles) of distribution facilities distribute electricity to 1.1 million customers

Our responsibilities include managing the day-to-day operations and maintenance of LIPA's transmission and distribution system, providing services to LIPA's retail customers, purchasing and selling electricity on behalf of LIPA and managing the delivery of the energy that we produce under contract to LIPA.

Generation

We own 57 electricity generation plants on Long Island that together provide 4.1 GW of power under contract to LIPA. We also manage the fuel supplies for LIPA to fuel our plants and purchase energy, capacity and ancillary services in the open market on LIPA's behalf.

Our plants consist of oil and gas fired steam turbine, gas turbine and diesel driven generating units. The smallest are 2 MW diesel driven units on the eastern end of Long Island and the largest are four 375 MW steam units based at Northport. Any available power not purchased by LIPA is made available for sale in the open market.

Stranded cost recoveries

Stranded cost recoveries capture the recovery of some of our historical investments in generating plants that were divested as part of the restructuring process and wholesale power deregulation process in New England and New York. This includes the recovery of certain above market costs of commodity purchase contracts we are committed to purchasing that were in place at the time of restructuring and deregulation.

We are able, with the approval of the utility commissions in the states in which we operate, to recover most of these costs through a special rate charged to electricity customers.

Pursuant to the settlement and stranded cost recovery agreements in effect in each of the states in which National Grid operates, this revenue stream will decline as the recovery of stranded costs is completed. As a consequence, and because we are returning the cash generated from stranded cost recoveries to shareholders, we do not consider this to be part of our business performance and so this is excluded from adjusted operating profit.

Regulation

The prices we set in the US are based on a cost of service model, whereby the prices established by our regulators are designed to cover the costs we incur in providing services to customers, together with a return on capital invested.

Customer bills typically comprise a commodity rate, covering the cost of electricity delivered, and a delivery rate, covering our electricity delivery service. Delivery rates comprise a combination of a per customer charge, a demand charge and a price per additional kilowatt hour of electricity delivered. The allocation and applicability among these components vary by size of customer.

Prices set by our rate plans are based on estimates of costs and our return and estimates of volumes expected to be delivered, which may differ from actual amounts. A substantial proportion of our costs, in particular electricity purchases for supply to customers, are pass-through costs, in that prices are adjusted on a regular basis to ensure that over- or under-recovery of these costs is returned to or recovered from customers. As a consequence we have no economic exposure to such costs, however, there can be timing differences between the financial period when we incur such costs and the financial period when our prices are adjusted to return or charge for any over- or under-recovery.

Our Long Island generation plants sell capacity to LIPA under a contract, approved by the Federal Energy Regulatory Commission (FERC), which provides a similar economic effect to cost of service rate regulation.

Our rate plans include sharing arrangements, which allow us to retain some of the benefit of efficiency improvements in excess of those built into rate plan assumptions. Typically we retain all the benefits up to a certain level of return on equity, after which we retain only a proportion of the benefits, with the balance returned to customers.

Rate plan	Equity return	Equity to debt ratio	Sharing arrangements
Upstate New York	10.6%	47/53	100% to 11.75%, 50% to 14%, 25% to 16%, 10% above 16%
Massachusetts	*	*	Not specified
Rhode Island	10.5%	50/50	50% from 10.5-11.5%, 25% above 11.5%
New Hampshire	9.67%	50/50	50% above 11%

Massachusetts returns are based on the average of a peer group of utilities until 31 December 2009

We also have a number of service standards for our operations. These vary among our rate plans, but include such measures as reliability levels, customer satisfaction levels, customer complaints, customer meter reading performance, customer call answering, energy efficiency programmes and other measures. Many of these service standards have penalties if we do not achieve certain specified minimum standards.

The upstate New York rate plan also allows for subsequent recovery of specified electricity related costs and revenue items that have occurred since the rate plan was established, once these amounts exceed \$100 million (£51 million). These 'deferral account' items include changes from the levels of pension and post-retirement benefit expenses from levels specified in the rate plan, as well as various other items, including storms, environmental remediation costs, and certain rate discounts provided to customers, together with costs and revenues from changes in tax, accounting and regulatory requirements.

Current and future developments

In addition to the current and future developments described on pages 22 and 23, the following developments are relevant to the Electricity Distribution & Generation business.

Acquisition of KeySpan

The acquisition of KeySpan resulted in the expansion of our electricity distribution operations to include the operation, on behalf of LIPA, of the transmission and distribution system on Long Island that serves approximately 1.1 million customers

In addition, we acquired 57 electricity generation plants on Long Island that supply electricity under contract to LIPA.

Upstate New York capital expenditure rate filing

In New York, capital expenditure in the rate plan for electricity distribution was set at historic levels, which are significantly lower than those currently required to maintain a safe and reliable network. On 21 December 2007 we petitioned the New York Public Service Commission for deferred recovery of incremental investment on major capital programmes for calendar year 2008, as permitted under our rate plan.

New Hampshire rate plan

The New Hampshire Public Utilities Commission approved a five year rate plan for our electricity distribution network. The rate plan included a 9% reduction in distribution rates. Over the term of the rate plan any earnings in excess of a return of 11% are shared with customers. In addition, the plan allows for incremental increases in rates for capital expenditure incurred under our reliability enhancement programme.

Performance against our objectives

Descriptions of our progress against our overall objectives in the areas of delivering our strategy, operating performance, talent, relationships, environment, financial performance and responsibility are set out on pages 24 to 43. We include below further information specific to Electricity Distribution & Generation US with respect to the progress we have made on delivering our strategy, our operating performance and our financial performance.

Delivering our strategy

Key areas of focus

Key areas of focus for Electricity Distribution & Generation are: addressing the challenges of an ageing asset base in our upstate New York and New England operations; increased customer expectations; heightened regulatory pressures; improving reliability and safety performance and getting the best out of our employees.

Tom King was appointed as the Executive Director for Electricity Distribution & Generation with effect from 13 August 2007. Following the acquisition of KeySpan, a new management team for the enlarged business has been appointed, activities such as customer billing, human resources, property services, accounting and financial transactions processing have been transferred into our shared services organisation, and we have started the process of implementing common operating procedures across the business.

Our aim is to transform the current traditional utility model into a business that is able to deliver sustained improvements in operating performance, be more efficient and provide a platform for growth in the future.

We have compared our overall performance on operational efficiency, system reliability and customer experience against industry peers. These measures indicate that, overall, our performance is not at the upper quartile position we believe can be achieved. As a consequence, we plan to improve our performance and are in the process of implementing initiatives on regulatory stability, transforming our operations, and enhancing the customer experience.

Regulatory stability

We aim to be a leader in the energy policy agenda by progressing efforts in energy efficiency, decoupling, and climate change. We aim to improve our regulatory relationships through improved reliability and customer service performance.

Transform operations

We have established a multi-year programme aimed at delivering better performance and value through a series of improvement initiatives. Our objective is to enhance our asset management expertise and discipline by leveraging the benefits of a common operating model and greater standardisation across the business. We believe that our work delivery performance can be improved through standardising processes, investing in field force enablement solutions and establishing rigorous performance metrics. This will involve advancing our network operations performance by consolidating control centres and investing in network control systems and supporting technologies.

Customer experience

Our customers' expectations continue to change. Experiences our customers have with other industries are setting new performance level expectations for National Grid. Customers and regulators are demanding that we elevate our performance to the same increasingly high standards.

We have begun the process of looking at and defining the branded National Grid customer experience. This effort is centred on understanding customer needs and expectations and delivering on them day in and day out.

Our customer experience strategy is defined by assessing our current customer experience from both the customer's and our perspective. This allows us to compare internal operations with external perception and experience and so to identify areas for improvements as well as those of strength.

For over 20 years National Grid has offered a comprehensive portfolio of energy efficiency programmes to customers. These nationally recognised programmes have a distinguished track record of consistency in delivering energy savings to our customers. Customers participating in the programmes have saved billions of kilowatt hours of electricity, millions of dollars in energy costs and have eliminated millions of tonnes of greenhouse gas emissions associated with electricity production.

Electricity Distribution & Generation continued

National Grid plc

National Grid has received national recognition from the US Environmental Protection Agency (EPA) and the US Department of Energy (DOE) for our leadership and outstanding contribution to energy savings and mitigating the effects of climate change.

Using our proven performance in the area of energy efficiency, we look forward to the potential doubling of programme funding through initiatives underway in Rhode Island, New York, and Massachusetts, while we continue to develop new and creative ways to provide our customers with end-to-end energy solutions.

Operating performance

Safety

Our objective is to reduce employee lost time injuries to zero.

The number of employee lost time injuries in Electricity Distribution & Generation (excluding KeySpan) increased to 30 compared with 25 in 2006/07 based on our new definition (see page 29) which aligns the way we measure lost time injuries between the UK and the US. Our lost time injury frequency rate for 2007/08 was 0.32 (2006/07: no direct comparison available due to changes in reporting lines). Even though we experienced a decline in performance with respect to lost time injuries, we have implemented a number of improvements in safety management:

- supervisor 'safety days' were introduced to promote the importance of safety leadership and personal responsibility for safety;
- training programmes including one on human error elimination and one on safe and unsafe acts were implemented to promote safe behaviours and improve communication skills;
- a soft tissue injury prevention programme was developed to improve our approach to preventing soft tissue or muscular skeletal injuries, which comprise 60% of our injuries. Implementation of the programme will continue in 2008/09;
- as part of our trusted to work responsibly strategy, we implemented 'golden rules' of safety that address the most critical areas of safety and set clear expectations of the workforce;
- a new safety recognition programme was developed to ensure we emphasise and reward good safety performance; and
- National Grid and KeySpan policies and practices are being integrated to promote one, positive safety culture.

In 2008/09 our aims include enabling management to spend more time in the field, improving the quality of safety observation tours, developing long-term staffing plans to ensure adequate resources, implementing programmes to help develop safety leaders and ensuring that managers and supervisors are made accountable for meeting safety objectives.

Efficiency

Our objective is to be more efficient in the delivery of services, in the context of higher expectation from our customers and cost pressures.

Over the past year we have made progress, gathering data using various methods such as focus groups, surveys, feedback from our frontline team members, customer data analyses and comparative landscape analyses. We have also defined better processes that will help improve our customer experience, and so help to meet their expectations, by leveraging our strengths and improving areas where gaps were found.

Our goal is to make it easier for our customers to do business with us and to enhance the customer experience. We plan to increase online transactions through convenient payment systems and provide access to all our products and services, such as energy efficiency programmes, online.

We recently completed a customer service system conversion that consolidated the upstate New York and New England customer systems into a single information and billing system. This was a multi-year effort with representation from cross functional groups. The consolidation allows us to serve National Grid electricity customers from a single system providing the ability to more easily handle calls to our call centres, provide real-time updates for processing customers' transactions, and provide for better consistency in procedures and processes as well as voice recognition and web applications.

We have initiated an automatic proactive outbound calling programme that will enable us to reach thousands of customers within a matter of minutes to inform them of relevant information or news, such as progress on power restoration, streetlight repair, tree order acknowledgements, emergency and planned outages, energy seminar promotions and billing notices.

We also continue to make progress on location efficiency. As part of the integration of KeySpan operations, we have begun the consolidation and standardisation of facilities across our US operations. While this involves some temporary moves to facilitate building work and renovations to be completed, our aim is to provide high quality and vibrant work areas that are conducive to working together effectively as one team.

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In addition to meeting reliability performance targets agreed with our regulators, our objective is to improve reliability.

The system average interruption duration (SAIDI) for 2007/08, being the time the average customer is without power during the year, was 110 minutes, compared with a target of 110 to 120 minutes and 121 minutes in 2006/07.

We achieved all of our reliability regulatory targets in Massachusetts and Rhode Island. In upstate New York, we significantly reduced the number of times the average customer was without power during the 2007 calendar year, but still incurred an aggregate net penalty of \$13.2 million (£6.6 million).

We are seeing improved performance as a result of our comprehensive reliability improvement programme, which will involve investment of over \$930 million (£470 million) over the next five years.

We continue to be committed to reducing the frequency and duration of service interruptions. We are therefore increasing our investment in the coming financial year for asset enhancement, replacement and maintenance. Continuation of this programme into the future should improve reliability, reduce inefficient use of resources in responding to outages and create a safer working environment.

In order to improve performance, we have developed and begun execution of a five year reliability enhancement programme. This includes:

- vegetation management incremental tree trimming to address an increase in customer outages related to contacts with tree branches;
- feeder hardening upgrading our worst performing overhead electricity circuits by replacing aged and deteriorated components and protecting against lightning strikes and animal contacts;
- asset replacement replacing ageing distribution equipment before its expected end of life, including poles, underground cable, and substation equipment; and
- inspection and maintenance increasing our preventative maintenance and repair activities to find potential faults before they occur to improve reliability and public safety.

Our Long Island electricity generation units earned the maximum possible performance incentives of \$4 million (£2 million) during the calendar year 2007. These incentives are based on capacity, summer availability and efficiency. These units maintained their efficiency despite reduced output caused by the introduction of a new interconnector cable between Long Island and the mainland.

Customer service

In addition to meeting customer service objectives agreed with our regulators, our objective is to be within the upper quartile of customer satisfaction in the territories we operate in.

Under our service quality plans, we met or exceeded our customer service targets in Massachusetts. We met or exceeded most of the customer service targets in New York, but incurred a penalty of \$1 million (£0.5 million) for missing our customer satisfaction targets.

We believe that lower customer satisfaction in New York is mainly a consequence of a negative reaction to sustained higher commodity prices. However, reliability and service issues are also a factor and we are taking steps to improve customer outreach on managing cost and use, billing quality, responsiveness to customer queries, regulatory complaints and call handling. We also believe that our investment in enhancing reliability will improve the way our customers perceive us.

Capital

Our objective is to deliver our capital investment plans over the next five years, including our \$930 million (£470 million) reliability enhancement

Capital investment in the replacement, reinforcement and extension of our US electricity distribution networks was £257 million in 2007/08, £218 million in 2006/07 and £219 million in 2005/06. After excluding the effect of exchange movements of £11 million in 2007/08 compared with 2006/07, capital investment increased by £50 million. This reflected an increase of £17 million in spend related to our reliability enhancement programme, recognition of finance leases related to vehicles of £18 million, other increases in capital investment of £11 million and £13 million of capital investment in the operations acquired with KeySpan, partially offset by a non-recurring benefit capitalisation adjustment made in 2006/07 of £9 million.

After excluding the effect of exchange movements of £14 million in 2006/07 compared with 2005/06, capital investment increased by £13 million. This reflected an increase of £19 million in spend related to our reliability enhancement programme and other increases in capital investment, including a non-recurring benefit capitalisation adjustment, partially offset by a £17 million reduction relating to the Nantucket cable project.

Electricity Distribution & Generation continued

National Grid plc

Financial performance

Profit

Our objective is to increase profits each year.

Adjusted operating profit was £16 million lower in 2007/08 than 2006/07 on a constant currency basis, a decrease of 5% largely driven by higher bad debt expense, an increase in our environmental remediation provision and, as anticipated, increased spending on our reliability enhancement programme, partially offset by the contribution from operations acquired with KeySpan.

Further information is included under financial results below.

Returns on investment We measure our return on investment using our defined regulatory return on equity under the terms of each rate plan.

The regulatory return on equity for our operating companies declined in both Massachusetts and New York

In Massachusetts the regulatory return on equity declined to 9.5% for the 12 months ended 31 December 2007, principally as a result of an increase in bad debt costs.

In New York, the combined regulatory return on equity includes electricity transmission, electricity distribution, gas distribution and stranded cost recoveries. For the rate year ended 31 October 2007 this was 6.4%, including savings. Our achieved return reflects gas distribution returns that are significantly less than allowed and, as described on page 55, a new gas rate case is being filed. If one-off items relating to voluntary early retirement costs and negative adjustments to our deferral account balance are excluded, our achieved return was 8.4%. This was lower than the previous year reflecting an increase in bad debts and higher spending on our reliability enhancement programme.

Financial results

The results of the Electricity Distribution & Generation segment for the years ended 31 March 2008, 2007 and 2006 were as follows:

	Years ended 31 March		
	2008	2007	2006
Continuing operations	£m	£m	£m
Revenue excluding stranded cost			
recoveries	3,126	3 ,004	3,134
Other operating income	_	_	3
Operating costs excluding exceptional			
items and remeasurements	(2,796)	(2,640)	(2,820)
Adjusted operating profit	330	364	317
Exceptional items	(104)	(9)	_
Remeasurements	91	81	(49)
Stranded cost recoveries	379	423	489
Operating profit	696	859	757

2007/08 compared with 2006/07

The principal movements between 2006/07 and 2007/08 can be summarised as follows:

	Revenue and other		
	operating	Operating	Operating
	income	costs	profit
	£m	£m	£m
2006/07 results	3,430	(2,571)	859
Add back exceptional items	_	9	9
Add back remeasurements	_	(81)	(81)
Add back stranded cost recoveries	(426)	3	(423)
2006/07 adjusted results	3,004	(2,640)	364
Exchange movements	(150)	132	(18)
2006/07 adjusted results at constant			
currency	2,854	(2,508)	346
Purchased electricity	(47)	20	(27)
Volumes, including weather	17	_	17
Depreciation and amortisation	_	(7)	(7)
Reliability enhancement	_	(13)	(13)
Bad debts	_	(17)	(17)
Storms	_	33	33
KeySpan acquisition	293	(268)	25
Other	9	(36)	(27)
2007/08 adjusted results	3,126	(2,796)	330
2007/08 exceptional items	_	(104)	(104)
2007/08 remeasurements	_	91	91
2007/08 stranded cost recoveries	382	(3)	379
2007/08 results	3,508	(2,812)	696

Excluding stranded cost recoveries, revenue increased by £272 million in 2007/08 on a constant currency basis as compared with 2006/07. This was primarily due to the acquisition of KeySpan partially offset by lower purchased electricity costs. Commodity costs are recovered in full from customers although the recovery of these costs can occur in more than one financial year.

£3,508m

Revenue

£330m

Adjusted operating profit

£379m

Stranded cost recoveries

£257m

Capital investment

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Excluding stranded cost recoveries, exceptional items and remeasurements, operating costs increased by £288 million in 2007/08 on a constant currency basis. This was primarily due to the acquisition of KeySpan and higher bad debt costs of £17 million. Spend on our reliability enhancement programme also increased in 2007/08. These items were partially offset by lower purchased electricity and other pass-through costs of £20 million, which are recovered from customers as described above, and storm costs which were £33 million lower in 2007/08. A portion of storm costs incurred in 2007/08 will be recovered in future periods.

The £16 million decrease on a constant currency basis in adjusted operating profit from Electricity Distribution & Generation US in 2007/08 compared to 2006/07 was primarily due to higher bad debts and other expenses including an expected increase in our reliability enhancement spend, the timing of commodity cost recovery and the non-recurrence of one-off items incurred in 2006/07. These were partially offset by lower storm costs of £33 million, increased deliveries, including the effect of weather, of £17 million, and the acquisition of KeySpan.

2006/07 compared with 2005/06

The principal movements between 2005/06 and 2006/07 can be summarised as follows:

	Revenue		
	and other operating	Operating	Operating
	income	costs	profit
	£m	£m	£m
2005/06 results	3,654	(2,897)	757
Less stranded cost recoveries	(517)	28	(489)
Add back remeasurements		49	49
2005/06 adjusted results	3,137	(2,820)	317
Exchange movements	(198)	178	(20)
2005/06 adjusted results at constant			
currency	2,939	(2,642)	297
Purchased electricity	(16)	39	23
Deferral account	72	_	72
Depreciation and amortisation	_	(9)	(9)
Reliability enhancement	_	(8)	(8)
Bad debts	_	(11)	(11)
Pension and benefit costs	_	28	28
Storm costs	_	(43)	(43)
Other	9	6	15
2006/07 adjusted results	3,004	(2,640)	364
2006/07 exceptional items	_	(9)	(9)
2006/07 remeasurements	_	81	81
2006/07 stranded cost recoveries	426	(3)	423
2006/07 results	3,430	(2,571)	859
·			

Excluding stranded cost recoveries, revenue increased £65 million in 2006/07 on a constant currency basis compared with 2005/06. This was primarily due to the recovery of previously incurred costs in New York of £72 million through the deferral account mechanism. This was partially offset by lower purchased electricity and other pass-through costs of £16 million. Commodity costs are recovered in full from customers although the recovery of these costs can occur in more than one financial year.

Operating costs excluding exceptional items, remeasurements and stranded cost recoveries decreased by $\mathfrak L2$ million in 2006/07 on a constant currency basis. This was primarily due to lower purchased electricity and other pass-through costs of $\mathfrak L39$ million, which are recovered from customers as described above. Storm costs were $\mathfrak L43$ million higher in 2006/07. The majority of these storm costs will be recovered in future periods.

The £67 million increase in adjusted operating profit in 2006/07 compared with 2005/06 on a constant currency basis was primarily due to the recovery of previously incurred costs in New York, reduced pension and benefit costs, and the timing of commodity cost recovery. These were partially offset by higher storm costs, the majority of which will be recovered in future periods, and higher bad debts.

Exceptional items of £9 million in 2006/07 related to integration costs in preparation for the proposed acquisition of KeySpan. There were no exceptional items in 2005/06. Remeasurements comprised a credit of £81 million in 2006/07, arising from a reduction in the carrying value of commodity contract liabilities.

Stranded cost recoveries contributed £426 million to revenues and £423 million to operating profit, compared with £517 million and £489 million respectively in 2005/06. The £91 million decrease in revenue comparing 2006/07 with 2005/06 resulted from a £32 million reduction as a consequence of exchange rate movements, a reduction in purchased power contract cost recoveries due to lower market commodity prices and lower stranded cost recoveries in accordance with our rate plans.

Operating profit increased by £102 million as a consequence of the above changes.

9.5%

Regulatory return on equity in Massachusetts for 2007/08

8.4%

Regulatory return on equity in New York for 2007/08, excluding one-off items (5)%

Decline in adjusted operating profit on a constant currency basis

18%

Increase in capital investment

68 Non-regulated businesses and other

National Grid plc

Non-regulated businesses and other

We own National Grid Metering, OnStream, National Grid Grain LNG and **National Grid Property.**

This year has seen further expansion activity at our liquefied natural gas (LNG) import terminal on the Isle of Grain, which is currently capable of processing 3.3 million tonnes of LNG a year. We are continuing to invest in Grain, and by 2010 it should have the capacity to import 14.8 million tonnes per annum, around 20% of the UK's forecast gas demand.

During the year approximately 810,000 new meters were installed by OnStream, our competitive metering business, comprising approximately 420,000 gas and 390,000 electricity meters.

We are undergoing a programme of land remediation at many of our brownfield sites, including legacy gas sites.

In the US, our non-regulated activities include LNG storage, LNG transportation, unregulated transmission pipelines, West Virginia gas fields and home energy services.

Key Facts

- Metering and meter reading services for around 20 million meters in the UK
- Property portfolio of around 800 sites comprising buildings and land of around 1,600
- **Grain LNG planned total** investment of approximately £830 million

Construction work on one of the new LNG tanks at Isle of Grain.



£129m

Adjusted operating profit

£383m

Capital investment

3,166

Employees

590,000 tonnes

LNG imported to the UK through Isle of Grain

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

Y59930.SUB, DocName: EX-15.1, Doc: 16, Page: 60 [E/O]
Description: EXHIBIT 15.1

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UK Property



About non-regulated businesses and

Our non-regulated businesses and other operations are located principally in the UK. For reporting purposes, they are not treated as a segment, but are instead reported within other activities.

This section should be read in conjunction with the rest of this Operating and Financial Review, in particular our vision, strategy and objectives, business drivers and risks and external and regulatory environments, set out on pages 15 to

Principal operations

Metering

National Grid Metering and OnStream provide installation, maintenance and meter reading services to gas and electricity suppliers in the regulated and unregulated markets respectively.

Our metering businesses provide services on behalf of gas suppliers for an asset base of approximately 20 million domestic, industrial and commercial meters.

Grain LNG

National Grid Grain LNG is the first new LNG import terminal constructed in the UK for some 30 years, involving planned investment of approximately £830 million for Phases I, II and III.

Metering and BritNed





UK Property

National Grid Property is responsible for managing all our major occupied properties in the UK, and for the management, clean up and disposal of surplus properties, largely comprising former gas

BritNed

BritNed is a joint venture between National Grid and TenneT, the Dutch transmission system operator, to build and operate a 260 kilometre 1,000 MW subsea electricity link between the Nethorlands and the LIK Netherlands and the UK.

non-regulated

Includes LNG storage, LNG road transportation, unregulated transmission pipelines, West Virginia gas fields and home energy service activities that were acquired as part of the KeySpan acquisition.

In addition to our non-regulated businesses above, other activities comprise the following other operations and corporate activities.

xoserve

xoserve delivers transportation transactional services on behalf of all the major gas network transportation companies in Great Britain, including National Grid.

Fulcrum

Fulcrum is the leading provider of gas connections and associated design services operating across the whole of the mainland UK. As an independent gas transporter, Fulcrum owns and operates gas distribution networks. Fulcrum also operates as an installer of electricity and water distribution infrastructure. infrastructure.

Corporate

Corporate activities comprise central overheads, insurance and expenditure incurred on business development.

£830m

Total planned investment in Grain LNG

Property

UK Property business retained - obtain better value as part of National Grid than through selling

BritNed

Construction started on electricity interconnector with the Netherlands

US

US non-regulated activities acquired with KeySpan

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

Name: NATIONAL GRID

Y59930.SUB, DocName: EX-15.1, Doc: 16, Page: 61

Description: EXHIBIT 15.1

[E/O] CRC: 11228 EDGAR 2

Non-regulated businesses and other continued

National Grid plc

Business drivers

The principal business drivers for our non-regulated businesses and other operations include the following:

Multi-year contractual arrangements

The majority of National Grid Metering's domestic meters are covered by long-term contracts with

OnStream has a seven year contract with Centrica for the provision of gas and electricity meters

Phase I of Grain LNG is underpinned by a long-term contract with BP/Sonatrach. Similarly, Phase II, anticipated for completion in 2008, is underpinned by long-term contracts signed with Centrica, Gaz de France and Sonatrach.

Phase III, for which construction began in June 2007, also has long-term contracts for capacity with E.ON, Iberdrola and Centrica.

Competition

OnStream and Fulcrum operate in competitive markets and their revenues are therefore determined by how successful they are in obtaining business from customers.

Capital investment We are investing in technology such as smart metering and automated meter reading systems to grow our metering businesses and in infrastructure projects such as Grain LNG and BritNed.

Efficiency

Efficiency in delivering capital programmes and in operating our businesses and corporate activities result in driving improved financial performance.

External market and regulatory environment

The majority of our non-regulated businesses and other operations either operate in markets related to those of our principal businesses or provide support to our own

With the exception of National Grid Metering, our nonregulated businesses and other operations are only indirectly affected by the relevant regulatory regimes. National Grid Metering is regulated by Ofgem as it was the incumbent provider of meters to gas suppliers and retains a large share of the legacy installed base of gas meters in the UK. It is subject to price controls, although the pricing for the majority of meters is instead specified by long-term contracts which provide gas suppliers with the flexibility to replace our meters while reducing the risk of asset stranding.

OnStream is a participant in the competitive market that now exists in the provision of new meters to gas and electricity suppliers who wish to install or replace meters as required. Grain LNG has been granted exemptions by Ofgem from the regulated third party access provisions for Phases I, II and III of its development. These exemptions introduced certain obligations to put in place effective measures to allow third parties to access unused capacity and are similar in nature to those in place at other new gas supply infrastructure projects in the UK.

Current and future developments Metering competition investigation

On 25 February 2008, Ofgem announced a decision that National Grid Metering had infringed the Competition Act in relation to development of term contracts entered into with gas suppliers in 2004. A fine of £41.6 million was imposed, but has been suspended pending appeal.

We are convinced that the contracts do not infringe competition law and therefore believe that they should remain in full effect. We also believe that the £41.6 million fine is wholly inappropriate. An appeal has been lodged with the Competition Appeal Tribunal.

Property and environmental matters

As described on page 23, an appeal went before the House of Lords in May 2007 regarding a former gas site which was not included in the assets that formed part of the gas privatisation in 1986 and had therefore never been owned by National Grid, but for which liability for remediation had been determined by the High Court to be partly our responsibility.

In June 2007, the House of Lords unanimously allowed our appeal, upholding the argument that liability for contamination caused by the nationalised gas industry was not one which transferred to the privatised gas industry. As a consequence, we have no primary liability under Part IIA of the Environmental Protection Act with respect to this or other former UK gas sites which did not form part of the assets we acquired at the time of privatisation.

Performance against our objectives

Descriptions of our progress against our overall objectives in the areas of responsibility, transformation, operating performance, talent, relationships, environment and financial performance are set out on pages 24 to 43. We include below, further information specific to non-regulated businesses and other operations with respect to our transformation, operating performance and financial performance objectives.

Delivering our strategy

Key areas

Our objectives during 2007/08 have been: our objectives during 2007/08 have been:
to evaluate whether we can generate more value
from our UK Property business through a sale or
through retaining the business; to integrate US
non-regulated activities acquired with KeySpan;
and to benefit from the creation of common
processes and systems.

In addition to disposing of non-core businesses, we will also consider selling businesses where we believe we can obtain proceeds in excess of the value we can generate ourselves. During the year, we explored the possibility of selling our UK Property business. However, our conclusion was that we could obtain better value by retaining this business

We have commenced the process of integrating US nonregulated businesses acquired with KeySpan.

Following the end of the financial year, we have changed management responsibilities for our non-regulated businesses. Grain LNG and BritNed will now report to Nick Winser, Executive Director for Transmission, while National Grid Metering and OnStream will report to Mark Fairbairn, Executive Director for Gas Distribution. UK Property will report to Steve Lucas, Executive Director for Finance & Shared Services.

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Operating performance

efficiency, reliability and customer service

Our objectives include zero employee lost time injuries, to operate efficiently and to operate reliably. We also aim to improve the quality of service to our customers.

There was a decrease in the total number of employee lost time injuries in non-regulated businesses and other operations to 2 in 2007/08 compared with 15 in 2006/07 and 12 in 2005/06.

Our non-regulated businesses and other operations operated reliably and efficiently throughout the year.

All 22 National Grid Metering standards of service have been met for the year ended 31 March 2008.

Capital investment

Our objective is to deliver on our capital investment programme for non-regulated businesses and other operations.

During the year ended 31 March 2008, we invested £383 million in our non-regulated businesses, £125 million higher than in 2006/07, which had been £21 million lower than capital expenditure in 2005/06.

The primary reason for the increase in 2007/08 related to the construction of Phase II of the Grain LNG import facility, which is anticipated to be completed during 2008.

In addition, we invested an additional £90 million during the year relating to Phase III of the facility, which involves construction of a second unloading jetty, an additional 190,000m3 LNG storage tank and associated processing equipment. Phase III is expected to increase the capacity available at the terminal to 14.8 million tonnes per annum, equivalent to around 20% of anticipated UK gas demand for 2010/11. Long-term contracts have been signed with E.ON, Iberdrola and Centrica.

National Grid Metering and OnStream are investing in technology, such as automated meter reading systems and smart metering respectively, in response to customer requirements. Capital expenditure in our metering businesses was, however, £23 million lower in 2007/08 reflecting market anticipation of the outcome on smart metering discussions.

In addition to the capital expenditure discussed above, we have invested a further £21 million (2006/07: £nil, 2005/06: £nil) in joint venture arrangements. We have entered into a joint venture with the owner and operator of the Dutch electricity transmission network, TenneT Holding, to construct the BritNed electricity interconnector between the UK and the Netherlands. Following the granting of a regulatory exemption order in November 2007 and subject to receiving both environmental consents for BritNed and the necessary Dutch overhead transmission reinforcement project, National Grid expects to invest around £200 million in this project. This will make an important contribution to the UK's security of supply when it is commissioned towards the end of 2010. Investment began in 2007/08 with total investment to 31 March 2008 of £19 million.

During the year, we also entered into an agreement with Elia to explore the potential for constructing an electricity interconnector with Belgium. This is still at a development stage with further work and approvals required before construction can start.

Financial performance

The results for non-regulated businesses, other operations and corporate activities for the years ended 31 March 2008, 2007 and 2006 were as follows:

	Years ended 31 March		
	2008	2007	2006
Continuing operations	£m	£m	£m
Revenue	642	567	701
Other operating income	67	71	74
Operating costs excluding exceptional			
items	(580)	(505)	(625)
Adjusted operating profit	129	133	150
Exceptional items	(57)	(1)	18
Operating profit	72	132	168

2007/08 compared with 2006/07

The principal movements between 2007/08 and 2006/07 can be summarised as follows:

	Revenue and other operating income £m	Operating costs	Operating profit £m
2006/07 results	638	(506)	132
Add back exceptional items	_	<u> </u>	1
2006/07 adjusted results	638	(505)	133
Metering	14	`(13)	1
Property	_	7	7
Grain LNG	3	_	3
Advantica	(37)	34	(3)
US non-regulated business	49	(51)	(2)
Fulcrum and other activities	42	(52)	(10)
2007/08 adjusted results	709	(580)	129
2007/08 exceptional items	_	(57)	(57)
2007/08 results	709	(637)	72

Revenue and other operating income from non-regulated businesses and other operations increased by £71 million from £638 million in 2006/07 to £709 million in 2007/08. The principal reasons for this increase were the inclusion of £49 million with respect to seven months of non-regulated activities acquired with KeySpan and an increase of £14 million in our metering businesses, reflecting portfolio growth at OnStream. Increased revenue for our other operations principally relates to Fulcrum. This was partially offset by a £37 million reduction in revenue following the disposal of Advantica in August 2007.

Operating costs excluding exceptional items were £75 million higher in 2007/08 compared with 2006/07, comprising an increase of £51 million from non-regulated activities acquired with KeySpan and an increase of £13 million in our metering businesses as a result of increased volumes, together with £52 million from Fulcrum and other activities, partially offset by a reduction in costs following the disposal of Advantica of £34 million.

Contributions from non-regulated businesses to adjusted operating profit comprised £104 million (2006/07: £103 million) from Metering; £93 million (2006/07: £86 million) from Property; £12 million (2006/07: £9 million) from Grain LNG; a £1 million loss (2006/07: profit £2 million) from Advantica and a loss of £2 million (2006/07: n/a) from US non-regulated businesses acquired with KeySpan.

Non-regulated businesses and other continued

National Grid plc

Exceptional items of £57 million in 2007/08 includes £44 million arising from an increase in the provision for environmental remediation of historically contaminated sites in the UK following a review conducted during the year, £15 million relating to costs incurred with respect to the potential disposal of the UK property business and £4 million of restructuring costs, partially offset by a £6 million gain on the disposal of Advantica. This compared with £1 million in exceptional items in 2006/07.

As a consequence, adjusted operating profit excluding exceptional items, for other activities decreased by £4 million and operating profit decreased by £60 million.

2006/07 compared with 2005/06

The principal movements between 2006/07 and 2005/06 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2005/06 results	775	(607)	168
Add back exceptional items	_	(18)	(18)
2005/06 adjusted results	775	(625)	150
Metering	19	(13)	6
Property	(20)	18	(2)
Grain LNG	11	(8)	3
Fulcrum	(134)	125	(9)
Insurance and other	(13)	(2)	(15)
2006/07 adjusted results	638	(505)	133
2006/07 exceptional items	_	(1)	(1)
2006/07 results	638	(506)	132

Revenue and other operating income from non-regulated businesses and other operations reduced from £775 million in 2005/06 to £638 million in 2006/07. The principal reason for this fall was £134 million lower revenue at Fulcrum, reflecting the full year impact of the loss of business from the four regional gas distribution networks disposed of in 2005/06. Revenue and other operating income was £20 million lower in our property business, reflecting the impact of the revised planning guidance for development of sites in close proximity to hazardous installations issued by the HSE. Partially offsetting these reductions, revenue was £19 million higher in our metering businesses, reflecting growth in OnStream, and revenue and other operating income at Grain LNG was £11 million higher, reflecting the first full year of Phase I operations.

Operating costs excluding exceptional items were £120 million lower in 2006/07 compared with 2005/06. Within Fulcrum, operating costs were £125 million lower as a result of the loss of business from the disposed gas networks.

Operating costs were also £18 million lower in our property business due to the expected reduction in stock sales. These decreases were partially offset by operating cost increases in our metering and Grain LNG businesses of £13 million and £8 million respectively as a result of the increased volumes in these businesses.

Contributions from non-regulated businesses to the adjusted operating profit for other activities comprised £103 million in 2006/07 from Metering, £86 million from Property, £9 million from Grain LNG and £2 million from Advantica (2005/06: £97 million, £88 million, £6 million and £1 million loss respectively).

The exceptional item of £1 million in 2006/07 related to the non-regulated businesses and other operations' share of restructuring costs incurred during the year. This compared with a net £18 million gain in 2005/06. As a consequence, adjusted operating profit excluding exceptional items reduced by £17 million and operating profit reduced by £36 million.

£104m

Metering adjusted operating profit

£93m

UK Property adjusted operating profit

£12m

Grain LNG adjusted operating profit

US non-regulated operating loss

Discontinued operations

About discontinued operations **Principal operations**

Our discontinued operations at 31 March 2008 comprise the Ravenswood generation station, KeySpan Communications and KeySpan Engineering Associates, all of which were acquired as part of the acquisition of KeySpan. During the year, they also included our UK and US wireless infrastructure operations, and our Basslink electricity interconnector in Australia that we sold on 3 April, 15 August and 31 August 2007 respectively.

Our UK wireless infrastructure operations were sold to Macquarie UK Broadcast Ventures Limited on 3 April 2007 for £2.5 billion and our US wireless infrastructure operations were sold in August 2007 for proceeds of £147 million. We sold Basslink for £485 million on 31 August 2007.

Ravenswood

The Ravenswood generation station, a 2,480 MW facility in Queens in New York City is primarily fuelled by natural gas, and provides over 20% of New York City's electricity supply. Divestiture of Ravenswood is a condition of the New York Public Service Commission order approving the acquisition of KeySpan by National Grid.

On 31 March 2008, we announced that we had entered into an agreement to sell the Ravenswood generation station for \$2.9 billion (£1.4 billion) to TransCanada Corporation, subject to regulatory approvals. The proceeds are subject to customary closing adjustments. Completion is expected during the summer of 2008.

KeySpan Communications and KeySpan Engineering

KeySpan Communications operates a fibre optic telecommunications network that extends through parts of New York City, Long Island and New Jersey with over 1,600 route kilometres of network and over 120,000 kilometres of fibre. It also has access to transatlantic cable systems linking Long Island with Paris and London.

KeySpan Engineering Associates provides engineering, design and consulting services for commercial, institutional and industrial customers and operates within the northeastern US.

We have entered into an agreement to sell KeySpan Communications to Lightower Fiber LLC, subject to regulatory approval.

Performance against our objectives

Delivering our strategy

The disposal of these operations will complete our programme of disposals of non-core businesses, enabling us to achieve our objective of focusing our operations on electricity and gas infrastructure and related businesses in the UK and the US.

Operating performance

The financial performance of these operations is described below, excluding operations discontinued in prior years.

Capital investment in operations discontinued in the year was considerably lower than in 2006/07 and 2005/06 at £1 million reflecting the disposal of our UK wireless infrastructure operations in April 2007 and only five months' activity for both our US wireless operations and Basslink which were disposed of in August 2007.

Financial performance

The operating results for discontinued operations for the years ended 31 March 2008, 2007 and 2006 relating to operations sold or discontinued during the year were as follows:

	Years ended 31 March		
	2008	2007	2006
	£m	£m	£m
Revenue	201	383	325
Operating costs excluding exceptional			
items and remeasurements	(166)	(266)	(255)
Adjusted operating profit	35	117	70
Exceptional items	_	(55)	(5)
Operating profit	35	62	65

In 2007/08, revenue, operating costs and operating profit decreased primarily as a consequence of the sales of the UK wireless operations on 3 April 2007 and the US wireless operations and Basslink in August 2007, partially offset by contributions from the Ravenswood generation station, KeySpan Communications and KeySpan Engineering Associates from 24 August 2007 onwards.

In 2006/07, revenue, operating costs and adjusted operating profit increased compared with 2005/06 as a consequence of the first year of operation of Basslink and growth in our UK wireless infrastructure operations. Exceptional charges of £55 million in 2006/07 arose from impairment to goodwill recorded in our US wireless operations compared with £5 million of restructuring costs in 2005/06.

Wireless

Sold

Basslink

Sold

Ravenswood

Agreed to sell

£4.6bn

Total proceeds from sales and expected sales

Financial position and financial management

Going concern

Having made enquiries, the Directors consider that the Company and its subsidiary undertakings have adequate resources to continue in business for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the consolidated and individual financial statements of the Company.

Financial position

Balance sheet

Our balance sheet at 31 March 2008 can be summarised as follows:

			Net
	Assets	Liabilities	assets
	£m	£m	£m
Property, plant & equipment and non-			
current intangible assets	24,605	_	24,605
Goodwill and non-current			
investments	4,089	_	4,089
Current assets and liabilities	2,724	(3,126)	(402)
Other non-current assets and			
liabilities	255	(2,664)	(2,409)
Post-retirement obligations	846	(1,746)	(900)
Deferred tax	_	(3,407)	(3,407)
Assets and liabilities held for sale	1,508	(63)	1,445
Total before net debt	34,027	(11,006)	23,021
Net debt	3,795	(21,436)	(17,641)
Total as at 31 March 2008	37,822	(32,442)	5,380
Total as at 31 March 2007	28,389	(24,253)	4,136

The increase in net assets from £4,136 million at 31 March 2007 to £5,380 million at 31 March 2008 resulted from the profit from continuing operations of £1,581 million, the profit for the year from discontinued operations of £1,618 million, net income recognised directly in equity of £280 million and other changes in equity of £67 million, partially offset by repurchases of shares of £1,522 million and dividends paid of £780 million.

Net debt

Net debt increased by £5,853 million from £11,788 million at 31 March 2007 to £17,641 million at 31 March 2008 as a result of cash flows from operations of £3,165 million, disposal proceeds of £3.119 million exceeded by the combination of exchange gains and net increases in the values of derivatives of £133 million, capital expenditure of £2.877 million, cash paid for acquisitions of £3,762 million. net debt acquired (including cash) on acquisitions of £2,186 million, cash outflow on repurchases of shares of £1,498 million, dividends paid of £780 million and interest charge of £901 million.

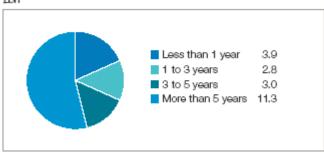
At 31 March 2008, net debt comprised borrowings of £21,003 million (2007: £15,717 million) including bank overdrafts of £10 million (2007: £6 million), less cash and cash equivalents of £174 million (2007: £1,593 million), financial investments of £2,095 million (2007: £2,098 million) and derivative financial instruments with a net carrying value of £1,093 million (2007: £238 million).

Net debt at 31 March Ωbn



The maturity of borrowings is provided in note 21 to the consolidated financial statements. At 31 March 2008 it can be summarised as follows:

Maturity of borrowings at 31 March 2008



Gearing and interest cover

Gearing at 31 March 2008 and 31 March 2007, calculated as net debt at that date expressed as a percentage of net debt plus net assets shown in the balance sheet, amounted to 77% and 74% respectively. We do not consider that this standard gearing ratio is an appropriate measure of our balance sheet efficiency as it does not reflect the economic value of the assets of our UK and US regulated businesses.

£37.8bn

Total assets

£5.4bn

Net assets

£17.6bn

Net debt

Interest cover

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The principal measure of our balance sheet efficiency is our interest cover ratio as described under financial discipline on page 42. Interest cover for the year ended 31 March 2008 decreased to 3.2 from 3.8 for the year ended 31 March 2007. Our target long-term range for interest cover is between 3.0

The decrease occurred as a result of the KeySpan acquisition completing in August 2007 and associated seasonal variations in earnings. KeySpan's post acquisition period earnings are proportionally greater than pre acquisition period earnings due to seasonal weather impacts.

Equity shareholders' funds

Equity shareholders' funds rose from £4,125 million at 31 March 2007 to £5.362 million at 31 March 2008.

The increase was mainly explained by the retained profit for the year to March 2008 of £2,416 million, net other recognised income of £280 million, comprising net foreign exchange adjustments relating to the retranslation of US dollar denominated net assets and associated hedges, actuarial gains, net gains on hedges and available-for-sale investments and tax thereon, and £1,522 million of share repurchases.

Liquidity and treasury management Cash flow

Cash flows from our operations are largely stable over a period of years, but they do depend on the timing of customer payments and exchange rate movements. Our electricity and gas transmission and distribution operations in the UK and US are subject to multi-year rate agreements with regulators. Significant changes in volumes, for example as a consequence of weather conditions, can affect cash inflows in particular, with abnormally mild or extreme weather driving volumes down or up respectively. Subject to this, we have essentially stable cash flows in the UK, while in the US, the regulatory mechanisms for recovering costs from customers can result in very significant cash flow swings from year to year.

Cash flow forecasting

Both short- and long-term cash flow forecasts are produced frequently to assist in identifying our liquidity requirements. These forecasts, supplemented by a financial headroom position, are supplied to the Finance Committee of the Board regularly to assess funding adequacy for at least a 12 month period. We also maintain committed facilities to support our liquidity requirements.

Credit facilities and unutilised Commercial Paper and Medium Term Note Programmes

At 31 March 2008, we had the following programmes:

Programme	Amount	Status
National Grid plc		
US commercial paper programme	\$3.0 billion	Unutilised
Euro commercial paper programme	\$1.5 billion	Unutilised
National Grid Electricity Transmission plc		
US commercial paper programme Euro commercial paper programme	\$1.0 billion \$1.0 billion	Unutilised Unutilised
National Grid plc and National Grid Electric	city Transmissi	on plc
Euro medium term note programme	€15.0 billion	€6.3 billion unissued
National Grid Gas plc		
US commercial paper programme	\$2.5 billion	Unutilised
Euro commercial paper programme	\$1.25 billion	Unutilised
Euro medium term note programme	€10.0 billion	€5.3 billion unissued
National Grid USA		
US commercial paper programme	\$2.0 billion	\$1.2 billion unissued
Euro medium term note programme	€4.0 billion	€3.9 billion
1 3		unissued
KeySpan Corporation		
US commercial paper programme	\$1.5 billion	\$1.2 billion unissued

We have both committed and uncommitted borrowing facilities that are available for general corporate purposes. At 31 March 2008, we had the following committed and uncommitted facilities:

Facility	Amount	Status
National Grid plc		
Short-term committed facilities	\$1.5 billion	Undrawn
National Grid Gas plc		
Long-term committed facilities	£0.8 billion	Undrawn
National Grid Electricity Transmission plc		
Long-term committed facilities	£0.4 billion	Undrawn
National Grid's US subsidiaries		
Committed facilities	\$1.7 billion	Undrawn
National Grid plc and certain UK subsidiar	ies	
Uncommitted borrowing facilities	£0.8 billion	Undrawn

The short-term (364 day) committed facilities include an option to extend these facilities. The US committed facilities provide commercial paper back up for KeySpan Corporation and liquidity support for New England Power Company.

Note 35 to the consolidated financial statements shows the maturity profile of undrawn committed borrowing facilities in sterling as at 31 March 2008.

48 years

Longest maturity of our borrowings

62%

Proportion of net debt in US dollars

55%

Proportion of net debt at fixed rates

£17.3bn

Pension plan assets

Financial position and financial management continued

National Grid plc

Regulatory restrictions

As part of our regulatory arrangements, our operations are subject to a number of restrictions on the way we can operate. These include regulatory 'ring-fences' that require us to maintain adequate financial resources within certain parts of our operating businesses and restrict our ability to transfer funds or levy charges between certain subsidiary companies.

Treasury policy

Funding and treasury risk management for National Grid is carried out under policies and guidelines approved by the Board. The Finance Committee, a committee of the Board (for further details see page 92), is responsible for regular review and monitoring of treasury activity and for approval of specific transactions, the authority for which may be delegated. There is a Treasury function that raises funding and manages interest rate and foreign exchange rate risk.

Financing programmes exist for each of the main companies within National Grid. The Finance Committee of the Board and the finance committee or board of the appropriate subsidiary undertaking approve all funding programmes.

The Treasury function is not operated as a profit centre. Debt and treasury positions are managed in a non-speculative manner, such that all transactions in financial instruments or products are matched to an underlying current or anticipated business requirement.

The use of derivative financial instruments is controlled by policy guidelines set by the Board. Derivatives entered into in respect of gas and electricity commodities are used in support of the business's operational requirements and the policy regarding their use is explained on page 78.

We had borrowings outstanding at 31 March 2008 amounting to £21,003 million (31 March 2007: £15,717 million).

We believe that maturing amounts in respect of contractual obligations as shown in 'Commitments and Contingencies' in note 29 to the consolidated financial statements can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required. Our financial position and expected future operating cash flows are such that we can borrow on the wholesale capital and money markets and most of our borrowings are through public bonds and commercial paper.

We place surplus funds on the money markets, usually in the form of short-term fixed deposits and placements with money funds that are invested in highly liquid form with approved highly rated banks and counterparties. We believe this policy continues to provide appropriate liquidity and credit risk management particularly in light of the current global economic and credit situation. Details relating to cash, shortterm investments and other financial assets at 31 March 2008 are shown in notes 15 and 20 to the consolidated financial statements.

As of 31 March 2008, the long-term senior unsecured debt and short-term debt credit ratings respectively provided by Moody's, Standard & Poor's and Fitch were as follows:

Facility	Moody's	S&P	Fitch
National Grid plc	Baa1/P2	BBB+/A2	BBB+/F2
National Grid Holdings One			
plc	_	BBB+/A2	_
National Grid Electricity			
Transmission plc	A3/P2	A-/A2	A/F2
National Grid Gas plc	A3/P2	A-/A2	A/F2
National Grid Gas Holdings			–
plc	A3	BBB+	Α
National Grid USA	A3/P2	BBB+/A2	
Niagara Mohawk Power	7.107.	222.,, 12	
Corp.	А3	BBB+/A2	_
Massachusetts Electric Co.	A3/P2	A-/A2	_
New England Power Co.	A3/P2	A-/A2	_
The Narrangansett Electric	A0/1 Z	A-/A2	
Co.	A3^	A-*/A2	
	Baa1/P2	A-/A2 A-/A2	_ A-
KeySpan Corporation	Daa I/P2	A-/A2	Α-
The Brooklyn Union Gas		^	Α.
Company	_	Α	A+
KeySpan Gas East			
Corporation	_ A3	Α	Α
Boston Gas Company	Baa1	A-	_
Colonial Gas Company	A3	A-*	_
National Grid Generation			
LLC	Baa1	A-*	

^{*} Corporate credit rating ^ Issuer rating

The long-term credit ratings of most National Grid companies were reduced by one notch by Standard & Poor's and Moody's as a direct result of the KeySpan acquisition. Standard & Poor's and Fitch have current outlooks of stable on all National Grid companies. Moody's have a current outlook of negative on all National Grid companies.

The main risks arising from our financing activities are set out below, as are the policies for managing these risks, which are agreed and reviewed by the Board and the Finance Committee.

Refinancing risk management

The Board controls refinancing risk mainly by limiting the amount of financing obligations (both principal and interest) arising on borrowings in any financial year. This policy operates by placing a financial limit on the amounts of debt falling due for refinancing in any given time frame.

During the year, a mixture of short-term and long-term debt was issued.

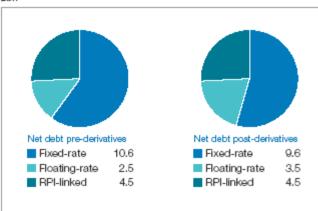
Note 21 to the consolidated financial statements sets out the contractual maturities of our borrowings over the next 5 years, with the total contracted borrowings maturing over 48 years in compliance with our refinancing risk policy.

Interest rate risk management

Our interest rate exposure arising from borrowings and deposits is managed by the use of fixed-rate and floatingrate debt, interest rate swaps, swaptions and forward rate agreements. Our 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 so that, even with large movements in interest rates, neither the interest cost nor the total financing cost can exceed pre-set limits. Some of the bonds in issue from National Grid Electricity Transmission plc and National Grid Gas plc are index-linked, that is their cost is linked to changes in the UK Retail Price Index (RPI). We believe that these bonds provide a good hedge for revenues and our regulatory asset values that are also RPI linked under our price control formulae in the UK.

More information on the interest rate profile of our debt is included in note 33 to the consolidated financial statements.

Interest rate profile 31 March 2008



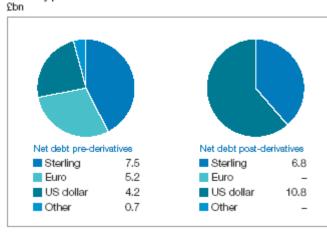
Foreign exchange risk management

We have a policy of hedging certain contractually committed foreign exchange transactions over a prescribed minimum size. This covers a minimum of 75% of such transactions expected to occur up to 6 months in advance and a minimum of 50% of transactions 6 to 12 months in advance. Cover generally takes the form of forward sale or purchase of foreign currencies and must always relate to underlying operational cash flows.

The principal foreign exchange risk to which we are exposed arises from assets and liabilities denominated in US dollars. In relation to these risks, the objective is to manage the ratio of US dollar financial liabilities to US dollar assets, by using debt and foreign exchange derivatives, so as to match those liabilities to the proportion of our cash flows that arise in US dollars and are available to service those liabilities

In addition, we are exposed to currency exposures on borrowings in currencies other than sterling and the US dollar, principally the euro. This currency exposure is managed through the use of derivative financial instruments.

Currency profile 31 March 2008



The currency compositions of financial liabilities and assets are shown in note 33 to the consolidated financial statements

Counterparty risk management

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. The Finance Committee has agreed a policy for managing such risk, which is controlled through credit limits, approvals and monitoring procedures.

Further information is provided in note 33 to the consolidated financial statements. Where multiple transactions are entered into with a single counterparty, a master netting arrangement is usually put in place to reduce our exposure to credit risk of that counterparty. At the present time, we use standard International Swap Dealers Association (ISDA) documentation, which provides for netting in respect of all transactions governed by a specific ISDA agreement with a counterparty, when transacting interest rate and exchange rate derivatives.

Derivative financial instruments held for purposes other than

As part of our business operations, we are exposed to risks arising from fluctuations in interest rates and exchange rates. We use financial instruments, including derivatives, to manage exposures of this type and they are a useful tool in managing risk. Our policy is not to use derivatives for trading purposes. Derivative transactions can, to varying degrees, carry both counterparty and market risk.

We enter into interest rate swaps to manage the composition of floating- and fixed-rate debt and so hedge the exposure of borrowings to interest rate movements. In addition, we enter into bought and written option contracts on interest rate swaps. These contracts are known as swaptions. We also enter into foreign currency swaps to manage the currency composition of borrowings and so hedge the exposure to exchange rate movements. Certain agreements are combined foreign currency and interest rate swap transactions. Such agreements are known as cross-currency

We enter into forward rate agreements to hedge interest rate risk on short-term debt and money market investments. Forward rate agreements are commitments to fix an interest rate that is to be paid or received on a notional deposit of specified maturity, starting at a future specified date.

Cross-currency and foreign exchange contracts are used to manage the foreign exchange risk arising from the investment in non-sterling subsidiaries.

More details on derivative financial instruments are provided in note 33 to the consolidated financial statements.

Valuation and sensitivity analysis

We calculate the fair value of debt and derivative instruments by discounting all future cash flows by the market yield curve at the balance sheet date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the case of instruments that include options, the Black's variation of the Black-Scholes model is used to calculate fair value.

Financial position and financial management continued

National Grid plc

The valuation techniques described above for interest rate swaps and currency swaps are a standard market methodology. These techniques do not take account of the credit quality of either party but this is not considered to be a significant factor unless there is a material deterioration in the credit quality of either party.

In relation to swaptions, we only use swaptions for hedging purposes with a European style exercise. As a consequence, the Black's variation of the Black-Scholes model is considered to be sufficiently accurate for the purpose of providing fair value information in relation to these types of swaptions. More sophisticated valuation models exist but we do not believe it is necessary to employ these models, given the extent of our activities in this area.

For debt and derivative instruments held, we utilise a sensitivity analysis technique to evaluate the effect that changes in relevant rates or prices would have on the market value of such instruments.

As described in note 33 to the consolidated financial statements, movements in financial indices would have the following estimated impact on the financial statements as a consequence of changes in the value of financial instruments. This analysis does not take account of the change in value in our income stream or in the value of our US operations that certain of these financial instruments are being used to hedge.

		2007/08		2006/07
		Other		Other
	Income	equity	Income	equity
	statement	reserves	statement	reserves
	£m	£m	£m	£m
UK retail price index ±0.50%	16	_	13	_
UK interest rates ±0.50%	46	57	35	43
US interest rates ±0.50%	31	7	26	8
US dollar exchange rate ±10%	18	590	36	194

Commodity contracts

We purchase electricity and gas in order to supply our customers in the US and also to meet our own energy requirements. We purchased gas and oil for our discontinued Ravenswood generation station prior to 31 December 2007 when we entered into a tolling arrangement with a third party. We also sell gas produced by our West Virginia gas fields. Additionally, we buy back capacity rights already sold in accordance with our UK gas transporter licences and Uniform Network Code obligations as part of our management of the gas transmission and distribution networks in the UK.

In the US substantially all our costs of purchasing electricity and gas for supply to customers are typically recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular financial period.

The most significant gas purchases for our own use relate to the operation of our gas transmission and gas distribution networks, mainly in the UK, while we also purchase fuel for our vehicle fleets in the UK and the US.

Our Energy Procurement Risk Management Policy and Delegations of Authority govern our US commodity trading activities for energy transactions. The purpose of the policy is to ensure that our US operating companies participate in the physical and financial markets only for those commodities to which we or our customers have a physical market requirement, and will transact only within pre-defined risk parameters approved by the Energy Procurement Risk Management Committee.

In our UK gas transmission operation, we are obliged to offer for sale, through a series of auctions (both short- and longterm), a predetermined quantity of entry capacity for every day in the year at predefined locations. Where, on the day, the gas transmission system's capability is constrained, such that gas is prevented from entering the system for which entry capacity rights have been sold, then UK gas transmission is required to buy back those entry capacity rights sold in excess of system capability. Forward and option contracts are used to reduce the risk and exposure to on-the-day entry capacity prices. Our UK electricity transmission operations have also entered into electricity options, pursuant to the requirement to stabilise the electricity market in Great Britain through the operation of the British Electricity Trading and Transmission Arrangements (BETTA). The options are for varying terms and have been entered into so that we have the ability to deliver electricity as required to meet our obligations under our UK electricity transmission licence. We have not and do not expect to enter into any significant derivatives in connection with our BETTA role.

In the US, we also have a management contract with Merrill Lynch Trading, under which we and Merrill Lynch Trading share the responsibilities for managing upstream gas distribution assets associated with our Massachusetts gas distribution operations, as well as providing city-gate delivered supply. This contract allows for both parties to employ derivative instruments to maximize the profitability of the portfolio of gas distribution assets. Profits associated with these activities are shared between us, Merrill Lynch Trading and our customers in Massachusetts.

Energy purchase contracts

The majority of our energy purchase contracts are entered into to meet our normal sale, purchase and usage requirements and so are accounted for as ordinary sales or purchase contracts. These included contractual commitments to purchase energy under long-term contracts amounting to £4,753 million as at 31 March 2008 (2007: £3,731 million) of which £1,790 million is due within one year (2007: £1,233 million). Further information is included in note 29 to the consolidated financial statements.

Commodity purchase contracts accounted for as derivative contracts

Certain of our forward purchases of electricity, gas and electricity capacity do not meet the normal purchase, sale or usage exemption for accounting purposes and hence are accounted for as derivatives. Mark-to-market changes in these value contracts are reflected through earnings under the heading of commodity remeasurements.

to hedge the cash flow variability associated with forecasted sales of a portion of natural gas production from our West Virginia gas fields. We have hedge positions in place for approximately 70% of our estimated 2008 and 2009 gas production, net of gathering costs. We use forward prices from a third party vendor to value these swap positions and they are designated as cash flow hedges. We also use overthe-counter natural gas swaps to hedge the cash flow variability of gas purchases associated with certain largevolume gas sales customers. These gas swaps are carried at fair value on the balance sheet and their charges are reflected through earnings. We use market quoted forward prices to value these swap positions. The value of these contracts was not material at 31 March 2008 (2007: not applicable).

Sensitivity analysis

As described in note 34 to the consolidated financial statements, movements in commodity prices would have the following estimated impact on the financial statements as a consequence of changes in the value of commodities. This analysis does not take account of any change in our commodity portfolio.

		2007/08		2006/07
	Income statement £m	Other equity reserves £m	Income statement £m	Other equity reserves £m
10% increase in commodity prices 10% decrease in commodity	25	(1)	10	-
prices	(22)	1	(10)	-

Commitments and contingencies

Commitments and contingencies outstanding at 31 March 2008 and 2007 are summarised in the table below:

	2008 £m	2007 £m
Future capital expenditure contracted but not		
provided for	1,097	1,554
Total operating lease commitments	737	800
Power commitments	4,753	3,731
Other commitments, contingencies and guarantees	1,387	537

Information regarding obligations under pension and other post-retirement benefits is given on page 80 under the heading 'Retirement arrangements'.

The energy commitments shown in the commitments and contingencies table above reflect obligations to purchase energy under long-term contracts. These contracts are used in respect of our normal sale and purchase requirements and do not include commodity contracts carried at fair value as described on page 78.

We propose to meet all of our commitments from existing cash and investments, operating cash flows, existing credit facilities, future facilities and other financing that we reasonably expect to be able to secure in the future.

Commodity purchase contracts accounted for as derivatives include contracts for the forward purchase of electricity that reverted back to us as part of the settlement arising from USGen's bankruptcy in 2005, which were originally entered into prior to the restructuring of the electricity industry in New England. The electricity purchased under these contracts is not required for our normal activities and is sold in the energy markets at prices which are currently significantly below the amount we are required to pay. The fair value of these contracts amounted to a £47 million liability at 31 March 2008 (2007: £132 million liability). We are also a party to several other power purchase arrangements entered into by the former generating business, the output of which is sold to third parties through back-to-back arrangements. We recover the costs incurred under the contracts, net of proceeds received on sales, from customers as part of our stranded cost recoveries.

Certain contracts for the forward purchases of gas and forward purchases of electricity capacity are accounted for as derivatives as we trade these contracts as part of our energy management activities. The fair value of these contracts include contracts with a positive value of £116 million, recorded as assets in our balance sheet and contracts with a negative value of £39 million recorded as liabilities.

Derivative financial instruments linked to commodity prices

We also enter into derivative financial instruments linked to commodity prices, including index-linked swaps and futures contracts. These derivative financial instruments are used to reduce market price volatility and are principally used to manage commodity prices associated with our gas and electricity delivery operations in the US on behalf of our customers.

Derivative financial instruments are carried at fair value in the balance sheet and mark-to-market changes in the value of these contracts are reflected through earnings with the exception of electricity and gas futures contracts, and gas sales swaps which are designated as cash flow hedges.

In addition, a number of power purchase agreements were replaced in 1998 with index-linked swap contracts that expire in June 2008. These index-linked swap contracts are the subject of regulatory rulings that allow the gains and losses to be passed on to customers. At 31 March 2008, there were liabilities of £26 million (2007: £136 million) in respect of these contracts. The fair value of the index-linked swap contracts is based on the difference between projected future market prices and projected contract prices as applied to the notional quantities stated in the contracts and discounted using a US Treasury Bill rate curve to the current present value. Payments made under indexed swap contracts are affected by the price of natural gas and we use New York Mercantile Exchange (NYMEX) gas futures as hedges to mitigate this impact. The futures contracts are derivative commodity instruments with gains and losses deferred as an offset to the corresponding increases and decreases in the swap payments.

Financial position and financial management continued

National Grid plc

Contractual obligations at 31 March 2008

The table of contractual obligations shown below analyses our long-term contractual obligations according to payment period. Purchase obligations reflect commitments under power contracts and future capital expenditure contracted for but not provided. The other long-term liabilities reflected in the balance sheet at 31 March 2008 comprise commodity contracts carried at fair value and other creditors that represent contractual obligations falling due after more than one year.

	Less than 1 year £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m
Financial liabilities					
Borrowings	(3,379)	(2,725)	(4,732)	(9,894)	(20,730)
Interest payments on					
borrowings	(822)	(1,391)	(2,136)	(5,810)	(10,159)
Finance lease liabilities	(266)	(72)	(128)	(19)	(485)
Other non-interest					
bearing liabilities	(2,190)	(347)	_	_	(2,537)
Derivatives payments	(647)	(951)	(1,498)	(4,040)	(7,136)
Derivatives receipts	990	1,205	1,779	3,550	7,524
Commodity contracts	(490)	(445)	(247)	(32)	(1,214)
Other contractual					
obligations					
Capital commitments	(956)	(135)	(6)	_	(1,097)
Operating leases	(83)	(163)	(135)	(356)	(737)
Energy commitments	(1,790)	(1,375)	(425)	(1,163)	(4,753)
Total at 31 March 2008	(9,633)	(6,399)	(7,528)	(17,764)	(41,324)

Interest on borrowings is calculated based on borrowings at 31 March 2008 and does not reflect future debt issues. Floating rate interest has been estimated using future interest rate curves at 31 March 2008.

Off balance sheet arrangements

There were no significant off balance sheet arrangements other than the contractual obligations and commitments and contingencies described above.

Details of material litigation as at 31 March 2008

We were not party to litigation that we considered to be material as at 31 March 2008.

As noted on page 23, Ofgem decided that we were guilty of breaches of competition law with respect to our metering services business in the UK and have imposed a fine of $\pounds 41.6$ million, which has been suspended pending our appeal to the Competition Appeal Tribunal. We believe that we have never been anti-competitive and that we will be successful in appealing this decision. We have therefore not provided for this fine in our financial statements.

Also as described on page 23, the US Department of Justice is investigating competition issues in the New York City electricity capacity market prior to our acquisition of KeySpan. The civil investigation demands received are requests for information in the course of an investigation and do not constitute the commencement of legal proceedings and no specific allegations have been made against KeySpan.

Related party transactions

We provide services to and receive services from related parties, principally joint ventures. In the year ended 31 March 2008, we charged £3 million and received charges of £33 million from related parties (other than Directors) compared with £4 million and £26 million in 2006/07 and £4 million and £32 million in 2005/06 respectively.

Further information relating to related party transactions is contained within note 30 to the consolidated financial statements. Details on amounts paid to Directors are included within the Directors' remuneration report on pages 100 to 110.

Retirement arrangements

We operate pension arrangements on behalf of our employees in both the UK and the US and also provide postretirement healthcare and life insurance benefits to qualifying retirees in the US.

In the UK, the defined benefit section of the National Grid UK Pension Scheme and the National Grid Electricity Group of the Electricity Supply Pension Scheme (National Grid Electricity Supply Pension Scheme) are closed to new entrants. Membership of the defined contribution section of the National Grid UK Pension Scheme is offered to all new employees in the UK.

In the US, we operate a number of pension plans, which provide both defined benefits and defined contribution

We also provide post-retirement benefits other than pensions to the majority of employees in the US. Benefits include health care and life insurance coverage to eligible retired employees. Eligibility is based on certain age and length of service requirements and in most cases retirees must contribute to the cost of their coverage.

Net pension and other post-retirement obligations

The following table summarises the pension and other postretirement obligations recorded in the consolidated financial statements:

Net plan asset/(liability)	UK £m	US £m	Total £m
As at 1 April 2007	(451)	(794)	(1,245)
Acquisition of KeySpan	`	(440)	(440)
Exchange movements	_	6	6
Pension service cost	(81)	(68)	(149)
Expected return less interest	75	(12)	63
Curtailments and settlements	3	(81)	(78)
Actuarial gains and losses			
on plan assets	(631)	(280)	(911)
 on plan liabilities 	1,252	91	1,343
Contributions			
 ordinary contributions 	93	83	176
 additional contributions 	155	180	335
As at 31 March 2008	415	(1,315)	(900)
Plan assets	13,981	3,292	17,273
Plan liabilities	(13,566)	(4,607)	(18,173)
Net plan asset/(liability)	415	(1,315)	(900)

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The amounts recorded in the balance sheet are based on accounting standards which require pension obligations to be calculated on a different basis to that used by the actuaries to determine the funding we need to make into each arrangement.

Other than the acquisition of KeySpan, which resulted in us assuming pension and other post-retirement obligations in connection with current and past employees of KeySpan, the principal movements in net pension obligations during the year arose as a consequence of actuarial gains on plan liabilities, principally as a consequence of using higher discount rates to calculate the present value of these obligations. This was partially offset by actuarial losses on the value of plan assets.

Actuarial position

The last completed full actuarial valuation of the National Grid UK Pension Scheme was as at 31 March 2006. This concluded that the pre-tax funding deficit was £371 million in the defined benefit section on the basis of the funding assumptions. Employer cash contributions for the ongoing cost of this plan are currently being made at a rate of 32.7% of pensionable payroll.

The last completed full actuarial valuation of National Grid Electricity Supply Pension Scheme was as at 31 March 2007. This concluded that the pre-tax funding deficit was £405 million on the basis of the funding assumptions. Employer cash contributions for the ongoing cost of this plan are currently being made at a rate of 20.5% of pensionable payroll, with administration fees paid in addition.

Contributions

In addition to ongoing employer contributions we have agreed to make additional deficit contributions to certain of the above plans as follows:

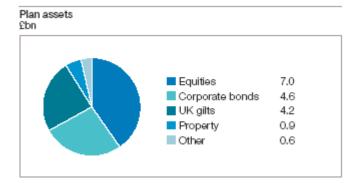
- National Grid UK Pension Scheme: The actuarial valuation as at 31 March 2007 is currently in progress but has not yet been concluded. In advance of finalising the valuation we have made deficit contributions of £115 million during 2007/08 and £250 million in April 2008. We and the trustees are currently in the process of agreeing a recovery plan in respect of the deficit expected to be included in the valuation; and
- National Grid Electricity Supply Pension Scheme: we have made deficit contributions of £40 million during 2007/08 and £60 million in April 2008. Further deficit payments of £2.5 million will be paid monthly from 1 April 2008 to 31 March 2009, in line with the agreed scheme recovery plan. We expect to pay £90.5 million in early 2009/10, with the remaining deficit payable monthly from April 2012 to March 2017.

In accordance with our funding policy for US pension and other post-retirement benefit plans we expect to contribute approximately £268 million to these plans during 2008/09.

Plan assets

Our plans in both the UK and the US are trustee administered and the trustees are responsible for setting the investment strategy and monitoring investment performance, consulting with us where appropriate.

At 31 March 2008 plan assets totalled £17,273 million (2007: £15,999 million) invested as follows:



Accounting policies

National Grid plc

Accounting policies

Basis of accounting

The consolidated financial statements present our results for the years ended 31 March 2008, 2007 and 2006 and our financial position as at 31 March 2008 and 2007. They have been prepared using the accounting policies shown, in accordance with International Financial Reporting Standards (IFRS).

In complying with IFRS, we are also complying with the version of IFRS that has been endorsed by the European Union for use by listed companies.

IFRS differ from both US Generally Accepted Accounting Principles (US GAAP) and UK Generally Accepted Accounting Principles (UK GAAP). Following a rule change by the US Securities and Exchange Commission we no longer provide a reconciliation from our results and financial position as prepared under IFRS to the results and financial position as if they had been prepared in accordance with US

Choices permitted under IFRS

Since 1 April 2005 we have presented our consolidated financial statements in accordance with IFRS. We were required to make a number of choices on the adoption of IFRS and in addition we continue to choose from certain options that are available within accounting standards.

The principal choices made on the adoption of IFRS, which cannot be changed, were as follows:

Transition date

Our opening IFRS balance sheet was established as at 1 April 2004. As a consequence goodwill amortisation ceased on this date and we used certain balances in our previous UK GAAP financial statements as the basis for our opening IFRS balance sheet.

Business combinations

Business combinations prior to 1 April 2004 were not changed retrospectively. In particular, we retained the use of merger accounting for the business combination with Lattice Group.

Financial instruments

We adopted IAS 39 on 1 April 2005. We chose to apply IAS 39 prospectively from that date and accordingly did not restate prior periods. As a consequence, the accounting for financial instruments differs from that which would have been presented had we always applied IAS 39.

Carrying value of assets at

In most cases, we used brought forward depreciated cost, as adjusted for changes in accounting policies to conform with IFRS, to be the opening carrying value under IFRS.

Share-based payments

We recognised all active share option grants retrospectively.

translation differences We chose to measure and present cumulative translation differences arising since 1 April 2004

Significant choices that we continue to make on an ongoing basis include the following:

Presentation formats

We use the nature of expense method for our income statement and total our balance sheet to net assets and total equity.

In the income statement, we present subtotals of total operating profit, profit before tax and profit from continuing operations, together with additional subtotals excluding exceptional items, remeasurements and stranded cost recoveries. Exceptional items, remeasurements and stranded cost recoveries are presented on the face of the income statement.

Pensions

We recognise actuarial gains and losses each year in the statement of recognised income and expense.

Joint ventures

We use equity accounting for jointly controlled entities instead of the alternative proportional consolidation method.

Capitalised interest

We capitalise interest into the cost of assets that we construct, where conditions of IAS 23 are met.

Capital contributions

Contributions received towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.

Timing of goodwill impairment Goodwill impairment reviews are carried out annually in the final quarter of the financial year.

Instruments

We normally opt to apply hedge accounting in most circumstances where this is permitted. For net investment hedges, we have chosen to use the spot rate method, rather than the alternative forward rate method.

Individual

We have chosen to continue to use UK GAAP, rather than IFRS, in the individual financial statements of National Grid plc and of UK subsidiary companies.

Accounting standards and interpretations adopted in 2007/08

In preparing our consolidated financial statements we have complied with International Financial Reporting Standards, International Accounting Standards and interpretations applicable for 2007/08. The following amendments to standards and interpretations were adopted during 2007/08, none of which resulted in a material change to our consolidated results, assets or liabilities in 2007/08 or in those of previous periods:

interpretations

IFRIC 8, IFRIC 9, IFRIC 10 and IFRIC 11 contain guidance on accounting for share-based exchange transactions, embedded derivatives, impairments in half yearly reports and share-based payments

Implementation of these interpretations did not have a material impact on our results, assets liabilities.

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Segmental reporting

In addition to presenting the consolidated financial results and financial position in the financial statements, we provide a breakdown of those results and balances into our business segments. The presentation of segment information is based on management responsibilities that existed at 31 March 2008 and the external and regulatory environments in which we operate. Our business segments are Transmission UK, Transmission US, Gas Distribution UK, Gas Distribution US, Electricity Distribution & Generation US, with our nonregulated businesses, other operations and corporate activities, including business development, being aggregated within other activities. Our geographical segments reflect our principal activities in the UK and the US.

Discontinued operations comprise the Ravenswood generation station in New York City, KeySpan Communications and KeySpan Engineering Associates, the sales of which we expect to complete within one year of their acquisition date, together with our wireless infrastructure operations in the UK and the US, and the Basslink electricity interconnector in Australia which were sold on 3 April, 15 August and 31 August 2007 respectively.

Discontinued results in prior years also include the results of the four gas distribution networks sold on 1 June 2005. which had previously been part of our Gas Distribution UK seament.

The business segments presented are different from those presented in the 2006/07 Annual Report in that the Electricity Distribution US segment has changed its name to Electricity Distribution & Generation US, and stranded cost recoveries have been included within the Electricity Distribution & Generation US segment in line with our management structure. However, management performance for that segment is based on operating profit excluding stranded cost recoveries (in addition to excluding exceptional items and remeasurements) and so stranded cost recoveries are still separately identified within the financial statements given their importance in understanding our financial performance.

The activities of both the Gas Distribution US and Electricity Distribution & Generation US segments have expanded since last year as a consequence of the acquisition of KeySpan. Gas Distribution US now incorporates gas distribution activities in New York City, Long Island, Massachusetts and New Hampshire in addition to our existing upstate New York and Rhode Island gas distribution networks. Electricity Distribution & Generation US (formerly Electricity Distribution US) now incorporates the generation of power on Long Island, together with the operation of the Long Island electricity transmission and distribution network on behalf of the Long Island Power Authority.

Critical accounting policies

The application of accounting principles requires us to make estimates, judgements and assumptions that may affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the accounts. On an ongoing basis, we evaluate our estimates using historical experience, consultation with experts and other methods that we consider reasonable in the particular circumstances to ensure compliance with IFRS. Actual results may differ significantly from our estimates, the effect of which will be recognised in the period in which the facts that give rise to the revision become

Certain accounting policies have been identified as critical accounting policies, as these policies involve particularly complex or subjective decisions or assessments. The discussion of critical accounting policies below should be read in conjunction with the description of our accounting policies set out in our consolidated financial statements.

Our critical accounting policies and accounting treatments are considered to be:

Estimated economic lives of property. plant and eauipment

The reported amounts for depreciation of property, plant and equipment and amortisation of non current intangible assets can be materially affected by the judgements exercised in determining their estimated economic lives

Depreciation and amortisation in 2007/08 for continuing operations amounted to £940 million and £54 million respectively (2006/07: £830 million and £41 million, 2005/06: £844 million and

Carrying value of assets and potential for mpairments

The carrying value of assets recorded in the consolidated balance sheet could be materially consolidated balance sheet could be materially reduced if an impairment were to be assessed as being required. Our total assets at 31 March 2008 were £37,822 million, including £24,333 million of property, plant and equipment, £3,838 million of goodwill and £272 million of other intangible assets (31 March 2007: £28,389 million including £18,895 million, £1,480 million and £144 millior respectively).

Impairment reviews are carried out either when a change in circumstance is identified that indicates an asset might be impaired or, in the case of goodwill, annually. An impairment review involves calculating either or both of the fair value or the value in use of an asset or group of assets and comparing with the carrying value in the balance

These calculations involve the use of assumptions as to the price that could be obtained for, or the future cash flows that will be generated by, an asset or group of assets, together with an appropriate discount rate to apply to those cash

Revenue

Revenue includes an assessment of energy and accruals for transportation services, supplied to customers between the date of the last meter reading and the year end. Changes to the estimate of the energy or transportation services supplied during this period would have an impact on our reported results.

Our estimates of unbilled revenues at 31 March 2008 amounted to £511 million in the US and £243 million in the UK compared with £200 million and £246 million respectively at 31 March 2007.

Accounting policies continued

National Grid plc

Assets and liabilities carried at fair value

Certain assets and liabilities, principally financial investments, derivative financial instruments and certain commodity contracts are carried in the balance sheet at their fair value rather than historical cost.

The fair value of financial investments is based on market prices, as are those of derivative financial instruments where market prices exist. Other derivative financial instruments and those commodity contracts carried at fair value are valued using financial models, which include judgements on, in particular, future movements in exchange and interest rates as well as equity and commodity prices.

Hedge accounting

We use derivative financial instruments to hedge certain economic exposures arising from movements in exchange and interest rates or other factors that could affect either the value of our assets or liabilities or our future cash flows.

Movements in the fair values of derivative financial instruments may be accounted for using hedge accounting where we meet the relevant eligibility, documentation and effectiveness testing requirements. If a hedge does not meet the strict criteria for hedge accounting, or where there is ineffectiveness or partial ineffectiveness, then the movements will be recorded in the income statement immediately instead of being recognised in the statement of recognised income and expense or by being offset by adjustments to the carrying value of debt.

Pensions and other post-

Pensions and other post-retirement benefits recorded in the balance sheet benefit plans are calculated actuarially using a number of assumptions about the future, including inflation, salary increases, length of service and pension and investment returns, together with the use of a discount rate based on corrects bond yields to discount rate based on corporate bond yields to calculate the present value of the obligation.

The selection of these assumptions can have a significant impact on both the pension obligation recorded in the balance sheet and on the net charge recorded in the income statement.

Businesses held for sale

At 31 March 2008, the planned disposal of the Ravenswood generation station, KeySpan Communications and KeySpan Engineering Associates in the US are considered operations that meet the criteria to be classified as assets held for sale

At 31 March 2007, the planned exits of our wireless infrastructure operations in the UK and the US and our interconnector in Australia were considered to meet the criteria to be classified as assets held for

On 1 May 2005 four of our regional gas distribution networks met the criteria to be classified as held for sale, and the assets and liabilities of these businesses were classified accordingly and depreciation ceased from that date until their disposal on 1 June 2005.

The results of these operations have been classified as discontinued operations for all years

The determination of the date that the planned sales met the criteria to be classified as businesses held for sale is a matter of judgement by management, with consequential impact on balance sheet presentation and the amount recorded for depreciation in the results of the discontinued operations.

Exceptional items. remeasurements and stranded cost Exceptional items, remeasurements and stranded cost recoveries are items of income and expenditure that, in the judgement of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of our financial performance and distort the comparability of our financial performance between periods.

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 material changes in environmental or decommissioning provisions, integration of acquired businesses and gains or losses on disposals of businesses or investments.

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. These fair values increase or decrease as a consequence of changes in commodity and financial indices and prices over which we have no control.

Stranded cost recoveries relate to the recovery, through charges to electricity customers in upstate New York and in New England of costs mainly incurred prior to divestiture of electricity generation. These are expected to expire in 2011.

Provisions

Provisions are made for liabilities that are uncertain in estimate. These include provisions for the cost of environmental restoration and remediation, the decommissioning of nuclear facilities that we no longer own but still have a responsibility to contribute towards, restructuring and employer and public liability claims

Calculations of these provisions are based on estimated cash flows relating to these costs, discounted at an appropriate rate where the impact of discounting is significant. The total costs and timing of cash flows relating to environmental and decommissioning liabilities are based on management estimates supported by the use of management estimates supported by the use of external consultants.

At 31 March 2008, we have recorded provisions totalling £1,332 million (2007: £594 million), including £781 million and £87 million (2007: £372 million and £70 million) in respect of environmental liabilities and decommissioning respectively.

Tax estimates

Our tax charge is based on the profit for the year and tax rates in effect. The determination of appropriate provisions for taxation requires us to take into account anticipated decisions of tax authorities and estimate our ability to utilise tax benefits through future earnings and tax planning.

Our estimates and assumptions may differ from future events.

Energy commitments

Our energy commitments relate to contractual commitments to purchase electricity or gas to satisfy physical delivery requirements to our customers or for energy that we use ourselves. In management's judgement these commitments meet the normal purchase, sale or usage exemption in IAS 39 and therefore are not recognised in the financial statement

If these commitments were deemed not to meet the exemption under IAS 39 they would have to be carried on the balance sheet at fair value as derivative instruments, with movements in their fair value shown in the income statement under remeasurements.

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In order to illustrate the impact that changes in assumptions could have on our results and financial position, the following sensitivities are presented:

Asset useful lives

An increase in the useful economic lives of assets of one year on average would reduce our annual depreciation charge on property, plant and equipment by £37 million (pre-tax) and our annual amortisation charge on intangible assets by £9 million (pre-tax).

Revenue accruals A 10% change in our estimate of unbilled revenues at 31 March 2008 would result in an increase or decrease in our recorded net assets and profit for the year by approximately £48 million net of tax.

Assets carried at

A 10% change in assets and liabilities carried at fair value would result in an increase or decrease in the carrying value of derivative financial instruments and commodity contract liabilities of £109 million and £1 million respectively.

Hedge accounting

If the gains and losses arising on derivative financial instruments during the year ended 31
March 2008 had not achieved hedge accounting
then the profit for the year would have been
£21 million higher than that reported net of tax and net assets would have been £21 million lower.

Pensions and other post-retirement obligations

Our pension and post-retirement obligations are our pension and post-referent colligations are sensitive to the actuarial assumptions used. A 0.1% increase in the discount rate, a 0.5% increase in the rate of salary increases or an increase of one year in life expectancy would result in a change in the net obligation of £251 million, £131 million and £588 million and a change in the annual pension cost of £4 million, £5 million and £4 million respectively.

Provisions

A 10% change in the estimates of future cash flows estimated in respect of provisions for liabilities would result in an increase or decrease in net assets of approximately £133 million.

Accounting developments

Forthcoming changes in IFRS

The following accounting standards and interpretations have not yet been adopted, but are expected to be adopted in future periods.

Segment reporting

IFRS 8 changes the reporting requirements for segmental reporting and will apply with effect from 1 April 2009. If IFRS 8 had been adopted in 2007/08, there would have been no change in business segments reported. However, we would not have had to report on geographical segments.

Borrowing costs

An amendment to IAS 23 on borrowing costs will require interest to be capitalised into the cost of assets under construction. We already follow this policy and so this will have no impact.

concessions

IFRIC 12 on service concessions, to be adopted from 1 April 2008, requires assets operated on behalf of a public authority as a concession, where the asset reverts back to the public authority at the conclusion of the arrangement, to be recognised as a financial or intangible asset depending on whether income is recovered from the public authority or from users.

We do not operate any significant concessions of this type and so this is expected to have no

Customer loyalty

IFRIC 13, effective from 1 April 2008, requires the sale of goods or services and associated loyalty programmes to be accounted for as multi-elemer transactions. The separate elements will have to be fair valued and consideration allocated accordingly, which would defer recognition of an element of revenue.

We do not have any material loyalty programmes of this nature and so this will have no impact.

Pension assets and funding

IFRIC 14 on when net pension assets can be recognised in the balance sheet and on how to account for minimum funding requirements will apply with effect from 1 April 2008. In certain circumstances the recognition of an accounting surplus in a pension plan as an asset on the balance sheet may be restricted, or provision may be required for minimum funding requirements in excess of pension obligations recognised in the balance sheet.

This is not expected to have a significant effect on National Grid as the accounting surpluses that could arise in the majority of our current pension plan arrangements would not be restricted.

Presentation of financial statements

Amendment to IAS 1, effective 1 April 2009 changes the presentation of financial information but does not affect the amount of reported earnings or assets and liabilities. The principal changes are: the statement of recognised income and expense must immediately follow the income statement and must include separate tax disclosure on each gain or loss recognised outside the income statement; the statement of changes in equity will be presented as a primary statement; and there will be an option to rename the primary statements.

This will have a significant impact on the presentation of the 2009/10 financial statements as described above. However, there will be no impact on our results, assets or liabilities.

Business combinations IFRS 3R, expected to be adopted 1 April 2010. makes a number of changes to business combination accounting including: consideration payments fair valued at acquisition date; subsequent consideration payments at fair value through the income statement; changes to calculation of goodwill; and all transaction costs expensed.

IFRS 3R will be implemented prospectively and so will affect future acquisitions, possibly materially compared with how they would be accounted for under current standards. However, this change will have no impact on our current results, assets or

Non-controlling interests

IAS 27R, expected to be adopted in 2010, requires transactions with non-controlling (minority) interests to be recorder in equity:

We do not have any material minority interests and so this change will have no material impact.

Share-based payments

This amendment to IFRS 2, expected to be adopted 1 April 2009, clarifies the definition of vesting conditions and changes the accounting for cancellations. For cancellation, rather than reversing the previous expense any remaining expense will be accelerated.

This will affect the way we account for our Save as You Earn share schemes, however, due to the low levels of cancellations by employees in the past, we do not anticipate that this is likely to have a material impact on future results.

-inancial instrument presentation

Amendments to IAS 32 and IAS 1 require certain puttable financial instruments that impose an obligation to deliver a pro rata share of net assets on liquidation to be classified as liabilities.

We currently have no such instruments and so this will have no impact.

Independent Corporate Responsibility Report

National Grid plc

Independent Corporate Responsibility Report

Independent Accountants' Report on Corporate Responsibility to National Grid plc

We have been engaged to perform limited assurance procedures on selected corporate responsibility information contained in the Operating and Financial Review (OFR) included in the Company's Annual Report and Accounts for the year ended 31 March 2008.

The selected corporate responsibility information for the purpose of this report consists only of the information reported under the following headings in the OFR (the 'Corporate Responsibility Information'):

- Operating performance: Safety (including Health);
- Talent: Talent and skills, Engagement and performance, and Inclusion and diversity;
- Relationships: Suppliers and Community involvement;
- Environment: Climate change, Historically contaminated land, and Protecting the environment.

Our work comprised performing procedures to provide limited assurance with respect to:

- The design of processes for reporting by operational management to the Directors on material safety, health and environmental issues for the National Grid group;
- The collation of the 2007/08 greenhouse gas emissions data (Scope 1 and 2) reported under the heading 'Climate change' in the OFR; and
- The Company's verification procedures over the Corporate Responsibility Information.

We have not performed procedures with respect to information on KeySpan, which was acquired during the financial year.

Respective responsibilities of the Directors and PricewaterhouseCoopers LLP

The Directors of the Company are responsible for preparing the Corporate Responsibility Information based on the Company's corporate responsibility reporting principles (the 'Principles'), which includes their carbon reporting guidance based on the World Resources Institute Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (March 2004, revised edition). These Principles are available on the Company's website. Our responsibility is to express a conclusion on the Corporate Responsibility Information based on our limited assurance procedures

This report, including the conclusion, has been prepared for the Company to assist the Directors in reporting the Company's Corporate Responsibility performance and activities. We permit the disclosure of this report within the Annual Report and Accounts, to enable the Company's members to verify that the Directors have discharged their governance responsibilities by commissioning an independent limited assurance report in connection with the Corporate Responsibility Information and without assuming or accepting any responsibility or liability to the members on our part. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and the Company for our work or this report save where terms are expressly agreed and with our prior consent in writing.

Inherent limitations

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods adopted for the definition and gathering of information. There are no generally accepted reporting standards applicable for corporate responsibility information. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgements. It is important to read the data and statements in the context of the Principles. Furthermore, our work is based on historical information and the projection of any information or conclusions in this report to any future periods would be inappropriate.

Assurance work performed

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) — 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board (ISAE 3000). Our limited assurance procedures primarily comprised:

- Making enquiries of relevant management of the Company;
- Evaluating the design and implementation of processes for collating and reporting material safety, health and environmental information;
- Testing, on a selective basis, the collation of the greenhouse gas emission data by the Company;
- Reviewing a sample of relevant information including Board reports, reports to the Executive Committee and risk and compliance reports prepared and used within the Company; and
- Testing that management's internal verification processes with respect to the Corporate Responsibility Information have been completed.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement under ISAE 3000. A limited assurance engagement excludes reasonable assurance procedures such as testing the operating effectiveness of controls and verifying assets, liabilities and transactions in respect of the Corporate Responsibility Information. Our limited assurance procedures did not include work to verify the original source data including, for example, pipeline asset records or emission factor research.

Conclusion

On the basis of our limited assurance procedures, nothing has come to our attention which causes us to believe, for the year ended 31 March 2008, that:

- the Company's processes are not designed to report material safety, health and environmental issues for National Grid group, as identified by operational management, to the Directors;
- the greenhouse gas emissions data (Scope 1 and 2) reported under the heading 'Climate change' in the OFR has not been prepared in accordance with the Company's Principles; and
- the Corporate Responsibility Information is materially inconsistent with the Company's underlying records.

PricewaterhouseCoopers LLP, **Chartered Accountants, London** 14 May 2008

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

Name: NATIONAL GRID

Y59930.SUB, DocName: EX-15.1, Doc: 16, Page: 78

Description: EXHIBIT 15.1

E/O] CRC: 8830 EDGAR 2

Transmission



Gas Distribution





nationalgrid

Electricity Distribution & Generation



Non-regulated businesses and other



Corporate Governance

Governance framework

We are committed to the highest standards of corporate governance and to operating our businesses in a sustainable and responsible manner. Our corporate governance practices are based on the Combined Code on Corporate . Governance as revised in 2006 (the 'Code'), and consideration is given to current and developing best practice including matters contained in the various investor

The Board considers that it complied in full with the Code during the year except temporarily in respect of the requirement for at least half of the Board, excluding the Chairman, to consist of independent Non-executive

Following the appointments of Tom King and Bob Catell to the Board as Executive Directors, and the resignation of Paul Joskow as an independent Non-executive Director, during the year the Board consisted of the Chairman, seven Executive Directors and six independent Non-executive Directors. Following the announcement made in March 2008 regarding Edward Astle's departure, with effect from 30 April 2008, the Board consisted of the Chairman, six Executive Directors and six Non-executive Directors, in compliance with the Code. An additional independent Non-executive Director, Philip Aiken, joined the Company in May 2008.

The Board's role includes approval of the overall business strategy of National Grid; approval of the business plan and budget; approval of the financial policy; oversight of Policy and Procedure statements, Codes of Conduct, Delegations of Authority, Framework for Responsible Business and Standards of Ethical Business Conduct for all employees. The framework and standards described above, together with other documentation relating to National Grid's governance, are available on our website at www.nationalgrid.com.

The Board of National Grid during the year was composed as set out in the following table. Biographical details for all the Directors can be found on pages 12 and 13, together with details of Board Committee memberships. Attendance at Board meetings was as indicated from a total of 12 meetings:

Name	Attendance*
Chairman	
Sir John Parker	12 of 12
Chief Executive	
Steve Holliday	12 of 12
Executive Directors	
Bob Catell (from 25 September 2007) (Deputy Chairman)	7 of 7
Steve Lucas	11 of 12
Nick Winser	12 of 12
Tom King (from 13 August 2007)	7 of 7
Mark Fairbairn	12 of 12
Edward Astle	12 of 12
Non-executive Directors	
Ken Harvey (Senior Independent Director)	12 of 12
Linda Adamany	12 of 12
John Allan	10 of 12
Stephen Pettit	12 of 12
Maria Richter	12 of 12
George Rose	9 of 12
Paul Joskow (to 31 July 2007)	5 of 6

Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

Board members are required to attend Board and Committee meetings regularly. If they are unable to do so, the Chairman is informed and the reasons recorded. Instances of non attendance during the year were regarded as reasonable in each case due to the individual circumstances concerned. Non attendance at meetings is considered in the one-to-one director performance evaluation conducted by the Chairman.

In order to ensure that the Directors are kept informed, they are sent papers for meetings of the Board and those Committees of which they are a member. In the event that a Director is unable to attend a meeting, they are able to relay their views and comments via the relevant Committee chairman or the Chairman of the Board.

In accordance with the Articles of Association, Directors are submitted for re-election by shareholders at the first Annual General Meeting (AGM) following their initial appointment and then at subsequent AGMs at least once every three years. Further details regarding those Directors due for reelection at the 2008 AGM can be found in the Notice of 2008

The service contracts (Executive Directors) and letters of appointment (Non-executive Directors) of Board members are available to National Grid's shareholders and may also be inspected at the AGM prior to the meeting. Further details regarding the Directors' service contracts and letters of appointment can be found in the Directors' Remuneration Report on pages 100 to 110.

Non-executive Director independence

It is important that the Non-executive Directors bring experience, probity and independent challenge to the Board. Accordingly, the independence of the Non-executive Directors is considered at least annually as part of the performance evaluation conducted by the Nominations Committee. This assessment also considers the character, judgement and commitment of each Non-executive Director as well as their performance on the Board and relevant Committees. The Board takes into account service on the boards of either Lattice Group plc or National Grid Group plc prior to their merger in considering length of service as a Director of National Grid. Following such evaluation, each of the Non-executive Directors has been determined by the Board to be independent.

Roles of the Chairman, Chief Executive and Senior **Independent Director**

The Chairman and the Chief Executive have separate roles and responsibilities which have been approved by the Board. The Chairman's main responsibility is the leadership and management of the Board and its governance. His contractual commitment to National Grid is two days per week but in practice this is often exceeded. The Board is satisfied that the Chairman, and other Non-executive Directors if required, would be available as needed. The number and perceived responsibility of other directorships are considered as part of the performance evaluation.

The Chief Executive retains responsibility for the leadership and day-to-day management of the Company and the execution of its strategy as approved by the Board.

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

Y59930.SUB, DocName: EX-15.1, Doc: 16, Page: 80 Description: EXHIBIT 15.1

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The Senior Independent Director is Ken Harvey. His responsibilities include leading the Non-executive Directors' annual consideration of the Chairman's performance. He is also available to shareholders in the event they feel it inappropriate to communicate via the Chairman, the Chief Executive or the Finance Director. No such requests were received from shareholders during the year.

Director development

The Chairman, with the support of the Company Secretary & General Counsel, is responsible for the induction of new directors and ensuring that the existing Directors continually update their skills, knowledge and familiarity with National Grid and their roles as directors.

Upon appointment to the Board, new Non-executive Directors receive a tailored induction programme including the provision of recent Board materials and presentations one-to-one meetings with senior management and Executive Directors, and a directors' information pack to provide background reference information on the Company's businesses and operations including issues relating to corporate social responsibility.

Particular attention is given to current issues, emerging developments and director effectiveness. This includes, for Non-executive Directors:

- informing Directors at each Board meeting of the latest training courses which may be of interest to them;
- attendance at key site visits; and
- management presentations.

For Executive Directors, development programmes include:

- internal and external mentoring;
- attendance at external courses and business schools; and
- experience of other boardrooms through nonexecutive appointments.

With the agreement of the Board, and as part of their personal development, the Chief Executive, Steve Holliday, is a Non-executive Director of Marks and Spencer Group plc and Steve Lucas, Finance Director, is a Non-executive Director of Compass Group plc. Upon appointment, Bob Catell, Executive Director and Deputy Chairman, was a Nonexecutive Director of Keyera Energy Management Ltd, Sovereign Bancorp, Inc., Advisory Board and JP Morgan Chase Inc., Metropolitan Advisory Board. The fees for these positions are retained by the Director. Details are on page 104. The Company Secretary & General Counsel is a Nonexecutive Director of Aga Rangemaster Group plc and the fee is retained by her.

The services of the Company Secretary & General Counsel's department are available to the Directors and advice may also be sought from independent professional advisors at the Company's expense. During the year no independent professional advice was requested by the Directors other than that already provided to Committees by external advisors such as the consultants to the Remuneration Committee.

Performance evaluation

In each financial year since 2003/04, the Board has undertaken a formal evaluation of its performance and that of its Committees and individual Directors in order to review past performance and to develop future performance.

The Chairman led the overall process of evaluation which was, as in previous years, in the form of a confidential survey completed by all Directors in relation to the Board and any Committee of which they were a member, plus one-to-one meetings between the Chairman and each Director. Additionally, certain regular attendees at specific Committee meetings were asked to complete surveys in relation to the relevant Committee.

The Board considered the merit of using an external body to manage the performance evaluation process. It concluded that the current approach remained appropriate for the Company. This is reviewed annually.

The Company Secretary & General Counsel collated the evaluation results and these were considered. Overall the results for the evaluation carried out in 2007/08 were positive and indicated that the Board and Committees were effective and that no major changes were required. The Chairman's performance was reviewed and his leadership and performance were considered to have been of a high

Areas highlighted by the Board and Committees for consideration following the latest review included:

- a review of the rolling business agenda to include a greater emphasis on strategic external factors such as climate change;
- increasing the number of informal meetings of Board members; and
- consideration of the interaction between Committees.

In accordance with established practice, the Board and Committees review these matters in a formal response and action plan and will adopt new processes and procedures as appropriate.

Following the 2006/07 evaluation process, a number of actions were implemented during the year including:

- informing Directors at each Board meeting of the latest training courses which may be of interest to them;
- providing a programme of shareholder communications in a 'Shareholder Issues' update to the Board;
- devoting additional time to long term succession plans;
- in depth operational review sessions were held during the year where more time was assigned for certain key areas;
- producing more detailed guidance for Board and Committee papers and presentations to ensure information presented is clear and relevant; and
- new sub-committees of the Executive Committee were established to consider Social Policy and Global Retirement Plans respectively.

Corporate Governance continued

National Grid plc

The Board and its Committees

The Board reserves a number of matters for its sole consideration where these matters impact the strategic direction and effective oversight of the Company and its businesses. Examples include:

- corporate governance;
- strategy, finance and approval of the budget and business
- Director/employee issues such as Director succession planning (with input and recommendations from the Nominations Committee); and
- stock exchange and listing requirements such as dividend approval/recommendation and approval of results announcements and the Annual Report and Accounts.

In addition to the matters reserved to the Board, a full $% \left(1\right) =\left(1\right) \left(1\right) \left($ description of which is available on our website at www.nationalgrid.com, certain items are considered at every scheduled Board meeting including:

- safety, health and the environment;
- the financial status of the Company;
- operational headlines from the Company's businesses together with a detailed update from one of the lines of business on a rotating basis;
- updates on business development and strategy implementation;
- updates on external matters affecting the Company; and
- reports from the Company Secretary & General Counsel including an update on the administration and governance of the Company and its businesses.

The Chairman and Non-executive Directors meet formally at least once a year without any management present and formally at least once a year with the Chief Executive. These meetings provide an opportunity for the Non-executive Directors to consider issues relating to the overall governance and management of the Company. In addition, there are ad hoc meetings as required.

The Board has delegated authority to its Committees to carry out certain tasks as defined in the Committees' terms of reference, which are available on our website at www.nationalgrid.com. These comprise the Audit, Executive, Finance, Nominations, Remuneration and Risk & Responsibility Committees. By delegating authority for the consideration of policy and oversight of specific items to these Committees, the Board ensures these items are given appropriate attention in terms of both time and priority.

The Board is kept appraised by the Committee chairmen through the provision of a summary of the issues discussed and decisions taken by the Committee. Draft minutes of Committee meetings are circulated to other Directors once available.

The following sections explain the areas that each Committee has responsibility for and the items that they covered during the year.

Audit Committee

A key function of the Audit Committee is to review the effectiveness of the Company's financial reporting and internal control policies and the procedures for the identification, assessment and reporting of risks

As a consequence of the oversight role of the Committee and in order to maintain independence from management, the members of the Committee, including its chairman, are all independent Non-executive Directors. The Committee does however consider that both management and the external auditors should attend meetings where possible in order to provide the members of the Committee with the information that they require and to answer questions on areas that are within the Committee's remit.

Accordingly, others invited to attend meetings include the Chairman, the Chief Executive, the Finance Director, the Head of Internal Audit, the Financial Controller, the Company Secretary & General Counsel and the external auditor. Additionally, the Executive Directors, the Director of Tax and Treasury and the Risk & Compliance Manager are invited to attend Audit Committee meetings as necessary to provide updates and background information.

In order that the Committee is kept informed of developments, meetings are held at least four times a year. Membership and attendance at meetings was as follows during 2007/08 from a total of 6 meetings:

Name	Attendance*
George Rose (chairman)	6 of 6
Linda Adamany	6 of 6
John Allan	4 of 6
Maria Richter	6 of 6

Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

In order that the Committee can fulfil its obligations, and as a consequence of the technical nature of some of the financial and accounting issues that come before it, the Committee regards it as important that all of its members have an understanding of financial matters and experience of dealing with financial issues at a senior executive level. In addition, the Board has determined that George Rose, Finance Director of BAE Systems plc, has recent and relevant financial experience and deems him to be a suitably qualified financial expert as required by the Audit Committee's terms of reference.

Auditors

- non-audit fees and consultancy spend undertaken by the external auditor, with the auditor not present;
- the independence and objectivity of the external auditor;
- an evaluation of the external audit process;
- reviewing audit related matters following the KeySpan acquisition; and
- monitoring and reviewing the effectiveness of internal audit activities.

Financial

- reviewing the effectiveness of the Company's financial reporting, internal controls and compliance with Sarbanes-Oxley Act requirements;
- monitoring risk and compliance management procedures across the Company and reviewing specific risks;
- receiving reports from the Business Separation Compliance Officer, as required under National Grid Gas plc's gas transporter licences:
- receiving reports from the Director of Tax and Treasury;
- reviewing the Company's results statements and Annual Report and Accounts before publication and making appropriate recommendations to the Board following review:
- reviewing the content of Interim Management Statements;
- receiving reports on business conduct issues; and
- reviewing accounting policies.

Governance

- reviewing the Committee's own performance and constitution following the annual performance evaluation;
- reviewing the Committee's forward business schedule.

The Committee works closely with both the internal and external auditors. It receives and reviews the internal audit plan and ensures that the internal audit function has sufficient resources to carry out its work. The appointment and removal of the Head of Internal Audit is subject to the approval of the Committee.

Subject to annual shareholder approval at the AGM, the Committee is solely and directly responsible for and approves the appointment, reappointment, fees and oversight of the external auditor. Meetings are held at least annually with the external auditor without management

In order to ensure objectivity and independence of the external auditor, all non-audit work carried out by the external auditor is subject to Audit Committee pre-approval. Details of the fees paid to the external auditor for both audit and non-audit work carried out during the year can be found in note 3e to the accounts on page 130.

A review is carried out annually of the service provided by the external auditor, and subject to the outcome of this review, the Company may put the audit out to tender. Following the latest review, the service was considered satisfactory

Executive Committee

Within the authorities delegated to the Committee by the Board, the key tasks of the Committee are to oversee the financial, operational and safety performance of the Company. The Committee is tasked with implementing the strategy approved by the Board. The Committee comprises the Chief Executive, who is its chairman, the Executive Directors and the Company Secretary & General Counsel.

Executive Committee membership and attendance at meetings was as follows during 2007/08 from a total of 12 meetings:

Name	Attendance*
Steve Holliday (chairman)	12 of 12
Bob Catell (from 25 September 2007)	6 of 6
Edward Astle	11 of 12
Mark Fairbairn	12 of 12
Steve Lucas	10 of 12
Tom King (from 13 August 2007)	8 of 8
Nick Winser	11 of 12
Helen Mahy, Company Secretary & General Counsel	12 of 12

Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

In addition, the Global Director of Human Resources and Global Head of IS are regular attendees of meetings. Senior management personnel are invited to attend meetings of the Executive Committee as necessary to keep it fully appraised of the Company's businesses. Attendance of key management personnel at Executive Committee and other Board and Committee meetings is monitored by the Executive Committee as part of the Board's succession planning and development programmes.

In accordance with its remit, the Executive Committee is responsible for the day-to-day management of the Company and its businesses. During the year, items that the Committee considered included:

- the financial, operational and safety performance of the Company and its businesses;
- strategic business development and implementation including the integration of the KeySpan businesses acquired during year and the retention of the UK property
- approving capital and operational expenditure under the specific authorities delegated to it by the Board;
- reviewing governance issues;
- global human resource leadership; and
- global IS strategic issues.

At each meeting there are in depth review sessions on key business areas for the Company.

Corporate Goverance continued

National Grid plc

Finance Committee

The Finance Committee is responsible for setting policy and granting authority for short-term and long-term financing decisions and for recommending for consideration by the Board the treasury, tax, pensions and insurance management policies of the Company. The Finance Committee is made up of two Non-executive Directors, one of whom is chairman of the Committee, and the Chief Executive and Finance Director.

Finance Committee membership and attendance at meetings was as follows during 2007/08 from a total of 4 meetings:

3	
Name	Attendance*
Maria Richter (chairman from 31 July 2007)	4 of 4
Steve Holliday	4 of 4
Steve Lucas	4 of 4
Stephen Pettit	4 of 4
Paul Joskow (chairman to 31 July 2007)	2 of 2

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

The Director of Tax and Treasury is invited to attend Committee meetings on a regular basis.

Items that the Committee considered during the year included:

- long-term funding requirements;
- setting and reviewing treasury management guidelines and policy in light of market conditions;
- funding the acquisition of KeySpan;
- the progress of the ordinary share buyback programme;
- taxation issues for the Company;
- treasury performance updates;
- the repurchase and cancellation of the 'B' shares;
- insurance updates;
- effects on the Company of the 'credit crunch' in the banking sector;
- pensions updates; and
- granting authority for parent and subsidiary companies to enter into guarantees and indemnities under the Committee's delegated authority.

Nominations Committee

The Nominations Committee is responsible for regularly reviewing the structure, size and composition of the Board and for identifying and nominating individuals to be Directors and senior management. Such appointments and changes to the Board require Board approval following recommendations from the Committee. External recruitment consultants are used and this procedure was followed for the appointment of Philip Aiken as a Non-executive Director in May 2008.

In order to ensure objectivity and independence, the chairman and members are all Non-executive Directors.

Nominations Committee membership and attendance at meetings was as follows during 2007/08 from a total of 9 meetings:

meetinge.	
Name	Attendance*
Sir John Parker (chairman)	9 of 9
Ken Harvey	9 of 9
Maria Richter (from 31 July 2007)	6 of 6
George Rose	7 of 9
Paul Joskow (to 31 July 2007)	3 of 3

Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

The Chief Executive is invited to attend Nominations Committee meetings on a regular basis. Advice is sought from the Global Director of Human Resources and external advice is sought when appropriate.

- During the year the Committee:

 reviewed the size of the Board, its structure and composition:
- reviewed and recommended changes to the composition of Board Committees:
- recommended individuals for appointment to the Board, including the appointments of Tom King and Philip Aiken;
- considered succession planning for Board members; and
- reviewed development and succession plans for senior management, as developed by the Chief Executive and the Global Director of Human Resources.

Remuneration Committee

The Remuneration Committee is responsible for developing Company policy regarding executive remuneration and for determining the remuneration of the Executive Directors and executives below Board level who report directly to the Chief Executive. It also monitors the remuneration of other senior employees of the Company and provides direction over the Company's share plans. All members of the Committee are Non-executive Directors.

The Remuneration Committee determines remuneration policy and practices with the aim of attracting, motivating and retaining high calibre Executive Directors and other senior employees to deliver value for shareholders and high levels of customer service, safety and reliability in an efficient and responsible manner. The Remuneration Committee sets remuneration policies and practices in line with best practice in the markets in which the Company operates.

Further details of the policy on remuneration and details of individual remuneration are available in the Directors Remuneration Report on pages 100 to 110.

Remuneration Committee membership and attendance at meetings was as follows during 2007/08 from a total of 7 meetings:

Name	Attendance*
John Allan (chairman)	6 of 7
Ken Harvey	7 of 7
Stephen Pettit	7 of 7
George Rose	7 of 7

Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

The Global Director of Human Resources and Global Head of Compensation & Benefits provide advice on remuneration policies and practices and are usually invited to attend meetings, along with the Chairman and the Chief Executive.

No Director or other attendee is present during any discussion regarding his or her own remuneration.

Risk & Responsibility Committee
The Risk & Responsibility Committee is tasked with proactively reviewing the strategies, policies, management, initiatives, targets and performance of the Company within the responsible business framework. Accordingly, it reviews matters such as public and process safety, the environment, occupational health, inclusion and diversity, security and human rights, and business ethics and conduct.

Risk & Responsibility Committee membership and attendance at meetings was as follows during 2007/08 from a total of 4 meetings:

3	
Name	Attendance*
Stephen Pettit (chairman)	4 of 4
Linda Adamany	4 of 4
Ken Harvey	4 of 4
Bob Catell (from 25 September 2007)	2 of 2
Maria Richter (to 1 September 2007)	1 of 1

Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

The Chief Executive, the Company Secretary & General Counsel, the Director of UK Safety, Health and Environment and Corporate Security and the US Senior VP Safety, Health and Environment are invited to attend Risk & Responsibility Committee meetings. Executive Directors and others, including business representatives, are invited to attend as necessary.

During the year, the Committee:

- considered the current and projected environmental impact of the Company, including climate change;
- considered specific identified future risks and plans for
- minimising such risks; reviewed safety, health and environment audit plans and the outcome of such audits;
- reviewed serious incident reports;
- reviewed reports on business conduct issues;
- reviewed progress in embedding a process safety culture;
- considered reports and updates from external advisors.

The Committee members made site visits during the year to:

- a key London substation; and
- the London 2012 Olympics site powerlines undergrounding project.

Disclosure Committee

National Grid has established disclosure committees that are tasked with various duties relating to the material disclosures made by the Company and relevant subsidiaries. The National Grid Disclosure Committee is chaired by the Finance Director and its members are the Company Secretary & General Counsel, the Group Director of Tax and Treasury, the Financial Controller, the Director of Investor Relations, the Head of Internal Audit and the Corporate Counsel and Head of Company Secretariat and such other members and/or attendees as the Committee from time to time considers appropriate.

The Committee's role is to assist the Chief Executive and the Finance Director in fulfilling their responsibility for oversight of the accuracy and timeliness of the disclosures made by the Company. Accordingly, the Committee reviewed during the year the process and controls over external disclosures and reviewed key documents before release including the Annual Report and Accounts, Interim Management Statements and other material stock exchange announcements and presentations to analysts.

Shareholders

The Board has responsibility for ensuring effective communication takes place with shareholders and it considers carefully all major announcements to the market. The Board also believes it important to consider the views and opinions of shareholders including on such matters as strategy and governance.

Relations with shareholders are managed mainly by the Chief Executive, the Finance Director and the Director of Investor Relations. Meetings are held regularly throughout the year with institutional investors, fund managers and analysts to discuss the public disclosures and announcements made by the Company.

The Chairman also writes to major shareholders following the announcement of the Company's interim and preliminary results to offer them the opportunity to meet him, the Senior Independent Director or any of the Non-executive Directors. This specifically enables major shareholders to take up with these individuals any issue they feel unable to raise with the Chief Executive and Finance Director. Major shareholders are also invited to meet newly appointed Directors.

In order that all Board members are made aware of and understand the views of shareholders about the Company, the Board receives feedback on shareholders' views from the Company's brokers, supported by the Director of Investor Relations. Notes from a number of analysts in the energy sector are also circulated regularly to Directors.

Change of control provisions

As at 31 March 2008, the Company had borrowing facilities with a number of its banks in the amounts of US\$3.0 billion (undrawn) and £0.8 billion (drawn) which, on a change of control of the Company following a takeover bid, may alter or terminate.

All of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

Corporate governance practices: differences from New York Stock **Exchange**

(NYSE) listing standards

The corporate governance practices of the Company are primarily based on UK requirements but substantially conform to those required of US companies listed on the NYSE. The principal differences between the Company's governance practices pursuant to the Combined Code and UK best practice and the Section 303A Corporate Governance Rules of the NYSE are:

- different tests of independence for Board members are applied under the Combined Code and Section 303A;
- there is no requirement for a separate corporate governance committee in the UK; all Directors on the Board discuss and decide upon governance issues and the Nominations Committee makes recommendations to the Board with regard to certain of the responsibilities of a corporate governance committee;

Corporate Governance continued

National Grid plc

- while the Company reports compliance with the Combined Code in each Annual Report and Accounts, there is no requirement to adopt and disclose separate corporate governance guidelines; and
- while the Audit Committee, having a membership of four independent Non-executive Directors, exceeds the minimum membership requirements under Section 303A of three independent Non-executive Directors, it should be noted that the quorum for a meeting of the Audit Committee, of two independent Non-executive Directors, is less than the minimum membership requirements under Section 303A.

Internal control

In order to understand the risks and potential control issues facing the Company, the following sections as well as page 16 in the Operating and Financial Review should be considered. The Board considers that a sound system of internal control contributes to safeguarding the Company's assets and reputation, and, as a result, shareholder investments. Effective operational and financial controls, including the maintenance of qualitative financial records, are an important element of internal control. The Board further considers that internal controls help manage, but not eliminate, risk and that these controls can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board is responsible for the Company's system of internal control and monitoring its effectiveness. It has in place an established system of internal control to be observed throughout the Company and its businesses, which it believes satisfies this responsibility.

The system of internal control depends on thorough and systematic processes for the identification and assessment of business-critical risks, including the impact of material non-compliance with legal, regulatory and internal governance requirements, and their management and monitoring over time. This system generates reports from both line managers and certain independent assurance providers such as Internal Audit and Risk & Compliance.

The Board's Committees receive reports on the Company's system of internal control as appropriate in relation to their specific areas of responsibility. The Board's Committees' reports to the Board include updates in this regard.

The Board formally reviews the effectiveness of the Company's system of internal control on an annual basis to ensure it remains robust and to identify any control weaknesses. The latest review covered the financial year to 31 March 2008 and included the period to the approval of this Annual Report and Accounts.

This review includes:

- the receipt of a Letter of Assurance from the Chief Executive, which consolidates key matters of interest raised through the year-end assurance process;
- assurance from its Committees as appropriate, with particular reference to the reports received from the Audit and Risk & Responsibility Committees on the reviews undertaken by them at their respective Committee meetings; and
- assurances in relation to the Company's Sarbanes-Oxley certifications, required as a result of its NYSE listing.

Internal control – information assurance

The Board considers that it is imperative to have accurate and reliable information within the Company. This is supported by a risk-based, holistic approach that deals with information assurance as a business critical function. This approach ensures accurate and reliable information is available to those who need it in a timely fashion, thus enabling informed decisions that support and further Company objectives.

We manage a broad range of risks in relation to information assurance. Key elements in managing these risks are education, training and awareness. These initiatives emphasise the importance of information security, the quality of data collection and the affirmation process that supports our business transactions, evidencing our decisions and actions. The Company continues to work collaboratively with a variety of organisations and professional bodies to develop and implement best practice.

Internal control over financial reporting - Sarbanes-**Oxley**

National Grid has carried out an assessment of its internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act, the requirements of which the Company is subject to as a result of its listing on the NYSE. The management of the Company, which is responsible under the Act for establishing and maintaining an adequate system of internal control over financial reporting, evaluated the effectiveness of that system using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Based on that evaluation, the management of the Company expects to conclude in its Annual Report on Form 20-F filing with the US Securities and Exchange Commission that the system of internal control over financial reporting was effective as at 31 March 2008.

Because KeySpan was acquired by National Grid during the financial year ended 31 March 2008, it was not required to be included in management's assessment of internal control over financial reporting for the year ended 31 March 2008 and, therefore, management have excluded it from its assessment. KeySpan is a wholly-owned subsidiary whose total assets and total revenue represented approximately 25% and 23%, respectively, of the related consolidated financial statement amounts for the year ended 31 March 2008.

Risk management

Understanding and managing risks is integral to the way we run our business. We continue to have a well established enterprise-wide risk management process that ensures risks are consistently assessed, recorded and reported in a visible, structured and continuous manner, the outputs of which are primarily used as a management tool. A secondary and natural output from this process is information that provides assurance to management at all levels and thus helps safeguard our assets and reputation. It has been designed to manage rather than eliminate material risks to the achievement of our strategic and business objectives while also recognising that any such process can provide only reasonable, and not absolute, assurance against material misstatement or loss. This process complies with the Turnbull working party guidance (revised October 2005) and, in addition, contributes toward our compliance with our obligations under the Sarbanes-Oxley Act as well as other internal assurance activities.

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Risk management in National Grid has become embedded over time and our experience of this has enabled us to identify a number of key success criteria linked to both the risk management framework and process that, if in place, will help ensure the process continues to remain embedded. Understanding this in the context of a Company that has changed considerably in size and geographic coverage since 2000 has been invaluable in helping to integrate different risk management processes seamlessly and effectively. For example, with regard to KeySpan we had already started to align process expectations prior to completion of the acquisition and because of this foresight are now making positive strides towards process consistency across our US and UK lines of business.

Within existing businesses, the risk management process continues to be based on both bottom-up and top-down assessments of operational, financial and other business or project risks. From the bottom up, business units and Corporate Centre functions prepare and maintain risk registers that capture their key risks and the actions being taken to manage them. The key element in the top-down assessment of our enterprise-wide risk profile is the involvement of the Executive Directors and other senior management at critical stages in the review process. Their review, challenge, and debate of the outputs of the bottomup assessment against their top-down perceptions produce an overall evaluation of the risks that are faced by National Grid. Graphics that set out the Company's risk profile and any significant changes to this between reporting periods have been designed to aid debate by the Executive, Risk & Responsibility and Audit Committees twice a year. The Audit Committee also reviews the risk management process at least once a year and reports on this to the Board.

During the year, we have benefited from this process through continued coordination with the Internal Audit function, Sarbanes-Oxley teams, and the Insurance team. The external benchmarking exercise has continued with a deliberate focus on energy utilities in similar lines of business to measure the effectiveness of our own approach and exchange ideas on best practice. We have completed the restructuring of risk and compliance services to deliver the support required by our global lines of business and to ensure approaches are consistent across the US and UK and continue to provide value to business operations, including major projects.

Our risk management process has identified the risk factors set out opposite.

Compliance management

Our enterprise-wide compliance management process is established and continues to raise visibility over key obligations. The process provides assurance to the Executive Directors and senior management on the effectiveness of control frameworks to manage key internal and external obligations, and also highlights instances of significant non-compliance with those obligations. External obligations are driven primarily by key legal and regulatory requirements whereas internal obligations focus more on compliance with National Grid's own corporate policies and procedures. A network of compliance coordinators and champions exists within the businesses and Corporate Centre functions to enable the top-down/bottom-up alignment of Executive Directors' obligations to be established and reported.

Furthermore, experts for each key obligation interface with relevant business contacts to ensure the quality of information reported upwards is validated. The compliance management process is consistent with, and complementary to, our risk management process and essentially provides, among other things, a more detailed breakdown of the risk of non-compliance with laws, regulations or standards of service as well as corporate policies and procedures.

Twice a year the Executive, Risk & Responsibility and Audit Committees receive a report setting out the key obligations across National Grid and any significant non-compliance with those obligations, together with compliance opinions and action plans to improve controls where necessary. As with the risk management process, the Audit Committee also reviews the compliance management process at least once a year and reports on this to the Board. The compliance management process also contributes toward the entity level testing that is performed under the Sarbanes-Oxley Act, as well as some of our other internal assurance activities. Opportunities to benchmark our process with other similar organisations remain limited but positive internal feedback indicates it remains fit for purpose for National Grid and reflects best practice.

Risk factors

Our risk management process has identified the following risk factors that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities. Not all of these factors are within our control. In addition, other factors besides those listed below may have an adverse effect on National Grid. Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on page 192.

Changes in law or regulation could have an adverse effect on our results of operations.

Many of our businesses are utilities or networks that are subject to regulation by governments and other authorities. Consequently, changes in law or regulation in the countries or states in which we operate could adversely affect us. Regulatory decisions concerning, for example, whether licences or approvals to operate are granted or are renewed, whether there has been any breach of the terms of a licence or approval, recovery of incurred expenditure, the level of permitted revenues and dividend distributions for our businesses and proposed business development activities could have an adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future. For further information, see the Operating and Financial Review and, in particular, the 'External market and regulatory environment' and 'Current and future development' sections and the business description sections for each of our lines of business.

Corporate Governance continued

National Grid plc

Breaches of, or changes in, environmental or health and safety laws or regulations could expose us to claims for financial compensation and adverse regulatory consequences, as well as damaging our reputation.

Aspects of our activities are potentially dangerous, such as the operation and maintenance of electricity generation facilities and electricity lines and the transmission and distribution of gas. Electricity and gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so; for example, the effects of electric and magnetic fields. We are subject to laws and regulations relating to pollution, the protection of the environment, and how we use and dispose of hazardous substances and waste materials. These expose us to costs and liabilities relating to our operations and our properties whether current, including those inherited from predecessor bodies, or formerly owned by us. We are also subject to laws and regulations governing health and safety matters protecting the public and our employees. We commit significant expenditure toward complying with these laws and regulations and to meeting our obligations under negotiated settlements. If additional requirements are imposed or our ability to recover these costs changes, this could have a material impact on our businesses and our results of operations and financial position. Any breach of these obligations, or even incidents that do not amount to a breach, could adversely affect our results of operations and our reputation.

For further information about environmental and health and safety matters relating to our businesses, see the 'Our Responsibility' section of our website at www.nationalgrid.com.

Network failure, the inability to carry out critical non-network operations and damage to infrastructure may have significant adverse impacts on both our financial position and

We may suffer a major network failure or may not be able to carry out critical non-network operations. Operational performance could be adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand or inadequate record keeping. This could cause us to fail to meet agreed standards of service or be in breach of a licence or approval, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation. In addition to these risks, we may be affected by other potential events that are largely outside our control such as the impact of weather or unlawful acts of third parties. Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure will adversely affect operational and potentially business performance and our reputation. Terrorist attack, sabotage or other intentional acts may also damage our assets or otherwise significantly affect corporate activities and as a consequence have an adverse impact on the results of operations.

Our results of operations depend on a number of factors relating to business performance including performance against regulatory targets and the delivery of anticipated cost and efficiency savings.

Earnings maintenance and growth from our regulated gas and electricity businesses will be affected by our ability to meet or exceed efficiency and integration targets and service quality standards set by, or agreed with, our regulators. In addition, from time to time, we publish cost and efficiency savings targets for our businesses. We have also substantially completed reorganising our operations along lines of business. To meet these targets and standards, we must continue to improve operational performance, service reliability and customer service. If we do not meet these targets and standards, or we do not complete implementation of this reorganisation as envisaged, we may not achieve the expected benefits, our business may be adversely affected and our performance, results of operations and our reputation may be harmed.

Business development activity, including acquisitions and disposals, may be based on incorrect assumptions or conclusions; significant liabilities may be overlooked or there may be other unanticipated or unintended effects

Business development activities, including acquisitions and disposals, may be based on incorrect assumptions or conclusions; significant liabilities may be overlooked or there may be other unanticipated or unintended effects. There is no certainty that planned levels of synergy and efficiency savings from acquisitions, such as our acquisition of KeySpan, will be achieved. This could impact our ability to enter into other transactions.

For further details concerning the acquisition of KeySpan and other transactions that we have undertaken over the period, see the 'Performance against our objectives' section of the Operating and Financial Review on page 26.

Changes to the regulatory treatment of commodity costs may have an adverse effect on the results of operations

Changes in commodity prices could potentially impact our energy delivery businesses. Current regulatory arrangements in the UK and the US provide the ability to pass through virtually all of the increased costs related to commodity prices to consumers. However, if regulators in the UK or the US were to restrict this ability, it could have an adverse effect on our operating results.

Our reputation may be harmed if consumers of energy suffer a disruption to their supply.

Our energy delivery businesses are responsible for transporting available electricity and gas. We consult with, and provide information to, regulators, governments and industry participants about future demand and the availability of supply. However, where there is insufficient supply, our role is to manage the relevant network safely which, in extreme circumstances, may require us to disconnect consumers, which may damage our reputation.

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Fluctuations in exchange rates, interest rates and commodity price indices, in particular in the US dollar, could have a significant impact on our results of operations because we have substantial business interests in the US and because of the significant proportion of our borrowings, derivative financial instruments and commodity contracts that may otentially be affected by such fluctuations

We have significant operations in the US and we are therefore subject to the risks normally associated with nondomestic operations, including the need to translate US assets and liabilities, and income and expenses, into sterling, our primary reporting currency. In addition, our results of operations may be affected because a significant proportion of our borrowings, derivative financial instruments and commodity contracts are affected by changes in exchange rates, interest rates and commodity price indices, in particular the US dollar to sterling exchange rate.

For further information see the 'Performance against our objectives' section of the Operating and Financial Review.

Our financial position may be adversely affected by a number of factors including restrictions in borrowing and debt arrangements, changes to credit ratings, adverse changes in the global credit markets and effective tax rates

We are subject to certain covenants and restrictions in relation to our listed debt securities and our bank lending facilities. We are also subject to restrictions on financing that have been imposed by regulators. These restrictions may hinder us in servicing the financial requirements of our current businesses or the financing of newly acquired or developing businesses. Some of our debt is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and the cost of those borrowings. Our borrowing capacity and cost of borrowing could also be affected by adverse changes in the global credit markets. The effective rate of tax we pay may be influenced by a number of factors including changes in law and accounting standards, the results of which could increase that rate.

Future funding requirements of our pension schemes could adversely affect our results of operations.

We participate in a number of pension schemes that together cover substantially all our employees. In both the UK and the US, the principal schemes are defined benefit schemes where the scheme assets are held independently of our own financial resources. Estimates of the amount and timing of future funding for these schemes are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require us to make additional contributions to these pension schemes which, to the extent they are not recoverable under our price controls or state rate plans, could adversely affect our results of operations

New or revised accounting standards, rules and interpretations could have an adverse effect on our reported financial results

The accounting treatment under International Financial Reporting Standards (IFRS), as adopted by the European Union, of replacement expenditure, regulatory assets, pension and post-retirement benefits, derivative financial instruments and commodity contracts significantly affect the way we report our financial position and results of operations. As a body of practice develops for IFRS, the application and interpretation of accounting principles to our circumstances, and to those areas in particular, could result in changes in the financial results and financial position that we report. In addition, new standards, rules or interpretations may be issued that could also have significant effects.

Customers and counterparties to our transactions may fail to perform their obligations, or arrangements we have may be terminated, which could harm our results of operations.

Our operations are exposed to the risk that customers and counterparties to our transactions that owe us money or commodities will not perform their obligations, which could cause us to incur additional costs. This risk is most significant where our subsidiaries have concentrations of receivables from gas and electricity utilities and their affiliates, as well as industrial customers and other purchasers and may also arise where customers are unable to pay us as a result of increasing commodity prices.

A substantial portion of our KeySpan businesses' revenues are derived from a series of agreements with the Long Island Power Authority (LIPA) pursuant to which we manage LIPA's transmission and distribution system and supply the majority of LIPA's customers' electricity needs. These operating agreements provide LIPA with the right to terminate the agreements for poor performance or upon the occurrence of certain other limited events of default.

Our operating results may fluctuate on a seasonal and quarterly basis

Our electricity and gas businesses are seasonal businesses and are subject to weather conditions. In particular, revenues from our gas distribution networks in the US are weighted towards the end of our financial year, when demand for gas increases due to colder weather conditions. As a result, we are subject to seasonal variations in working capital because we purchase gas supplies for storage in the first and second quarters of our financial year and must finance these purchases. Accordingly, our results of operations for this business fluctuate substantially on a seasonal basis. In addition, portions of our electricity businesses are seasonal and subject to weather and related market conditions. Sales of electricity to customers are influenced by temperature changes. Significant changes in heating or cooling requirements, for example, could have a substantial effect. As a result, fluctuations in weather and competitive supply between years may have a significant effect on our results of operations for both gas and electricity businesses.

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Directors' Report

for the year ended 31 March 2008

In accordance with the requirements of the Companies Acts and UK Listing Authority's Listing, Disclosure and Transparency Rules, the following sections describe the matters that are required for inclusion in the Directors Report and were approved by the Board. Further details of matters required to be included in the Directors' Report are incorporated by reference into this report, as detailed.

Directors

The biographies of the persons serving as Directors as at the date of this report are set out on pages 12 and 13. The names of all persons serving as Directors during the financial year are included on page 110, detailed in the table setting out Directors' beneficial interests. The Directors' interests in shares and in options to receive shares, and any changes that have occurred since 31 March 2008, are set out in the Directors' Remuneration Report on pages 100 to 110.

Directors' and Officers' liability insurance cover is arranged and qualifying third party indemnities are in place for each Director.

Code of ethics

In response to US requirements, the Board has adopted a Code of Ethics for senior financial professionals. This code is available on our website at www.nationalgrid.com (where any amendments or waivers will also be posted). There were no amendments to, or waivers of, our Code of Ethics during the year.

Principal activities and business review

A full description of the Company's principal activities, business and principal risks and uncertainties is contained in the Operating and Financial Review (OFR), on pages 14 to 87, and the Corporate Governance section, on pages 88 to 97, which are incorporated by reference into this report.

Dividends

The Directors are recommending a final dividend of 21.3 pence per ordinary share (\$2.0497 per American Depositary Share) be paid on 20 August 2008 to shareholders on the Register at 6 June 2008. Further details in respect of dividend payments can be found on page 190.

Political donations and expenditure

National Grid made no political donations in the UK or European Union during the year (including donations as defined for the purposes of the Political Parties, Elections and Referendums Act 2000). National Grid USA and certain subsidiaries made political donations in the US of \$70,000 (£34,804) during the year. Additionally, National Grid USA's political action committees gave \$56,656 (£28,170) to political and campaign committees in the US in 2007/08. The foregoing amounts do not include KeySpan and its subsidiaries. KeySpan has given \$37,015 (£18,604) to political and campaign committees since acquisition in . August 2007.

Charitable donations

During 2007/08 some £9.2 million (2006/07: £9 million) was invested in support of community initiatives and relationships. The London Benchmarking Group model was used to assess this overall community investment. Direct donations to charitable organisations amounted to £600,000 (2006/07: £2.9 million). In addition to our charitable donations, financial support was provided for our Affordable Warmth Programme, education programme, university research and our 'Young Offenders Into Work Programme'.

Financial instruments

Details on the use of financial instruments and financial risk management are included on pages 75 to 78 in the OFR.

Post-balance sheet events

There have been no material post-balance sheet events.

Change of control provisions

The significant agreements that are affected upon a change of control of the Company on page 93 of the Corporate Governance section are incorporated by reference into this report. No compensation would be paid for loss of office of Directors on a change of control of the Company. A minimal number of employees have legacy change of control provisions in their existing contracts of employment in line with their notice periods. New contracts of employment do not contain change of control provisions.

Future developments

Details of future developments are contained in the OFR.

Research and development

Expenditure on research and development during the year was £13.5 million (2006/07: £6 million).

Share capital

At the Company's 2007 Annual General Meeting (AGM) shareholder authority was given to purchase up to 10% of the Company's ordinary shares. The Directors intend to seek shareholder approval to renew this authority at this year's

The Company's interim results statement for the six months to 30 September 2006 included the announcement of a share repurchase programme to return around \$1.9 billion (£1 billion) to shareholders. The ordinary share repurchase programme commenced on 20 November 2006 and in May 2007 it was extended to return £1.8 billion of the proceeds of the sale of our wireless businesses. As at the date of this report, 213,642,418 ordinary shares (representing approximately 8.5% of our issued share capital) had been repurchased for an aggregate consideration of £1,605 million. Of the shares repurchased 4,272,474 have been transferred to employees under the employee share plans and 82,552,229 were held in treasury.

In accordance with the terms of the return of cash to shareholders, approved by shareholders in July 2005, on 28 September 2007 holders of B shares at that date received new ordinary shares by the conversion of 41,988,387 B shares into 3,705,193 new ordinary shares and subsequent issue and allotment. Fractions of holdings were disregarded and accordingly 202,514 B shares were deferred and cancelled.

Following the conversion of the B shares and cancellation of the fractions, the share capital of the Company now consists of ordinary shares of 11¹⁷/₄₃ pence nominal value each and American Depositary Shares only. The ordinary and American Depositary Shares allow holders to receive dividends and vote at general meetings of the Company. Shares held in treasury are not entitled to vote or receive dividends. There are no restrictions on the transfer or sale of ordinary shares.

Some of the Company's employee share plans include restrictions on transfer of shares while the shares are subject to the plan.

Where, under an employee share plan operated by the Company, participants are the beneficial owners of the shares but not the registered owner, the voting rights may be exercised by the registered owner at the direction of the participant.

Employees

National Grid continues to demonstrate how highly it values its employees. Communication is a key theme both at a corporate and business level. The Company wide publication National Grid World provides employees with an overview of performance and updates on relevant acquisitions, alongside material setting out the strategy and operating model for National Grid. This publication is only one example of the multiple communication channels, including the use of various business specific intranets, which the Company has established and continues to develop to ensure the timely cascade of critical information to employees.

Feedback has been provided by employees in confidence via a Company wide employee engagement survey conducted in 2008. Over 86% of employees took part in the process. Action plans will be developed by each of the businesses to address their key priorities for improvement.

National Grid's core values are respect, ownership, integrity and working together. National Grid's inclusion and diversity vision is to develop and operate its business in a way that results in a more inclusive and diverse culture. This supports the attraction and retention of the best people, improves effectiveness, delivers superior performance and enhances the success of the Company. Employees are provided with the opportunity to develop to their full potential regardless of race, gender, nationality, age, disability, sexual orientation, gender identity, religion and background. For example, black and minority ethnic groups now make up 12.3% of the workforce.

Policy and practice on payment of creditors

It is National Grid's policy to include in contracts, or other agreements, terms of payment with suppliers. Once agreed, National Grid aims to abide by these payment terms

The average creditor payment period at 31 March 2008 for National Grid's principal operations in the UK was 18 days (19 days at 31 March 2007).

Audit information

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

Articles of Association

The Articles of Association set out the internal regulation of the Company and cover such matters as the rights of shareholders, the appointment or removal of Directors and the conduct of the Board and general meetings. Copies are available upon request and are displayed on the National Grid website at www.nationalgrid.com. In accordance with the Articles of Association, Directors can be appointed or removed by the Board or shareholders in general meeting. Amendments to the Articles of Association have to be approved by at least 75% of those voting in person or by proxy at a general meeting of the Company. Subject to company law and the Articles of Association, the Directors may exercise all the powers of the Company, and may delegate authorities to Committees and day-to-day management and decision making to individual Executive Directors. Details of the main Board Committees can be found on pages 90 to 93. A special resolution will be put to the 2008 Annual General Meeting to adopt new Articles of Association.

Material interests in shares

As at the date of this report, National Grid had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

	% of voting rights
Legal and General Investment Management Ltd	5.69
Fidelity International Limited	3.06

No further notifications have been received.

Annual General Meeting

National Grid's 2008 AGM will be held on Monday 28 July 2008 at The International Convention Centre in Birmingham. Details are set out in the Notice of AGM.

On behalf of the Board

Helen Mahy

Company Secretary & General Counsel 14 May 2008

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

100 Directors' Remuneration Report

National Grid plc

Directors' Remuneration Report

We are pleased to present the Directors' Remuneration Report for 2007/08. Our policy of relating pay to the performance of the Company continues to be a strong principle underlying the Remuneration Committee's consideration of executive remuneration. We aim to ensure the Company continues to attract, motivate and retain high calibre individuals to deliver the highest possible performance for our shareholders.

The acquisition of KeySpan completed during this performance year, resulting in larger and more complex roles for many of our senior employees. Last year, we consulted with our major shareholders and reported we had increased the maximum annual bonus opportunity for Executive Directors to 150% of salary for the year 2007/08 onwards. While doing so, we amended performance targets to be more stretching and adjusted the framework so that, for Executive Directors, only 40% of the bonus (60% of salary) is payable for target performance (previously 50% of the bonus was payable for target performance).

Following the 2007 Annual General Meeting, where our shareholders supported our proposal to increase the maximum permissible award under our long term incentive plan (the Performance Share Plan) to 250% of salary, we introduced a more challenging Earnings per Share (EPS) upper target for the 2007 award. However, as disclosed last year, we plan to continue with the maximum awards to Executive Directors being on the basis of 200% of

We have made no other changes to our arrangements and firmly believe the changes detailed above provide an appropriate and balanced opportunity for executives. Our incentive plans remain aligned with the Company's strategic objectives and our shareholders' interests generally, while continuing to motivate and engage the team leading the Company to achieve stretching targets.

Overall, we believe salary levels and the mix between fixed and variable compensation continues to be appropriate, however, we shall continue to review the remuneration package on a regular basis to ensure it remains so.

During the year, we have welcomed both Bob Catell and Tom King to the Board. Bob, who joins us from KeySpan, brings a wealth of experience in the US energy industry to his Executive Director role as Chairman of National Grid USA and will play a key role, through a fixed two year contract, in our integration activities. Following the completion of the acquisition, Bob's maximum potential bonus and long term incentive arrangements were significantly reduced from those applicable at KeySpan. To effect this contractual change and on the basis we did not want historical KeySpan entitlements outstanding, the Remuneration Committee decided to buy out Bob's KeySpan contractual severance arrangements and place him on a National Grid contract. This now aligns his arrangements with our other Executive Directors and remuneration policy. Details of these payments follow later in the report.

Tom, who has joined us from Pacific Gas and Electric Company, has 20 years' experience in the US energy industry and has a strong track record in reliability improvement and customer

service. As part of a contractual commitment made on his recruitment, Tom received a Special Retention Award in November 2007, details of which can be found later in this report.

Chairman of the Remuneration Committee

Remuneration Committee

The Remuneration Committee members are John Allan, Ken Harvey, Stephen Pettit and George Rose. Each of these Non-executive Directors is regarded by the Board as independent and served throughout the year.

The Global Human Resources Director and Global Head of Compensation & Benefits provide advice on remuneration policies and practices and are usually invited to attend meetings, along with the Chairman and the Chief Executive.

No Director or other attendee is present during any discussion regarding his or her own remuneration.

The Remuneration Committee is responsible for developing Company policy regarding executive remuneration and for determining the remuneration of the Executive Directors and executives below Board level who report directly to the Chief Executive. It also monitors the remuneration of other senior employees of the Company and provides direction over the Company's share plans.

The Board has accepted all the recommendations made by the Remuneration Committee during the year.

The Remuneration Committee has authority to obtain the advice of external independent remuneration consultants. It is solely responsible for their appointment, retention and termination; and for approval of the basis of their fees and other terms.

In the year to 31 March 2008, the following advisors provided services to the Remuneration Committee:

- Deloitte & Touche LLP, independent remuneration advisors. They also provide taxation and financial advice to the Company;
- Alithos Limited, provision of Total Shareholder Return calculations for the Performance Share Plan and Executive Share Option Plan;
- Linklaters LLP, advice relating to Directors' service contracts as well as providing other legal advice to the Company; and
- Mercer Human Resource Consulting Limited, advice relating to pension taxation legislation. They also provide general advice with respect to human resource issues across the Company.

Remuneration policy

The Remuneration Committee determines remuneration policy and practices with the aim of attracting, motivating and retaining high calibre Executive Directors and other senior employees to deliver value for shareholders and high levels of customer service, safety and reliability in an efficient and responsible manner. The Remuneration Committee sets remuneration policies and practices in line with best practice in the markets in which the Company operates. Remuneration policies continue to be framed around the following key principles:

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID Y59930.SUB, DocName: EX-15.1, Doc: 16, Page: 92
Description: EXHIBIT 15.1

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- total rewards should be set at levels that are competitive in the relevant market. For UK-based Executive Directors, the primary focus is placed on companies ranked (in terms of market capitalisation) 11-40 in the FTSE 100. This peer group is therefore weighted towards companies smaller than National Grid and positioning the package slightly below median against this group is considered to be appropriate for a large, international but predominately regulated business. For US-based Executive Directors, the primary focus is placed on US utility companies;
- a significant proportion of the Executive Directors' total reward should be performance based. Performance based incentives will be earned through the achievement of demanding targets for short-term business and individual performance as well as long-term shareholder value creation, consistent with our Framework for Responsible Business which can be found at: www.nationalgrid.com/corporate/About+Us/Corporate Governance/Other:
- for higher levels of performance, rewards should be substantial but not excessive; and
- incentive plans, performance measures and targets should be stretching and aligned as closely as possible with shareholders' interests.

It is currently intended to continue this policy in subsequent vears.

Executive Directors' remuneration

Remuneration packages for Executive Directors consist of the following elements:

- salary;
- annual bonus including the Deferred Share Plan;
- long-term incentive, the Performance Share Plan;
- all-employee share plans;
- pension contributions; and
- non-cash benefits.

Salaries are reviewed annually and targeted broadly at the median position against the relevant market. In determining the relevant market, the Remuneration Committee takes account of the regulated nature of the majority of the Company's operating activities along with the size, complexity and international scope of the business. For UKbased and US-based Executive Directors, UK and US markets are used respectively. In setting individual salary levels, the Remuneration Committee takes into account business performance, the individual's performance and experience in the role; and salary practices prevailing for other employees in the Company.

Annual bonus including the Deferred Share Plan (DSP)

Annual bonuses are based on the achievement of a combination of demanding Company, individual and, where applicable, divisional targets. The principal measures of Company performance are adjusted earnings per share (EPS), see page 40 for further details; and cash flow. The main divisional measures are operating profit and safety targets. Financial targets (including safety targets where applicable) represent 70% of the bonus. Individual targets, representing 30% of the bonus, are set in relation to key operating and strategic objectives. The Remuneration Committee sets

targets at the start of the year and reviews performance against those targets at year end. The Remuneration Committee may use its discretion to reduce payments to take account of significant safety or service standard incidents; or to increase them in the event of exceptional value creation. The Remuneration Committee has discretion to consider environmental, social and governance issues when determining payments to Executive Directors.

Performance against Company and divisional financial targets for this year is shown in the table below:

		Level of performance achieved in 2007/08 as determined by the Remuneration Committee			
Financial measures	Company targets	Divisional targets			
Adjusted EPS Cash flow	Stretch Stretch				
Operating profit		Below threshold (i), between target and stretch (ii) and at stretch (iii)			

- (i) Electricity Distribution & Generation.
- (iii) Gas Distribution and non-regulated businesses.

In 2007/08, the maximum annual bonus opportunity for Executive Directors was 150% of base salary, with 40% of the bonus (60% of salary) being paid for target performance. One half of any bonus earned is automatically deferred into National Grid shares (ADSs for US-based Executive Directors) through the DSP. The shares are held in trust for three years before release. During this time, they are not owned by the Executive Directors and, therefore, no dividends are paid. The Remuneration Committee may, at the time of release of the shares, use its discretion to pay a cash amount equivalent to the value of the dividends that would have accumulated on the deferred shares. For the 2007/08 bonus and onwards, the deferred shares may be forfeited if the Executive Director ceases employment during the three year holding period as a 'bad leaver', for example, resignation. The newly introduced forfeiture provision will serve as a strong retention tool.

The Remuneration Committee believes that requiring Executive Directors to invest a substantial amount of their bonus in National Grid shares increases the proportion of rewards linked to both short-term performance and longerterm total shareholder returns. This practice also ensures that Executive Directors share a significant level of personal risk with the Company's shareholders. Bonuses for UKbased Executive Directors are not pensionable, but in line with current US market practice, US-based Executive Directors' bonuses are pensionable.

Long-term incentive - Performance Share Plan (PSP)

Executive Directors and approximately 350 other senior employees who have significant influence over the Company's ability to meet its strategic objectives, may receive an award which will vest subject to the achievement of performance conditions set by the Remuneration Committee at the date of grant. The value of shares (ADSs for US-based Executive Directors and relevant employees) constituting an award (as a percentage of salary) varies by grade and seniority subject to a maximum, for Executive Directors, of 200% of salary. The provisions in the PSP rules allow awards up to a maximum value of 250% of salary, in order to provide a degree of flexibility for the future.

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National Grid plc

The grant of PSP awards may only be made within 42 days from the announcement of either the annual financial results or interim financial results. Therefore, as shareholder approval to increase the maximum award in the rules could only be sought at the time of last year's Annual General Meeting in July, the 2007 award was granted in two parts to Executive Directors; the June award was based on the then current maximum of 125% of salary and a second award for 75% of salary was granted after the announcement of our interim financial results. Should the performance criteria be met, the 2007 award will therefore be released to Executive Directors in two parts; in June 2011 and November 2011.

Shares awarded vest after three years, conditional upon the satisfaction of the relevant performance criteria. Vested shares must then be held for a further period (the retention period) after which they are released to the participant on the fourth anniversary of the date of grant. During the retention period, the Remuneration Committee has discretion to pay an amount, equivalent in cash or shares, to the dividend which would have been paid on the vested shares.

Under the terms of the PSP, the Remuneration Committee may allow shares to vest early to departing participants, including Executive Directors, to the extent the performance condition has been met, in which event the number of shares that vest will be pro-rated to reflect the proportion of the performance period that has elapsed at the date of departure.

Awards made in June 2003 and June 2004 were based on the Company's Total Shareholder Return (TSR) performance over a three year period relative to TSR performance of UK and international utilities. Both of these awards have lapsed as the performance criterion was not met.

Awards from 2005 onwards vest based on the Company's TSR performance when compared to the FTSE 100 at the date of grant (50% of the award) and the annualised growth of the Company's EPS (50% of the award). This approach will continue going forward.

These measures are used because the Remuneration Committee continues to believe they offer a balance between meeting the needs of shareholders (by measuring TSR performance against other large UK companies) and providing a measure of performance (EPS growth) over which the Executive Directors have direct influence. The Remuneration Committee considers the PSP performance conditions to be stretching.

In calculating TSR it is assumed that all dividends are reinvested. No shares will be released under the TSR part of the award if the Company's TSR over the three year performance period, when ranked against that of the FTSE 100 comparator group, falls below the median. For TSR at the median, 30% of those shares will be released, 100% will be released where National Grid's TSR performance on an annualised compound basis is 7.5% above that of the median company in the FTSE 100 (upper target)

The EPS measure is calculated by reference to National Grid's real EPS growth, see page 40 for further details. Where annualised growth in adjusted EPS (on a continuing basis and excluding exceptional items, remeasurements and stranded costs) over the three year performance period exceeds the average annual increase in RPI (the general index of retail prices

for all items) over the same period by 3% (threshold performance), 30% of the shares under the EPS part of the award will be released. 100% of the shares will be released where EPS growth exceeds RPI growth by 8% (upper target). For awards made prior to 2007, the upper target for EPS was 6%. The Remuneration Committee considers the adjusted upper target to be more challenging to achieve.

For performance (under each measure) between threshold and the upper target, the number of shares released is prorated on a straight-line basis.

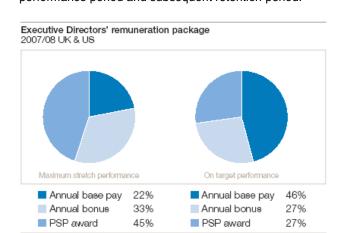
If the Remuneration Committee considers, in its absolute discretion, the underlying financial performance of the Company does not justify the vesting of awards, even if either or both the TSR condition and the EPS condition are satisfied in whole or in part, it can declare that some or all of the award lapses.

No re-testing of performance is permitted for any of the PSP awards that do not vest after the three year performance period and any such awards lapse.

Special Retention Award (SRA)

As part of a contractual commitment made at the time of Tom King's recruitment, Tom received a Special Retention Award in November 2007. This one-off award of National Grid ADSs will vest in equal tranches, over three years, on the anniversary of the award (commencing November 2008 through to November 2010) subject to his continued employment. There are no performance conditions attached to the award.

Executive Directors' remuneration package Illustrated below is the current remuneration package for Executive Directors (excluding pensions, all-employee share plans and non-cash benefits) for both 'maximum stretch' performance and assuming 'on target' performance based on 40% (60% of salary) for the annual bonus plan; and TSR and EPS performance such that 30% (60% of salary) of PSP awards are released to participants at the end of the performance period and subsequent retention period.



Note: Excludes Tom King's Special Retention Award.

All-employee share plans

Sharesave: Employees resident in the UK, including UKbased Executive Directors, are eligible to participate in HM Revenue & Customs approved all-employee Sharesave schemes. Under these schemes, participants may contribute between £5 and £250 in total each month. for a fixed period of three years, five years or both. Contributions are taken from net

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salary. At the end of the savings period, these contributions can be used to purchase ordinary shares in National Grid at a discount capped at 20% of the market price set at the launch of the scheme.

- Share Incentive Plan (SIP): Employees resident in the UK, including UK-based Executive Directors, are eligible to participate in the SIP. Contributions up to £125 are deducted from participants' gross salary and used to purchase ordinary shares in National Grid each month. The shares are placed in trust and if they are left in trust for at least five years, they can be removed free of UK income tax and National Insurance Contributions.
- US Incentive Thrift Plans: Employees of National Grid's US companies (including US-based Executive Directors) are eligible to participate in the Thrift Plans, taxadvantaged savings plans (commonly referred to as 401 (k) plans). These are defined contribution pension plans that give participants the opportunity to invest a maximum of 50% of salary (pre-tax) and/or up to 15% of salary (post-tax) up to applicable Federal salary limits (US\$225,000 for calendar year 2007 and US\$230,000 for 2008). The Company matches 100% of the first 2% and 75% of the next 4% of salary contributed, resulting in a maximum matching contribution of 5% of salary up to the Federal salary cap. For employees in legacy KeySpan plans, the Company matches 50% of employees' contributions up to a maximum Company contribution of 3%. Employees may invest their own and Company contributions in National Grid shares or various mutual fund options.

Pensions

Current UK-based Executive Directors are provided with final salary pension benefits. The pension provisions for the UKbased Executive Directors are designed to provide a pension of one thirtieth of final salary at age 60 for each year of service subject to a maximum of two thirds of final salary, including any pension rights earned in previous employment. Within the pension schemes, the pensionable salary is normally the base salary in the twelve months prior to leaving the Company. Life assurance provision of four times pensionable salary and a spouse's pension equal to two thirds of the Executive Director's pension are provided on

UK-based Executive Directors have elected to participate in the unfunded scheme in respect of any benefits in excess of the Lifetime Allowance or their Personal Lifetime Allowance. An appropriate provision in respect of the unfunded scheme has been made in the Company's balance sheet. These Executive Directors are able to cease accrual in the pension schemes and take a 30% cash allowance in lieu of pension if they so wish. These choices are in line with those offered to current senior employees in the Company, except the cash allowance varies depending upon organisational grade.

US-based Executive Directors participate in a qualified pension plan and an executive supplemental retirement plan provided by National Grid's US companies. These plans are non-contributory defined benefit arrangements. The qualified plan is directly funded, while the supplemental plan is indirectly funded through a 'rabbi trust'. Benefits are calculated using a formula based on years of service and highest average compensation over five or three consecutive years. In line with many US plans, the calculation of benefits under the arrangements takes into account salary,

bonuses and incentive share awards (the DSP) but not share options or the PSP awards. The normal retirement age under the qualified pension plan is 65. The executive supplemental plan provides unreduced pension benefits from age 55. On the death of the Executive Director, the plans also provide for a spouse's pension of at least 50% of that accrued by the Executive Director. Benefits under these arrangements do not increase once in payment.

Non-cash benefits

The Company provides competitive benefits to Executive Directors, such as a fully expensed car or a cash alternative in lieu of car and fuel, use of a driver when required, private medical insurance and life assurance. Business expenses incurred are reimbursed in such a way as to give rise to no benefit to the Executive Director.

Flexible benefits plan

Additional benefits may be purchased under the flexible benefits plan (the Plan), in which UK-based Executive Directors, along with most other UK employees, have been given the opportunity to participate. The Plan operates by way of salary sacrifice, that is, the participants' salaries are reduced by the monetary value used to purchase benefits under the Plan. Many of the benefits are linked to purchasing additional healthcare and insurance products for employees and their families. A number of the Executive Directors participate in this Plan and details of the impact on their salaries are shown in table 1A on page 105.

Similar plans are offered to US-based employees. However, they are not salary sacrifice plans and therefore do not affect salary values. Both Tom King and Bob Catell participate in such plans.

Share ownership guidelines

Executive Directors are required to build up and retain a shareholding representing at least 100% of annual salary. This will be achieved by retaining at least 50% of the aftertax gain on any options exercised or shares received through the long-term incentive or all-employee share plans and will include any shares held beneficially

Share dilution through the operation of share-based incentive plans

Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive incentives will not exceed 5% in any ten year period. Dilution resulting from all incentives, including allemployee incentives, will not exceed 10% in any ten year period. The Remuneration Committee reviews dilution against these limits regularly and under these limits, the Company currently has headroom of 3.8% and 5.65% respectively.

Executive Directors' service contracts

Service contracts for all Executive Directors provide for one year's notice by either party. Bob Catell has a fixed term, two year contract with one year's notice by either party until the first anniversary and during the second year of employment his notice period reduces so that employment ends on 24 August 2009.

Entitlement to payment of 12 months' remuneration on early termination for Executive Directors is not automatic and is determined by the Remuneration Committee exercising its sole discretion, taking into account the circumstances of the termination. In determining any other such payments, the Remuneration Committee gives due regard to the comments

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Directors' Remuneration Report continued

National Grid plc

and recommendations in the UK Listing Authority's Listing Rules, the Combined Code on Corporate Governance, as revised in 2006; and other requirements of legislation, regulation and good governance.

The Remuneration Committee operates a policy of mitigation of losses in the event of an Executive Director's employment being terminated by the Company. If this occurs, the departing Executive Director would normally be expected to mitigate any losses incurred as a result of the termination.

	Date of contract	Notice period
Executive Directors		
Steve Holliday	1 April 2006	12 months
Bob Catell (i)	26 October 2007	12 months
Steve Lucas	13 June 2002	12 months
Nick Winser	28 April 2003	12 months
Mark Fairbairn	23 January 2007	12 months
Tom King (ii)	11 July 2007	12 months
Edward Astle (iii)	27 July 2007	12 months

⁽i) Bob Catell was appointed to the Board on 25 September 2007. His fixed-term contract ends on 24 August 2009 therefore termination after August 2008 will result in a reducing notice period.

External appointments and retention of fees

With the approval of the Board in each case, Executive Directors may normally accept an external appointment as a non-executive director of another company and retain any fees received for this appointment. The table below details the Executive Directors who served as non-executive directors in other companies during the year ended 31 March 2008.

	Company	Retained fees (£)
Executive Dire	ctors	
Steve Holliday	Marks and Spencer Group plc	67,000
Bob Catell (i)	Keyera Energy Management Ltd (a),	
.,	Sovereign Bancorp Inc Advisory	39,800
	Board (b) and JP Morgan Chase Inc	
	Metropolitan Advisory Board (c)	
Steve Lucas	Compass Group PLC	75,000

⁽i) Bob Catell's paid external appointments were those taken up prior to joining the Board on 25 September 2007. The retained fees are the amounts for the period 25 September 2007 to 31 March 2008 and comprise the following: (a) £18,900, (b) £19,400 and (c) £1,500. The exchange rate used for (a) is Canadian\$2.06:£1 and US\$2.01:£1 for

Non-executive Directors' remuneration

Non-executive Directors' fees are determined by the Executive Directors subject to the limits applied by National Grid's articles of association. Non-executive Directors' remuneration comprises an annual fee (£45,000) and a fee for each Board meeting attended (£1,500) with a higher fee for meetings held outside the Non-executive Director's country of residence (£4,000). An additional fee of £12,500 is payable for chairmanship of a Board Committee and for holding the position of Senior Independent Director. The Audit Committee chairman receives a chairmanship fee of £15,000 to recognise the additional responsibilities commensurate with this role. The Chairman is covered by the Company's personal accident and private medical insurance schemes and the Company provides him with life assurance cover, a car (with driver when appropriate) and fuel expenses. Non-executive Directors do not participate in either the annual bonus plan or in any long-term incentive plan, nor do they receive any pension benefits from the Company.

Non-executive Directors' letters of appointment

The Chairman's letter of appointment provides for a period of six months' notice by either party to give the Company reasonable security with regard to his service. The terms of engagement of Non-executive Directors other than the Chairman are also set out in letters of appointment. For all Non-executive Directors, their initial appointment and any subsequent reappointment is subject to election by shareholders. The letters of appointment do not contain provision for termination payments.

	Date of letter	End of period
	of appointment (i)	of appointment
Non-executive Directors		
Sir John Parker	12 January 2004	2009 AGM
Ken Harvey	4 November 2004	2009 AGM
Linda Adamany	20 October 2006	2010 AGM
John Allan	27 April 2005	2008 AGM
Stephen Pettit	22 November 2004	2009 AGM
Maria Richter	25 June 2007	2010 AGM
George Rose	5 June 2003	2009 AGM
Paul Joskow (ii)	3 November 2005	N/A

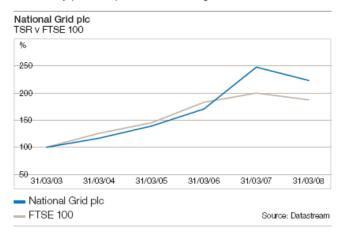
⁽i) Date of original appointment or most recent Non-executive role (ii) Paul Joskow left the Board on 31 July 2007.

Performance graph

The graph below represents the comparative TSR performance of the Company from 31 March 2003 to 31 March 2008.

This graph represents the Company's performance against the performance of the FTSE 100 index, which is considered suitable for this purpose as it is a broad equity market index of which National Grid is a constituent. This graph has been produced in accordance with the requirements of Schedule 7A to the Companies Act 1985.

In drawing this graph it has been assumed that all dividends have been reinvested. The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30 day period up to and including that date.



⁽ii) Tom King was appointed to the Board on 13 August 2007. (iii)Edward Astle left the Board on 30 April 2008.

Remuneration outcomes during the year ended 31 March 2008

Sections 1, 2, 3, 4 and 6 comprise the 'auditable' part of the Directors' Remuneration Report, being the information required by Part 3 of Schedule 7A to the Companies Act 1985.

1. Directors' emoluments

The following tables set out an analysis of the pre-tax emoluments for the years ended 31 March 2008 and 2007, including bonuses but excluding pensions, for individual Directors who held office in National Grid during the year ended 31 March 2008.

							Year ended 31 March
Table 1A			Year ended 3	31 March 2008			2007
			Benefits	Benefits			
		Annual	in kind ⁽ⁱ⁾	in kind ⁽ⁱ⁾	Other		
	Salary	bonus	(cash)	(non-cash)	emoluments	Total	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Executive Directors							
Steve Holliday (ii)	850	1,190	6	16	_	2,062	1,292
Bob Catell (iii) (iv)	314	490	_	14	_	818	_
Steve Lucas (v)	498	659	_	26	_	1,183	928
Nick Winser	445	502	_	16	_	963	806
Mark Fairbairn (ii) (v)	420	567	_	23	_	1,010	189
Tom King (iv) (vi)	316	328	264	100	141	1,149	_
Edward Astle (v)	440	607	12	11	_	1,070	847
Total	3,283	4,343	282	206	141	8,255	4,062

- Benefits in kind comprise benefits such as private medical insurance, life assurance, either a fully expensed car or cash in lieu of a car and the use of a driver when required. With effect from October 2007, Steve Holliday's salary was increased to £875,000 per annum and Mark Fairbaim's salary was increased to £440,000 per annum. Bob Catell's maximum potential bonus and long term incentive arrangements were significantly reduced from those applicable at KeySpan. Due to this contractual change, a buy out of Bob's contractual severance arrangements was paid equating to £6,277,547 (including excise tax of £2,022,290). Bob now has a National Grid contract which aligns his arrangements to our other Executive Directors.
- our other Executive Directors.

 (iv) For US-based Executive Directors, the exchange rate averaged over the year 1 April 2007 to 31 March 2008 to convert US dollars to UK pounds sterling is US\$2.01:£1.

 (v) These Executive Directors participate in the UK flexible benefits plan which operates by way of salary sacrifice, therefore, their salaries are reduced by the benefits they have purchased. The value of these benefits is included in the Benefits in kind (non-cash) figure. The values are: Steve Lucas £5,532, Mark Fairbairn £293.88 and Edward Astle £53.88.

 (vi) On appointment to the Board, Tom King received a sign-on payment of £141,169 which is shown in the Other emoluments figure above. He also received a relocation cash payment of £260,147 which is included in the Benefits in kind (cash) figure and relocation expenses of £96,045 included in the Benefits in kind (non-cash) figure.

Additional note: Mike Jesanis, who left National Grid on 31 December 2006, received £323,200 reflecting the remaining months (April 2007 to June 2007 inclusive) of a consultancy arrangement which was agreed as part of his termination package. The exchange rate used for this value was US\$2.01:£1.

				Year ended 31 March
Table 1B		Year ended 31 M	arch 2008	2007
		Other		
	Fees	emoluments	Total	Total
	£000s	£000s	£000s	£000s
Non-executive Directors				
Sir John Parker (i)	500	59	559	553
Ken Harvey	79	_	79	68
Linda Adamany	77	_	77	25
John Allan	71	_	71	62
Stephen Pettit	79	_	79	68
Maria Richter	92	_	92	71
George Rose	82	_	82	71
Paul Joskow (ii)	33	_	33	80
Total	1,013	59	1,072	998

- (i) Sir John Parker's other emoluments comprise a fully expensed car, private medical insurance and life assurance.
 (ii) Paul Joskow left the Board on 31 July 2007.

Y59930.SUB, DocName: EX-15.1, Doc: 16, Page: 98 **[E/O]**<u>Description: EXHIBIT 15.1</u>

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Directors' Remuneration Report continued

National Grid plc

2. Directors' pensions

The table below gives details of the Executive Directors' pension benefits in accordance with both Schedule 7A of the Companies Act 1985 and the UK Listing Authority's Listing Rules.

								Transfer value
								of increase in
	D	Additional					Additional	accrued benefit
	Personal contributions	benefit earned	Appropri	Transferval	ie of accrued	Increase in transfer	benefit earned in	in the year ended 31 March 2008
		during year	Accrued	benefits as a			the year ended	
	made to the scheme	ended 31 March 2008	entitlement as at	Dellellis as a	t 31 Maion (I)	value less Director's	31 March 2008	(excluding inflation & Director
	during the year	pension	31 March 2008 pension	2008	2007	contributions	(excluding inflation) pension	contributions)
Table 0	0 ,	•	•				, ·	,
Table 2	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Steve Holliday								
(ii)	17	75	232	4,730	2,745	1,967	69	1,374
Bob Catell (iii)	_	147	1,087	12,774	11,807	967	147	1,730
Steve Lucas	30	26	225	3,680	3,535	115	19	286
Nick Winser (iv)	27	18	170	3,237	2,406	805	12	187
Mark Fairbairn								
(v)	25	44	160	3,340	2,014	1,300	40	783
Tom King (vi)	_	55	55	207	_	207	55	207
Edward Astle	17	18	97	1,997	1,416	562	15	301

- The transfer values shown at 31 March 2007 and 31 March 2008 respectively represent the value of each Executive Director's accrued benefits based on total service compared to the relevant date. The transfer values for the UK Executive Directors have been calculated in accordance with guidance note 'GN11' as adopted and amended by the Board of Actuarial Standards. The transfer values for the US-based Executive Directors have been calculated using discount rates based on high yield US corporate bonds and associated yields at the
- relevant date. The transfer values for the UK Executive Directors have been calculated using discount rates based on high yield US corporate bonds and associated yields at the relevant dates.

 The above information takes into account a lump sum benefit related to a previous transfer in. This means that as well as the pension quoted above, there is an accrued lump sum entitlement of £100,000 as at 31 March 2008. The increase to the accumulated lump sum including inflation was £23,000 and excluding inflation was £20,000 in the year to 31 March 2008. The transfer value information above includes the value of the lump sum.

 Bob Catell joined the Board on 25 September 2007. In accordance with the buy out of Bob Catell's contractual severance arrangements, a payment of £4,769,306 (£3,232,670 net of excise tax) was made on 10 January 2008. This amount reflected the present value of the change in Bob's SERP benefit and is additional to the benefits shown in the table. The exchange rate as at 10 January 2008 used to convert the figures from US dollars to pounds sterling was US\$1.96:£1. Through participation in the Thrift Plan in the US, the Company also made contributions worth £3,355 to a defined contribution pension arrangement. The exchange rate as at 31 March 2008 was US\$1.98:£1 and as at 31 March 2007 was US\$1.97:£1.

 The above information allows for the accrual of a pension benefit of two thirds at age 60 taking into account standard benefits earned prior to 1 September 1998. This means that, as well as the pension above, there is an accrued lump sum entitlement of £250,000 as at 31 March 2008. The increase to the accumulated lump sum including inflation was £5,000 in the year to 31 March 2008. The transfer value information above includes the value of the lump sum.

 The above information above includes the value of the lump sum.

 Tom King joined the Board on 13 August 2007. The above information takes into account a service credit of 9 years and 1 month. The exchange rate as at 31 March 2008 was US\$1.98:£1 and as

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3. Directors' interests in share options

The table below gives details of the Executive Directors' holdings of share options awarded under the Executive Share Option Plan (ESOP), the Share Matching Plan (Share Match) and Sharesave schemes.

		Options exercised or	Market price at end of			Exercise price	
	Options held at	lapsed during	exercise	Options granted	Options held at	per share	
Table 3	1 April 2007	the year	(pence)	during the year	31 March 2008	(pence)	Normal exercise period
Steve Holliday							
ESOP	67,497	_	_	_	67,497	481.5	June 2005 to June 2012
Share Match	10,350	_	_	_	10,350	100 in total	June 2005 to June 2012
	14,083	_	_	-	14,083	100 in total	June 2006 to June 2013
	18,713	_	_	_	18,713	nil	May 2007 to May 2014
	9,983	_	_	_	9,983	nil	June 2008 to June 2015
Sharesave	4,692	_	_	_	4,692	350	Mar 2008 to Aug 2008
	_	_	_	2,564	2,564	655	Apr 2013 to Sep 2013
Total	125,318			2,564	127,882		
Steve Lucas							
ESOP	54,404	_	_	_	54,404	434.25	Dec 2005 to Dec 2012
Share Match	16,909	16,909 ⁽ⁱ⁾	742	_		nil	May 2007 to May 2014
onaro maton	14,778	-		_	14,778	nil	June 2008 to June 2015
Sharesave	1,693	_	_	_	1,693	558	Apr 2010 to Sep 2010
Total	87,784	16,909		_	70,875		<u> </u>
	•	•			•		
Nick Winser							
ESOP	19,755		_	_	19,755	531.5	June 2003 to June 2010
Share Match	14,059	14,059 ⁽ⁱⁱ⁾	751	_		nil 	May 2007 to May 2014
	11,581	_			11,581	nil	June 2008 to June 2015
Total	45,395	14,059			31,336		
Mark Fairbairn							
ESOP	8,649	8,649 ⁽ⁱⁱⁱ⁾	700.18	_	_	375.75	June 2001 to June 2008
	2,180	_	_	_	2,180	435.75	July 2002 to July 2009
	33,489	_	_	_	33,489	531.5	June 2003 to June 2010
	31,152	_	_	_	31,152	481.5	June 2005 to June 2012
Share Match	4,897	4,897 ⁽ⁱⁱⁱ⁾	743.5	_	_	nil	May 2007 to May 2014
	2,134	_	_	_	2,134	nil	June 2008 to June 2015
Sharesave	833	833	739	_	_	397	Sep 2007 to Feb 2008
	862	_	_	_	862	383	Apr 2010 to Sep 2010
	1,760	_	_	_	1,760	558	Apr 2012 to Sep 2012
		_	_	512	512	655	Apr 2013 to Sep 2013
Total	85,956	14,379		512	72,089		
Edward Astle							
ESOP	67,497	_	_	_	67,497	481.5	June 2005 to June 2012
	131,086	131,086 ^(iv)	_	_	-	400.5	June 2006 to June 2013
Share Match	6,553		_	_	6,553	100 in total	June 2005 to June 2012
J. a. o maton	13,812	_	_	_	13,812	100 in total	June 2006 to June 2013
	15.716	_	_	_	15.716	nil	May 2007 to May 2014
	14,637	_	_	_	14,637	nil	June 2008 to June 2015
Total	249,301	131,086		_	118,215		
			_	_			

Steve Lucas exercised a Share Match award over 16,909 shares. The market price at the date of exercise was 742p. He also received £13,634.91 in respect of a cash payment in lieu of

⁽ii) Nick Winser exercised a Share Match award over 14,059 shares. The market price at the date of exercise was 751p. He also received £12,031.79 in respect of a cash payment in lieu of

⁽iii) Nick Winser exercised a Share Match award over 14,000 shares. The market price at the date of exercise was 700.18p. He also exercised a Share Match award over 4,897 shares, the market price at the date of exercise for which was 743.5p. He received £4,379.13 in respect of a cash payment in lieu of dividends for the Share Match award.
(iv) The performance condition for the Executive Share Option granted in 2003 to Edward Astle over 131,086 shares was not satisfied at the end of the first three years of the performance period. It has subsequently been re-tested on 31 March 2007 and 31 March 2008; and the performance condition has not been satisfied. As a result the option has lapsed in full.

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National Grid plc

3. Directors' interests in share options continued Executive Share Option Plan (ESOP)

No further awards will be made under this plan but there are outstanding options granted in previous years. Such options will normally be exercisable between the third and tenth anniversary of the date of grant, subject to a performance condition. The performance condition attached to the outstanding ESOP options is set out below. If the performance condition is not satisfied after the first three years, it will be re-tested as indicated.

Options worth up to 100% of an optionholder's base salary will become exercisable in full if TSR, measured over the period of three years beginning with the financial year in which the option is granted, is at least median compared with a comparator group of companies. Grants in excess of 100% of salary vest on a sliding scale, becoming fully exercisable if the Company's TSR is in the top quartile.

Grants made in 2000

The performance condition attached to options granted in June 2000 is tested annually throughout the lifetime of the option. These options remain unvested.

The comparator group for the 2000 award is unaudited and this information follows below. The Remuneration Committee at that time believed the group to be an appropriate mix of energy distribution sector companies, including UK and international utilities.

Allegheny Energy, Inc. **Energy East Corporation NSTAR** Scottish Power plc

BG Group plc FPL Group, Inc. Powergen plc The Southern Company, Inc.

British Energy plc GPU, Inc. Progress Energy, Inc. TXU, Corp Central & South West Corporation Innogy Holdings plc Public Service Enterprise United Utilities plc Consolidated Edison, Inc. International Power plc Group, Inc. Xcel Energy, Inc.

Duke Energy Corporation Niagara Mohawk Holdings, Inc. Scottish & Southern Energy plc

Grants made in 2003

In June 2003, Edward Astle received a grant of Executive Share Options on the basis of 1.5 times base salary at that time, as a one-off award, to fulfil an existing contractual commitment made on his recruitment. He was the only participant to receive such an award in 2003. The first test of the performance criterion was undertaken in March 2006. The performance criterion was not met and was, therefore, re-tested in March 2007 and March 2008 where the performance criterion was not met again. The award has now lapsed.

4. Directors' interests in the PSP, DSP and SRA

The table overleaf gives details of the Executive Directors' holdings of conditional shares awarded under the PSP whereby Executive Directors receive a conditional award of shares, up to a current maximum of 200% of salary, which is subject to performance criteria over a three year performance period (see pages 101 and 102 for further details). Shares are then released on the fourth anniversary of the date of grant, following a retention period. The table includes conditional share awards under the DSP, where Executive Directors receive an award of shares representing one half of any bonus earned in the year. The deferred shares are held in trust for three years before release. As part of a contractual commitment made at the time of Tom King's recruitment, Tom received a SRA. The one-off award of National Grid ADSs will vest in equal tranches, over three years, on the anniversary of the award (commencing November 2008 through to November 2010) subject to continued employment. There are no performance conditions attached to the award.

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4. Directors'	interes	its in the PSP, DSI	and SRA	continu	ed				
		PSP, DSP and SRA	Awards	Awards	Awards	Market price		Conditional	
Table 4	Type of award	conditional awards at 1 April 2007	lapsed during year	vested in year	granted during year	at award (pence except#)	Date of award	awards at 31 March 2008	Release date
Ctove Helliday					during year			31 Walch 2000	uate
Steve Holliday	PSP	117,681	117,681 ⁽ⁱ⁾	-	_	424.875	June 2004	100.001	-
	PSP	100,801	_	_	_	527.03	June 2005	100,801	June 2009
	PSP	126,788	_	_		591.5382	June 2006	126,788	June 2010
	PSP	_	_	_	139,217	740.75	June 2007	139,217	June 2011
	PSP	_	_	_	77,247 ⁽ⁱⁱ⁾	800.9919	Nov 2007	77,247	Nov 2011
	DSP	36,389	_	_	_	583.96	June 2006	36,389	June 2009
	DSP	_	_	_	42,435	726.87	June 2007	42,435	June 2010
Total		381,659	117,681		258,899			522,877	
Bob Catell	PSP	_	_	_	ADSs 17,084 ⁽ⁱⁱⁱ⁾	\$83.3121#	Nov 2007	ADSs 17,084	Nov 2011
Total ADSs	. 0.	_			ADSs 17,084	φοσ.στ2τ	1101 2007	ADSs 17,084	1101 2011
Total AD35		-			AD35 17,004			AD35 17,004	
Steve Lucas	PSP	116,210	116,210 ⁽ⁱ⁾	_	_	424.875	June 2004	_	-
	PSP	99,615	_	_	_	527.03	June 2005	99,615	June 2009
	PSP	101,430	_	_	_	591.5382	June 2006	101,430	June 2010
	PSP	_	_	_	84,930	740.75	June 2007	84,930	June 2011
	PSP	_	_	_	47,125 ⁽ⁱⁱ⁾	800.9919	Nov 2007	47,125	Nov 2011
	DSP	34,882	_	_	· <u>-</u>	583.96	June 2006	34,882	June 2009
	DSP		_	_	29,276	726.87	June 2007	29,276	June 2010
Total		352,137	116,210	_	161,331			397,258	
Nick Winser	PSP	98,558	98,558 ⁽ⁱ⁾	_	_	424.875	June 2004	-	-
	PSP	91,314	_	_	_	527.03	June 2005	91,314	June 2009
	PSP	88,751	_	_	_	591.5382	June 2006	88,751	June 2010
	PSP	_	_	-	75,008	740.75	June 2007	75,008	June 2011
	PSP	_	_	_	41,620 ⁽ⁱⁱ⁾	800.9919	Nov 2007	41,620	Nov 2011
	DSP	31,316	_	_	· _	583.96	June 2006	31,316	June 2009
	DSP	· –	_	_	25,596	726.87	June 2007	25,596	June 2010
Total		309,939	98,558	_	142,224			353,605	
Manufacture to the	DOD	47.070	47.070(i)			40.4.075	L 000 4		
Mark Fairbairn	PSP	47,072	47,072 ⁽ⁱ⁾	_	_	424.875	June 2004	-	
	PSP	40,225	_	_	_	527.03	June 2005	40,225	June 2009
	PSP	40,572	_	_	_	591.5382	June 2006	40,572	June 2010
	PSP	_	_	-	67,499	740.75	June 2007	67,499	June 2011
	PSP	-	_	_	37,453 ⁽ⁱⁱ⁾	800.9919	Nov 2007	37,453	Nov 2011
	DSP	10,800	_	-	_	583.96	June 2006	10,800	June 2009
	DSP	_	_		13,867	726.87	June 2007	13,867	June 2010
Total		138,669	47,072		118,819			210,416	
Tom Kina	Den				ADC: 04.006(iii)	¢00.0404#	Nov 0007	ADC: 04.000	Nov. 0044
Tom King	PSP	=	_	_	ADSs 24,006(iii)	\$83.3121#	Nov 2007	ADSs 24,006	Nov 2011
	SRA	_	_	_	ADSs 35,487 ^(iv)	\$84.5360#	NOV 2007	ADSs 35,487	Nov 2008 to Nov 2010
Total ADSs		_	_	_	ADSs 59,493			ADSs 59,493	10 1101 2010
			-						
Edward Astle	PSP	110,326	110,326 ⁽ⁱ⁾	_	_	424.875	June 2004	_	-
	PSP	94,872	_	_	-	527.03	June 2005	94,872	June 2009
	PSP	88,751	_	_	_	591.5382	June 2006	88,751	June 2010
	PSP	_	_	_	74,249	740.75	June 2007	74,249	June 2011
	PSP	_	_	_	41,198 ⁽ⁱⁱ⁾	800.9919	Nov 2007	41,198	Nov 2011
	DSP	28,769	_	_	-	583.96	June 2006	28,769	June 2009
	DSP		_	_	27,927	726.87	June 2007	27,927	June 2010
Total		322,718	110,326	_	143,374			355,766	

⁽i) The performance condition was not satisfied at the end of the three year performance period for PSP awards granted in 2004. As a result, the awards have lapsed in full.

Due to shareholder approval being required to increase the maximum PSP award to Executive Directors, from 125% to 200% of salary, which could only be sought at the 2007 AGM, a top up PSP award was made in November 2007.

⁽iii) Bob Catell and Tom King were appointed after the main June 2007 PSP award, therefore, they received full awards in November 2007. Awards were made over ADSs. Each ADS represents five ordinary shares.

⁽iv) Tom King received a Special Retention Award as part of a contractual commitment made at the time of his recruitment. The award was made over ADSs. Each ADS represents five ordinary shares. The award vests in equal parts over 3 years.

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National Grid plc

5. Directors' beneficial interests
The Directors' beneficial interests (which include those of their families) in National Grid ordinary shares of $11^{17}/_{43}$ pence each are shown below.

	Ordinary shares at 31 March 2008 or, if earlier, on	Ordinary shares at 1 April 2007 or, if later, on	Options/awards over ordinary shares at	Options/awards over ordinary shares at 1 April 2007 or, if later, on
Table 5	retirement(i)	appointment*	31 March 2008	appointment*
Sir John Parker	77,115	63,994	_	_
Steve Holliday (ii) (iii)	28,488	28,293	650,759	506,977
Bob Catell	15,000	_*	85,420	_*
Steve Lucas (ii) (iv)	79,438	69,412	468,133	439,921
Nick Winser (ii)	69,937	60,624	384,941	355,334
Mark Fairbairn (ii) (iii)	28,584	20,838	282,505	224,625
Tom King	· <u>-</u>	_*	297,465	_*
Edward Astle (ii)	28,428	28,428	473,981	572,019
Ken Harvey	3,740	3,399	· –	· –
Linda Adamany	2,000	_	_	-
John Allan	2,000	2,000	_	-
Stephen Pettit	2,632	2,632	_	_
Maria Richter	3,255	1,755	_	-
George Rose	4,852	4,409	_	_
Paul Joskow	4,385 [†]	4,385	_	_

- (i) There has been no other change in the beneficial interests of the Directors in ordinary shares between 1 April 2008 and 14 May 2008, except in respect of routine monthly purchases under the SIP (see note (iii) below).
 (ii) Each of the Executive Directors, with the exception of Bob Catell and Tom King, was for Companies Act purposes deemed to be a potential beneficiary under the National Grid plc 1996 Employee Benefit Trust and the National Grid Employee Share Trust and thereby to have an interest in 25,836 and 155,768 ordinary shares respectively, as at 31 March 2008.
 (iii) Beneficial interest includes shares purchased under the monthly operation of the SIP in the year to 31 March 2008. In April and May 2008 a further 35 shares were purchased on behalf of Steve Holliday and Mark Fairbaim respectively.
 (iv) Steve Lucas was for Companies Act purposes deemed to be a potential beneficiary in 8,880 ordinary shares held by Lattice Group Trustees Limited as trustee of the Lattice Group Employee Share Ownership Trust as at 31 March 2008.

6. National Grid share price range

The closing price of a National Grid ordinary share on 31 March 2008 was 691.5p. The range during the year was 863p (high) and 686p (low). Please note the Register of Directors' Interests contains full details of shareholdings and options/awards held by Directors as at 31 March 2008.

On behalf of the Board

Helen Mahy

Company Secretary & General Counsel 14 May 2008

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Statement of Directors' responsibilities

National Grid plc

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts, including the consolidated financial statements and the Company financial statements and the Directors' Remuneration Report, in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the Company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). In preparing the consolidated financial statements, the Directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB). The consolidated financial statements and Company financial statements are required by law to give a true and fair view of the state of affairs of the Company on a consolidated and individual basis and of the consolidated profit of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently:
- make judgements and estimates that are reasonable and prudent:
- state that the consolidated financial statements comply with IFRS as adopted by the European Union and with regard to the Company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated financial statements and Company financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing both the consolidated financial statements and the Company financial statements. They also confirm that the annual report includes a fair review of the development and performance of the business together with a description of the principal risks and uncertainties faced by the Company.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company on a consolidated and individual basis and to enable them to ensure that the consolidated financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the Company financial statements and the Directors' Remuneration Report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors of National Grid plc as at 14 May 2008 are shown in the Business Overview section of the Annual Report and Accounts on pages 12 and 13.

By order of the Board

Helen Mahy Company Secretary & General Counsel 14 May 2008

We have audited the consolidated and Company financial statements (the 'financial statements') of National Grid plc for the year ended 31 March 2008, which comprise the consolidated income statement, the consolidated and Company balance sheets, the consolidated cash flow statement, the consolidated statement of recognised income and expense, the Accounting policies and Company accounting policies, the Adoption of new accounting standards, the Notes to the consolidated financial statements and the Notes to the Company financial statements. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union, and for preparing the Company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the consolidated financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review and Corporate Governance section that is cross referred from the principal activities, business review and future developments section of the Directors' Report

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it

on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the items listed in the contents section of the Annual Report, excluding the 2008 audited financial statements and the part of the Directors' Remuneration Report to be audited. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 March 2008 and of its profit and cash flows for the vear then ended:
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation:
- the Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2008;
- the Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

Y59930.SUB, DocName: EX-15.1, Doc: 16, Page: 105

Description: EXHIBIT 15.1

CRC: 49819 EDGAR 2 does not. We are not required to consider whether the Board's statements

Chartered Accountants and Registered Auditors London 14 May 2008

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National Grid plc

Accounting policies

for the year ended 31 March 2008

A. Basis of preparation of consolidated financial statements under IFRS

National Grid's principal activities involve the transmission and distribution of electricity and gas in Great Britain and the northeastern US. The Company is a public limited liability company incorporated and domiciled in England, with its registered office at 1-3 Strand, London WC2 5EH.

The Company has its primary listing on the London Stock Exchange and is also quoted on the New York Stock Exchange.

These consolidated financial statements were approved for issue by the Board of Directors on 14 May 2008.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ending 31 March 2008 and in accordance with the Companies Act 1985 applicable to companies reporting under IFRS and Article 4 of the European Union IAS Regulation. The 2007 and 2006 comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on a historical cost basis, except for the recording of pension liabilities and the revaluation of derivative financial instruments and certain commodity contracts.

These consolidated financial statements are presented in pounds sterling, which is the functional currency of the Company.

Our Ravenswood generation station, KeySpan Communications and KeySpan Engineering Associates businesses have been classified as held for sale in the consolidated balance sheet and as discontinued operations in the consolidated income statement, in accordance with our accounting policy I.

As set out in accounting policy T below, prior year business performance subtotals have been adjusted to reflect the exclusion of stranded cost recoveries, consistent with the current year classification.

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

B. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, together with a share of the results, assets and liabilities of jointly controlled entities (joint ventures) and associates using the equity method of accounting, where the investment is carried at cost plus post-acquisition changes in the share of net assets of the joint venture, less any provision for impairment.

A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. A joint venture is an entity established to engage in economic activity, which the Company jointly controls with its fellow venturers. An associate is an entity which is neither a subsidiary nor a joint venture, but over which the Company has significant influence.

Losses in excess of the consolidated interest in joint ventures are not recognised, except where the Company or its subsidiaries have made a commitment to make good those losses.

Where necessary, adjustments are made to bring the accounting policies used under UK generally accepted accounting principles (UK GAAP), US generally accepted accounting principles (US GAAP) or other framework used in the individual financial statements of the Company, subsidiaries and joint ventures into line with those used by the Company in its consolidated financial statements under IFRS. Inter-company transactions are eliminated.

The results of subsidiaries and joint ventures acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Acquisitions are accounted for using the purchase method, where the purchase price is allocated to assets and liabilities on a fair value basis and the remainder recognised as goodwill.

C. Foreign currencies

Transactions in currencies other than the functional currency of the Company or subsidiary concerned are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Other non-monetary assets are not retranslated unless they are carried at fair value.

Gains and losses arising on retranslation of monetary assets and liabilities are included in the income statement.

On consolidation, the assets and liabilities of operations that have a functional currency different from the Company's functional currency of pounds sterling, principally on US operations that have a functional currency of US dollars, are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the weighted average exchange rates for the period. Exchange differences arising are classified as equity and transferred to the consolidated translation reserve.

BOWNE INTEGRATED TYPESETTING SYSTEM Site: BOWNE OF NEW YORK Name: NATIONAL GRID

Y59930.SUB, DocName: EX-15.1, Doc: 16, Page: 106 [E/O]
Description: EXHIBIT 15.1

CRC: 17041 **EDGAR 2**

D. Goodwill

Goodwill arising on a business combination represents the difference between the cost of acquisition and the Company's consolidated interest in the fair value of the identifiable assets and liabilities of a subsidiary or joint venture as at the date of acquisition.

Goodwill is recognised as an asset and is not amortised, but is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill recorded under UK GAAP arising on acquisitions before 1 April 2004, the date of transition to IFRS, has been frozen at that date, subject to subsequent testing for impairment.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

E. Intangible assets other than goodwill

With the exception of goodwill, as described above, 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.

On a business combination, as well as recording separable intangible assets possessed by the acquired entity at their fair value, identifiable intangible assets that arise from contractual or other legal rights are also included in the balance sheet at their fair value. Acquisition-related intangible assets principally comprise customer relationships.

Non-current intangible assets, other than goodwill, are amortised on a straight-line basis over their estimated economic useful lives. Amortisation periods for categories of intangible assets are:

Amortisation periods	Years
Software	3 to 5
Acquisition-related intangibles	10 to 25
Other – telecommunication licences	10 to 25
 – other licences and other intangibles 	3 to 5

Intangible emission allowances are accounted for in accordance with accounting policy V.

F. Property, plant and equipment

Property, plant and equipment is recorded at cost or deemed cost at the date of transition to IFRS, less accumulated depreciation and any impairment losses.

Cost includes payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment as well as the cost of any associated asset retirement obligations.

Property, plant and equipment includes assets in which National Grid'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 cost of property, plant and equipment are included in payables as deferred income and credited on a straight-line basis to the income statement over the estimated economic useful lives of the assets to which they relate.

No depreciation is provided on freehold land and assets in the course of construction.

Other property, plant and equipment are depreciated, principally 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, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. 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
Freehold and leasehold buildings	up to 65
Plant and machinery	
Electricity transmission plant	15 to 60
Electricity distribution plant	15 to 60
Electricity generation plant	20 to 40
Interconnector plant	15 to 60
Gas plant – mains, services and regulating equipment	30 to 100
Gas plant – storage	40
Gas plant – meters	10 to 33
Wireless infrastructure	20 to 55
Motor vehicles and office equipment	up to 10

Depreciation of wireless infrastructure ceased on the classification of our wireless infrastructure operations as businesses held for sale in 2006/07.

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National Grid plc

G. Impairment of assets

Impairments of assets are calculated as the difference between the carrying value of the asset and its 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.

Recoverable amount is defined as the higher of fair value less costs to sell and estimated value in use at the date the impairment review is undertaken.

Value in use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Goodwill is tested for impairment at least annually. Otherwise, tests for impairment are carried out only if there is some indication that the carrying value of the assets may have been impaired.

Material impairments are recognised in the income statement and are disclosed separately.

H. Taxation

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax and investment tax credits

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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

Investment tax credits are amortised over the economic life of the assets that give rise to the credits.

I. Discontinued operations, assets and businesses held for sale

Cash flows and operations that relate to a major component of the business or geographical region that has been sold or is classified as held for sale are shown separately from continuing operations.

Assets and businesses classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. No depreciation is charged on assets and businesses classified as held for sale.

Assets and businesses are classified as held for sale if their carrying amount will be recovered or settled principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or businesses are available for immediate sale in their present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Finance income or costs are included in discontinued operations only in respect of financial assets or liabilities classified as held for sale or derecognised on sale.

J. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

K. Decommissioning and environmental costs

Provision is made for decommissioning and environmental costs, based on future estimated expenditures, discounted to present values. Where appropriate, the establishment of a provision is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

L. Revenue

Revenue primarily represents the sales value derived from the generation, transmission, and distribution of energy and recovery of US stranded costs together with the sales value derived from the provision of other services to customers during the year and excludes value added tax and intragroup sales.

US stranded costs are various generation related costs incurred prior to the divestiture of generation assets beginning in the late 1990s and costs of legacy contracts that are in general being recovered over the period up to 2011. The recovery of stranded costs and other amounts allowed to be collected from customers under regulatory arrangements are recognised in the period in which they are recoverable from customers.

Revenue includes an assessment of energy and transportation services supplied to customers between the date of the last meter reading and the year end.

Where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this overrecovery, no liability is recognised as such an adjustment to future prices relates to the provision of future services Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

M. Segmental information

Segmental information is presented in accordance with the management responsibilities and economic characteristics, including consideration of risks and returns, of business activities. The Company assesses the performance of its businesses principally on the basis of operating profit before exceptional items, remeasurements and stranded cost recoveries. The primary reporting format is by business and the secondary reporting format is by geographical area.

N. Pensions and other post-retirement benefits

For defined benefit retirement schemes, the cost of providing benefits is determined using the projected unit method, with actuarial valuations being carried out at each balance sheet

Current service cost is recognised in operating costs in the period in which the defined benefit obligation increases as a result of employee services.

Actuarial gains and losses are recognised in full in the period in which they occur in the statement of recognised income and expense.

Past service costs are recognised immediately to the extent that benefits are already vested. Otherwise such costs are amortised on a straight-line basis over the period until the benefits vest.

Settlements are recognised when a transaction is entered into that eliminates all further legal or constructive obligations for benefits under a scheme.

Curtailments are recognised when a commitment is made to a material reduction in the number of employees covered by a scheme.

The retirement benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligations, as reduced by the fair value of scheme assets and any unrecognised past service cost.

The expected return on scheme assets and the unwinding of the discount on defined benefit obligations are recognised within interest income and expense respectively.

O. Leases

Rentals under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Assets held under finance leases are recognised at their fair value or, if lower, the present value of the minimum lease payments on inception, and depreciated over their useful economic lives. The corresponding liability is recognised as a finance lease obligation within borrowings. Rental payments are apportioned between finance costs and reduction in the finance lease obligation, so as to achieve a constant rate of interest.

P. Financial instruments

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

Trade 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. Indications that the trade receivable may become irrecoverable would include financial difficulties of the debtor, likelihood of the debtor's insolvency, and default or significant failure of payment. Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

Loans receivable and other receivables are carried at amortised cost using the effective interest rate method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, are recognised in the income statement.

Other financial investments are recognised at fair value plus directly related incremental transaction costs and are subsequently carried at fair value on the balance sheet. Changes in the fair value of investments classified at fair value through profit and loss are included in the income statement, while changes in the fair value of investments classified as available-for-sale are recognised directly in equity, 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. In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. Investment income on investments classified at fair value through profit and loss and on available-for-sale investments is recognised on an effective interest basis and taken through interest income in the income statement.

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National Grid plc

Borrowings, which include interest bearing loans, UK retail price index (RPI) 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 rate 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 rate method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (being assets that necessarily take a substantial period of time to prepare for their intended use or sale) are added to their cost. Such additions cease when the assets are substantially ready for their intended use or sale.

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

Where we have derivatives embedded in financial instruments or other contracts that are closely related to those instruments or contracts, no adjustment is made with respect to such derivative clauses. In particular, interest payments on UK RPI debt are linked to movements in the UK retail price index. The link to RPI is considered to be an embedded derivative, which is closely related to the underlying debt instrument based on the view that there is a strong relationship existing between interest rates and inflation in the UK economy. Consequently these embedded derivatives are not accounted for separately from the debt instrument.

An equity instrument is any contract that evidences a residual interest in the consolidated assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs, with an annual amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

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

Q. Commodity contracts

Commodity contracts that meet the definition of a derivative and which do not meet the exemption for normal sale, purchase or usage are carried at fair value.

Remeasurements of commodity contracts carried at fair value are recognised in the income statement, with changes due to movements in commodity prices recorded in operating costs and changes relating to movements in interest rates recorded in finance costs.

Energy purchase contracts for the forward purchase of electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves meet the normal purchase, sale or usage exemption of IAS 32 'Financial Instruments: Presentation'. They are, therefore, not recognised in the accounts. Disclosure of commitments under such contracts is made in the notes to the accounts (see note 29).

R. Hedge accounting

The Company and its subsidiaries enter into both derivative financial instruments (derivatives) and non-derivative financial instruments in order to manage interest rate and foreign currency exposures, and commodity price risks associated with underlying business activities and the financing of those activities.

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 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. National Grid uses three hedge accounting methods.

Firstly, changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows (cash flow hedges) are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the income statement in the same period in which the hedged item affects net profit or loss. 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.

Secondly, fair value hedge accounting offsets the changes in the fair value of the hedging instrument against the change in the fair value of the hedged item in respect to the risk being hedged. These changes 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.

Thirdly, foreign exchange gains or losses arising on financial instruments that are designated and effective as hedges of the Company's consolidated net investment in overseas operations (net investment hedges) are recorded directly in equity, with any ineffective portion recognised immediately in the income statement.

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 net profit or loss. Amounts deferred in equity with respect to net investment hedges are subsequently recognised in the income statement in the event of the disposal of the overseas operations concerned. 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 rate method.

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

S. Share-based payments

The Company issues equity-settled, share-based payments to certain employees of the Company's subsidiary undertakings.

Equity-settled, share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest.

T. Business performance and exceptional items, remeasurements and stranded cost recoveries

Our financial performance is analysed into two components: business performance, which excludes exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles; and exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles. Business performance is used by management to monitor financial performance as it is considered that it improves the comparability of our reported financial performance from year to year. Business performance subtotals, which exclude exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles are presented on the face of the income statement or in the notes to the financial statements.

Exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles are items of income and expenditure that, in the judgement of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of our financial performance and significantly distort the comparability of financial performance between periods.

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, restructuring costs and gains or losses on disposals of businesses or investments.

Costs arising from restructuring programmes primarily relate to redundancy costs. Redundancy costs are charged to the income statement in the year in which an irrevocable 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.

Stranded cost recoveries represent the recovery of historical generation-related costs in the US related to generation assets that are no longer owned. Such costs are being recovered from customers as permitted by regulatory agreements.

Acquisition-related intangibles comprise intangible assets, principally customer relationships, that are only recognised as a consequence of accounting required for a business combination. The amortisation of acquisition-related intangibles distorts the comparison of financial performance of acquired businesses with non-acquired businesses.

Prior year business performance subtotals have been adjusted to reflect the exclusion of stranded cost recoveries, consistent with the current year classification.

U. Other operating income

Other operating income primarily relates to profits or losses arising on the disposal of properties by our property management business, which is considered to be part of normal recurring operating activities.

V. Emission allowances

Emission allowances, principally relating to the emissions of carbon dioxide in the UK and sulphur and nitrous oxides in the US, are recorded as an intangible asset within current assets and are initially recorded at cost and subsequently at the lower of cost and net realisable value. For allocations of emission allowances granted by the relevant authorities, cost is deemed to be equal to the fair value at the date of allocation. Receipts of such grants are treated as deferred income and are recognised in the income statement over the period to which they relate. A provision is recorded in respect of the obligation to deliver emission allowances and charges are recognised in the income statement in the period in which carbon dioxide emissions are made.

Income from emission allowances which are sold is reported as part of other operating income.

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W. Cash and cash equivalents

Cash and cash equivalents include cash held at bank and in hand, together with short-term highly liquid investments with an original maturity of less than three months that are readily convertible to known amounts of cash and subject to an insignificant change in value and bank overdrafts which are reported in borrowings.

X. Other equity reserves

Other equity reserves comprise the translation reserve (see accounting policy C), cash flow hedge reserve (see accounting policy R), available-for-sale reserve (see accounting policy P) and the merger reserve. The latter arose as a result of the application of merger accounting principles under the then prevailing UK GAAP, which under IFRS 1 was retained for mergers that occurred prior to the IFRS transition date of 1 April 2004. Under merger accounting principles, the difference between the carrying amount of the capital structure of the acquiring vehicle and that of the acquired business was treated as a merger difference and included within reserves.

As the amounts included in other equity reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

Y. Dividends

Interim dividends are recognised when they become payable to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

Z. Areas of judgement and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimations is contained in the accounting policies or the notes to the financial statements, and the key areas are summarised below.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as

- The categorisation of certain items as exceptional items, remeasurements and stranded cost recoveries and the definition of adjusted earnings – notes 4 and 10.
- The exemptions adopted on transition to IFRS on 1 April 2004 including, in particular, those relating to business combinations
- Classification of business activities as held for sale and discontinued operations - accounting policy I.
- Hedge accounting accounting policy R.
- Energy purchase contracts classification as being for normal purchase, sale or usage - accounting policy Q

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as

- Impairment of goodwill accounting policy D and note 11.
- Review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment - accounting policies E, F and G.
- Estimation of liabilities for pension and other postretirement benefits - note 5.
- Valuation of financial instruments and derivatives notes 17 and 32
- Revenue recognition and assessment of unbilled revenue accounting policy L
- Recoverability of deferred tax assets accounting policy H and note 16.
- Environmental and decommissioning provisions note
- Fair values of acquired assets and liabilities note 28.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2007/08

During the year ended 31 March 2008 the Company adopted the following amendments to International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the International Financial Reporting Interpretation Committee (IFRIC). None of these had a material impact on consolidated results or assets and liabilities.

IFRIC 8 on share-based payments	Addresses the issue of whether IFRS 2 'Share-Based Payment' applies to transactions in which the entity cannot identify specifically some or all of the goods or services received.
IFRIC 9 on the reassessment of embedded derivatives	Prohibits reassessment of the treatment of embedded derivatives subsequent to initial recognition unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.
IFRIC 10 on interim financial reporting and impairment	States that any impairment losses on goodwill and certain financial assets recognised in an interim financial statement may not be reversed in subsequent interim or annual financial statements.
IFRIC 11 on group and treasury share transactions	Provides guidance on whether share-based transactions involving treasury shares or involving subsidiary undertakings (for instance, options over a parent's shares) should be accounted for as equity-settled or cash-settled, share-based payment transactions.

New IFRS accounting standards and interpretations not yet adopted
The Company has yet to adopt the following standards and interpretations, but these are not expected to have a material impact on consolidated results or assets and liabilities. Further information is provided in the Accounting Policies section of the Operating and Financial Review.

IFRS 8 on operating segments	Sets out the requirements for the disclosure of information about an entity's operating segments and about the entity's products and services, the geographical areas in which it operates and its major customers. IFRS 8 achieves convergence with the US accounting standard, SFAS 131 'Disclosures about Segments of an Enterprise and Related Information' with minor differences. IFRS 8 is required to be adopted on 1 April 2009.
Amendment to IAS 23 on borrowing costs	Removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The amendment to IAS 23 is required to be adopted on 1 April 2009.
IFRIC 12 on service concession arrangements	Applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services, for example, under private finance initiative (PFI) contracts. IFRIC 12 will be adopted on 1 April 2008.
IFRIC 13 on customer loyalty programmes	Clarifies that the sale of goods or services together with customer award credits (for example, loyalty points or the right to free products) is accounted for as a multiple-element transaction. The consideration received from the customer is allocated between the components of the arrangement based on their fair values, which will defer the recognition of some revenue. IFRIC 13 will be adopted on 1 April 2008.
IFRIC 14 on defined benefit assets and minimum funding requirements	Considers the limit on the measurement of a defined benefit asset to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan plus unrecognised gains and losses, as set out in IAS 19 'Employee Benefits'. The interpretation considers when refunds or reductions in future contributions should be considered available, particularly when a minimum funding requirement exists. IFRIC 14 will be adopted on 1 April 2008.
Amendment to IAS 1 on the presentation of financial statements	Requires changes to the presentation of financial statements and adopts revised titles for the primary statements, although companies may continue to use the existing titles. It is expected that the amendment to IAS 1 will be adopted on 1 April 2009.
IFRS 3R on business combinations	Makes a number of changes to the accounting for business combinations, including requirements that all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income; an option to calculate goodwill based on the parent's share of net assets only or to include goodwill related to the minority interest; and a requirement that all transaction costs be expensed. It is expected that IFRS 3R will be adopted on 1 April 2010.
IAS 27R on consolidated and individual financial statements	Requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. The revised standard also specifies the accounting when control is lost. It is expected that IAS 27R will be adopted on 1 April 2010.
Amendment to IFRS 2 on share-based payments	Clarifies the definition of vesting conditions and the accounting treatment of cancellations. Vesting conditions are defined as either service conditions or performance conditions. Cancellations by employees are accounted for in the same way as cancellations by the Company. It is expected that the amendment to IFRS 2 will be adopted on 1 April 2009.
Amendments to IAS 32 and IAS 1 on puttable financial instruments and obligations arising on liquidation	Addresses the classification as a liability or as equity certain puttable financial instruments and instruments, or components thereof, which impose upon an entity an obligation to deliver a pro rata share of net assets on liquidation. The amendments to IAS 32 and IAS 1 are required to be adopted on 1 April 2009.

122 Consolidated income statement

National Grid plc

Consolidated income statement

for the years ended 31 March

	Notes	2008 £m	2008 £m	2007 £m	2007 £m	2006 £m	2006 £m
Revenue	1(a)	2111	11,423	2.111	8,695	2111	8,868
Other operating income	2		75		83		80
Operating costs	3		(8,534)		(6,265)		(6,574)
Operating profit							
Before exceptional items, remeasurements							
and stranded cost recoveries*	1(b)	2,595		2,031		1,968	
Exceptional items, remeasurements and							
stranded cost recoveries*	4	369		482		406	
Total operating profit	1(b)		2,964		2,513		2,374
Interest income and similar income	6		1,275		1,144		1,036
Interest expense and other finance costs		(0.005)		(4.004)		(4.000)	
Before exceptional items and remeasurements	6	(2,035)		(1,691)		(1,638)	
Exceptional items and remeasurements	4,6	(16)	(0.054)	(217)	(4.000)	(57)	(4.005)
Chara of post toy requite of joint yent are and	6		(2,051)		(1,908)		(1,695)
Share of post-tax results of joint ventures and associates			4		2		3
Profit before taxation			- 4				3
Before exceptional items, remeasurements and							
stranded cost recoveries*		1,839		1,486		1,369	
Exceptional items, remeasurements and		1,000		1,400		1,000	
stranded cost recoveries*	4	353		265		349	
Total profit before taxation			2,192		1,751		1,718
Taxation			_,		.,		.,
Before exceptional items, remeasurements							
and stranded cost recoveries*	7	(583)		(442)		(369)	
Exceptional items, remeasurements and							
stranded cost recoveries*	4,7	(28)		1		(166)	
Total taxation	7		(611)		(441)		(535)
Profit from continuing operations after taxation							
Before exceptional items, remeasurements							
and stranded cost recoveries*		1,256		1,044		1,000	
Exceptional items, remeasurements and							
stranded cost recoveries*	4	325		266		183	
Profit for the year from continuing operations			1,581		1,310		1,183
Profit for the year from discontinued operations	•	00		104		77	
Before exceptional items and remeasurements Exceptional items and remeasurements	8 8	28 1,590		(18)		2,590	
Exceptional items and remeasurements		1,590	4 640	(10)	00	2,590	0.007
Duelit fou the week	8		1,618		86		2,667
Profit for the year			3,199		1,396		3,850
Attributable to:			2 106		1 204		0.040
Equity shareholders of the parent Minority interests			3,196 3		1,394 2		3,848 2
willonly interests							
Familiars was about from continuing account on			3,199		1,396		3,850
Earnings per share from continuing operations	40		60 F=		10 15		44.6=
Basic Diluted	10 10		60.5p 60.1p		48.1p 47.8p		41.6p 41.4p
Earnings per share	10		ω. τρ		47.op		41.4p
Basic	10		122.5p		51.3p		135.6p
Diluted	10		121.8p		50.9p		135.0p
Dilatou	10		12 1.0p		00.0p		100.0p

^{*}Comparatives have been adjusted to present items on a basis consistent with the current year classification

The notes on pages 126 to 178 form part of the consolidated financial statements.

Consolidated balance sheet

at 31 March

		2008	2007
	Notes	2008 £m	2007 £m
Non-current assets			
Goodwill	11	3,838	1,480
Other intangible assets	12	272	144
Property, plant and equipment	13	24,333	18.895
Pension asset	5	846	37
Other non-current assets	14	255	36
Financial and other investments	15	251	137
Derivative financial assets	17	1,063	380
Total non-current assets		30,858	21,109
Current assets			
Inventories and current intangible assets	18	455	108
Trade and other receivables	19	2,269	1,236
Financial and other investments	15	2,095	2,098
Derivative financial assets	17	463	277
Cash and cash equivalents	20	174	1,593
Total current assets		5,456	5,312
Assets of businesses held for sale		1,508	1,968
Total assets	1(d)	37,822	28,389
Current liabilities			
Borrowings	21	(3,882)	(1,031)
Derivative financial liabilities	17	(114)	(235)
Trade and other payables	22	(2,439)	(1,852)
Current tax liabilities		(298)	(75)
Provisions	24	(389)	(167)
Total current liabilities		(7,122)	(3,360)
Non-current liabilities			
Borrowings	21	(17,121)	(14,686)
Derivative financial liabilities	17	(319)	(184)
Other non-current liabilities	23	(1,721)	(1,475)
Deferred tax liabilities	16	(3,407)	(2,389)
Pensions and other post-retirement benefit obligations	5	(1,746)	(1,282)
Provisions	24	(943)	(427)
Total non-current liabilities		(25,257)	(20,443)
Liabilities of businesses held for sale		(63)	(450)
Total liabilities	1(d)	(32,442)	(24,253)
Net assets		5,380	4,136
Equity			
Called up share capital	25	294	308
Share premium account	26	1,371	1,332
Retained earnings	26	8,949	7,635
Other equity reserves	26	(5,252)	(5,150)
Shareholders' equity		5,362	4,125
Minority interests	26	18	11
Total equity		5,380	4,136

These financial statements comprising the consolidated income statement, consolidated balance sheet, consolidated statement of recognised income and expense, consolidated cash flow statement, accounting policies, adoption of new accounting standards and the notes to the consolidated financial statements 1 to 38, were approved by the Board of Directors on 14 May 2008 and were signed on its behalf by:

Sir John Parker Chairman Steve Lucas Finance Director

124 Consolidated statement of recognised income and expense

National Grid plc

Consolidated statement of recognised income and expense

for the years ended 31 March

	Notes	2008 £m	2007 £m	2006 £m
Exchange adjustments		(25)	(179)	141
Actuarial net gain	5	432	`365 [′]	181
Net (losses)/gains taken to equity in respect of cash flow hedges		(32)	47	(12)
Transferred to profit or loss on cash flow hedges		`(7)	(45)	(20)
Net gains/(losses) taken to equity on available-for-sale investments		6	(3)	4
Transferred to profit or loss on sale of available-for-sale investments		_	(1)	(1)
Tax on items taken directly to or transferred from equity	7	(94)	(81)	(43)
Net income recognised directly in equity		280	103	250
Profit for the year		3,199	1,396	3,850
Total recognised income and expense for the year		3,479	1,499	4,100
Attributable to:				
Equity shareholders of the parent		3,476	1,498	4,097
Minority interests		3	1	3
		2 /170	1 /00	4 100

Consolidated cash flow statement

for the years ended 31 March

	Notes	2008 £m	2007 £m	2006 £m
Cash flows from operating activities				
Total operating profit		2,964	2,513	2,374
Adjustments for:				
Exceptional items, remeasurements and stranded cost recoveries*		(369)	(482)	(406)
Depreciation and amortisation		994	871	888
Share-based payment charge		18	15	14
Changes in working capital		(150)	127	(181)
Changes in provisions		(5)	(31)	7
Changes in pensions and other post-retirement benefit obligations		(333)	(125)	(40)
Cash flows relating to exceptional items		(132)	(86)	(115)
Cash flows relating to stranded cost recoveries*		278	288	432
Cash flows generated from continuing operations		3,265	3,090	2,973
Cash flows relating to discontinued operations	27(a)	[^] 10	181	138
Cash generated from operations		3,275	3,271	3,111
Tax paid – continuing operations		(110)	(310)	(103)
Tax paid – discontinued operations		-	(3)	(37)
Net cash inflow from operating activities		3,165	2,958	2,971
Cash flows from investing activities		-,	,	
Acquisition of subsidiaries, net of cash acquired	28	(3,502)	(269)	_
Acquisition of other investments	20	(26)	(200)	_
Sale of investments in subsidiaries and other investments		55	19	8
Purchases of intangible assets		(45)	(33)	(15)
Purchases of property, plant and equipment		(2,832)	(2,185)	(1,657)
Disposals of property, plant and equipment		26	21	18
Interest received*		206	216	130
Purchases of financial investments		(8,788)	(3,699)	(2,870)
Sales of financial investments		8,833	1,974	2,895
Dividends received from joint ventures		_	-	2
Cash flows used in continuing operations – investing activities*		(6,073)	(3.956)	(1,489)
Cash flows relating to discontinued operations – investing activities	27(b)	3,050	(105)	5,541
Net cash flow (used in)/from investing activities*	27(0)	(3,023)	(4,061)	4,052
		(0,020)	(4,001)	4,032
Cash flows from financing activities Proceeds from issue of share capital and sale of treasury shares		23	16	54
Proceeds from loans received		-		
Repayment of loans		1,568	5,519	1,026
- P		(650) 671	(2,311)	(1,714)
Net movements in short-term borrowings and derivatives Interest paid			(163)	(1,616)
Exceptional finance costs on the repayment of debt		(900)	(813) (45)	(834) (49)
Dividends paid to shareholders		_ (780)	(730)	(745)
Cash paid to shareholders under B share scheme		` '	` ,	` ,
Repurchase of share capital and purchase of treasury shares		(26) (1,498)	(26) (169)	(1,957)
				(7)
Net cash flow (used in)/from financing activities*		(1,592)	1,278	(5,842)
Net (decrease)/increase in cash and cash equivalents		(1,450)	175	1,181
Exchange movements		4	(14)	14
Cash included within assets of businesses held for sale		23	(23)	-
Net cash and cash equivalents at start of year (i)	22	1,587	1,449	254
Net cash and cash equivalents at end of year (i)	20	164	1,587	1,449

^{*} Comparatives have been adjusted to present items on a basis consistent with the current year classification for stranded cost recoveries and interest received

⁽i) Net of bank overdrafts of £10m (2007: £6m; 2006: £3m).

126 Notes to the consolidated financial statements

National Grid plc

Notes to the consolidated financial statements – analysis of items in the primary statements

1. Segmental analysis

The following table describes the main activities for each business segment:

Transmission UK High-voltage electricity transmission networks, the gas transmission network in the UK, the UK liquefied natural gas (LNG) storage activities and the French electricity interconnector.

Transmission US High-voltage electricity transmission networks in New York and New Éngland.

Gas Distribution UK Four of the eight regional networks of Great Britain's gas distribution system.

Gas Distribution US Gas distribution in New York and New England.

Other activities primarily relate to non-regulated businesses and other commercial operations not included within the above segments, including UK-based gas metering activities; UK property management; a UK LNG import terminal; other LNG operations; US unregulated transmission pipelines; US home services; US gas fields; together with corporate activities, including business development.

Discontinued operations comprise wireless infrastructure and communications operations in the UK and the US, an electricity interconnector in Australia, the Ravenswood generation station in New York City and the engineering and communications operations in the US acquired as part of the KeySpan acquisition. The wireless infrastructure operations in the UK were sold on 3 April 2007; the US wireless operations were sold on 15 August 2007; and the Basslink electricity interconnector in Australia was sold on 31 August 2007. The results for discontinued operations are disclosed in note 8.

Our segments are unchanged from those reported in the financial statements for the year ended 31 March 2007, except for our former US Electricity Distribution segment, which, as a consequence of the acquisition of KeySpan on 24 August 2007, has been expanded to incorporate the operations of KeySpan's generation business and is now reported as Electricity Distribution & Generation US. In addition, in line with our management structure, the recovery of stranded costs from US electricity distribution customers as permitted by regulatory agreements is no longer presented as a separate segment but is reported within Electricity Distribution & Generation US. Prior year comparatives have been adjusted to conform with the current year classification.

Sales between businesses are priced having regard to the regulatory and legal requirements to which the businesses are subject.

(a) Revenue

(4) 1101011410									
		Sales	Sales		Sales	Sales		Sales	Sales
	Total	between	to third	Total	between	to third	Total	between	to third
	sales	businesses	parties	sales 2007	businesses 2007	parties 2007	sales 2006	businesses 2006	parties 2006
	2008 £m	2008 £m	2008 £m	2007 £m	2007 £m	2007 £m	2006 £m	2006 £m	2006 £m
Business segments – continuing operations	Ž.III	2	2						
Transmission UK	2,956	16	2,940	2,816	18	2,798	2,710	15	2,695
Transmission US	299	61	238	270	47	223	310	48	262
Gas Distribution UK	1,383	70	1,313	1,193	92	1,101	1,222	86	1,136
Gas Distribution US	2,845	2	2,843	638	-	638	571	_	571
Electricity Distribution & Generation US*	3,508	2	3,506	3,430	2	3,428	3,651	2	3,649
Other activities	642	59	583	567	60	507	701	146	555
	11,633	210	11,423	8,914	219	8,695	9,165	297	8,868
Total excluding stranded cost recoveries			11,041			8,269			8,351
Stranded cost recoveries			382			426			517
			11,423			8,695			8,868
Geographical segments									
UK			4,787			4,397			4,374
US			6,636			4,298			4,494
			11,423			8,695			8,868

^{*}Comparatives have been adjusted to present items on a basis consistent with the current year classification

The table above represents revenue from continuing operations only, as disclosed in the consolidated income statement. For additional disclosures relating to discontinued operations, refer to note 8.

The analysis of revenue by geographical area is on the basis of destination. There are no material sales between the UK and US geographical areas.

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1. Segmental analysis continued

(a) Revenue continued

Approximately 9% (2007: 9%; 2006: 9%) of revenue for the year ended 31 March 2008 amounting to approximately £1.0bn (2007: £0.8bn; 2006: £0.9bn) derives from a single customer, the Centrica group. The majority of this revenue is in the Gas Distribution UK segment with lesser amounts in the Transmission UK segment and in other activities.

In accordance with the Company's accounting policy on revenue recognition, where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to reflect the over-recovery, no liability is recognised. Similarly, no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. In the UK, there was an under-recovery of £23m at 31 March 2008 (2007: £33m). In the UK, under-recoveries and other regulatory entitlements to future revenue (including stranded cost recoveries) amounted to £1,652m at 31 March 2008 (2007: £1,930m).

(b) Operating profit

	Befo	Before exceptional items,				After exceptional items,			
	remea	surements and st	randed	remeasurements and stranded					
	2008	2007	2006	2008	2007	2006			
	£m	£m	£m	£m	£m	£m			
Business segments – continuing operations									
Transmission UK	1,021	946	844	1,013	936	843			
Transmission US	128	108	127	122	107	127			
Gas Distribution UK	595	409	483	574	412	432			
Gas Distribution US	392	71	47	487	67	47			
Electricity Distribution & Generation US*	330	364	317	696	859	757			
Other activities	129	133	150	72	132	168			
	2,595	2,031	1,968	2,964	2,513	2,374			
Geographical segments									
ŬK '	1,752	1,491	1,478	1,667	1,482	1,423			
US	843	540	490	1,297	1,031	930			
Rest of the world	_	_	_	_	_	21			
	2,595	2,031	1,968	2.964	2,513	2,374			

^{*}Comparatives have been adjusted to present items on a basis consistent with the current year classification

The table above represents operating profit from continuing operations only, as disclosed in the consolidated income statement, and excludes the results of discontinued operations. For additional disclosures relating to discontinued operations, refer to note 8.

(c) Capital expenditure and depreciation

		Capital expenditure	Э	Deprec	iation and amortis	tisation	
	2008	2007	2006	2008	2007	2006	
	£m	£m	£m	£m	£m	£m	
Business segments – continuing operations							
Transmission UK	1,600	1,235	849	372	352	377	
Transmission US	111	108	91	40	41	45	
Gas Distribution UK	514	490	444	181	170	161	
Gas Distribution US	188	36	25	91	24	19	
Electricity Distribution & Generation US	257	218	219	146	127	126	
Other activities	383	258	279	164	157	160	
	3,053	2,345	1,907	994	871	888	
Discontinued operations	1	30	201	-	72	77	
	3,054	2,375	2,108	994	943	965	
Geographical segments							
ŬK [']	2,493	2,007	1,697	709	739	771	
US	560	365	340	285	196	194	
Rest of the world	1	3	71	_	8	_	
	3.054	2,375	2.108	994	943	965	

Capital expenditure comprises additions to property, plant and equipment and other non-current intangible assets amounting to £3,009m (2007: £2,343m; 2006: £2,093m) and £45m (2007: £32m; 2006: £15m) respectively.

Depreciation and amortisation includes expensed depreciation of property, plant and equipment and amortisation of other intangible assets amounting to £940m (2007: £889m; 2006: £908m) and £54m (2007: £54m; 2006: £57m) respectively.

Notes to the consolidated financial statements continued

National Grid plc

1. Segmental analysis continued

(d) Total assets and total liabilities

(d) Total assets and total habilities				
	Total a	Total assets		bilities
	2008	2007	2008	2007
	£m	£m	£m	£m
Business segments – continuing operations				
Transmission UK*	10,076	8,060	(1,455)	(1,434)
Transmission US	1,534	1,481	(38)	(19)
Gas Distribution UK	5,765	5,404	(1,222)	(1,192)
Gas Distribution US	7,031	1,109	(1,254)	(231)
Electricity Distribution & Generation US*	5,525	4,536	(2,226)	(1,697)
Other activities*	2,517	1,478	(1,023)	(603)
	32,448	22,068	(7,218)	(5,176)
Discontinued operations	1,508	1,968	(83)	(477)
	33,956	24,036	(7,301)	(5,653)
Joint ventures – continuing operations	71	5		_
Unallocated	3,795	4,348	(25,141)	(18,600)
	37,822	28,389	(32,442)	(24,253)
Geographical segments				
ŬK '	17,533	16,405	(3,365)	(3,683)
US	16,494	7,288	(3,936)	(1,966)
Rest of the world	_	348	-	(4)
Unallocated	3,795	4,348	(25,141)	(18,600)
	37,822	28,389	(32,442)	(24,253)
	,	- /	·- //	, ,,

 $^{^{\}star}$ Comparatives have been adjusted to present items on a basis consistent with the current year classification

The analysis of total assets and total liabilities includes all attributable goodwill and excludes inter-business balances. Unallocated total assets comprise cash and cash equivalents, taxation, current financial investments and derivative financial assets. Unallocated total liabilities comprise bank overdrafts, borrowings, derivative financial liabilities and taxation.

2. Other operating incomeOther operating income represents income on the disposal of property, plant and equipment, principally properties disposed of by our property management business.

3. Operating costs

	Before	exceptional ite	ms,	Exce	ptional items,						
	remeasur	rements and stranded		remeasurei	remeasurements and stranded		remeasurements and stranded		Total		
	2008 £m	2007 £m	2006 £m	2008 £m	2007 £m	2006 £m	2008 £m	2007 £m	2006 £m		
Depreciation of property, plant and											
equipment	940	830	844	_	_	-	940	830	844		
Amortisation of intangible assets	50	41	44	4	_	_	54	41	44		
Payroll costs	1,071	794	807	108	26	47	1,179	820	854		
Other operating charges:											
Purchases of electricity*	1,589	1,680	1,906	(236)	(87)	71	1,353	1,593	1,977		
Purchases of gas	2,011	544	566	` _	` _'	_	2,011	544	566		
Rates and property taxes	608	472	437	_	_	_	608	472	437		
Electricity transmission services											
scheme direct costs	574	558	536	_	_	_	574	558	536		
Payments to Scottish electricity											
transmission network owners	226	237	259	_	_	_	226	237	259		
Other*	1,452	1,165	1,064	137	5	(7)	1,589	1,170	1,057		
	8,521	6,321	6,463	13	(56)	111	8,534	6,265	6,574		
Operating costs include:											
Research expenditure							13	6	7		
Operating lease rentals											
Plant and machinery							33	21	23		
Other							30	63	53		

^{*}Comparatives have been adjusted to present items on a basis consistent with the current year classification

3. Operating costs continued

(a) Payroll costs

	2008	2007	2006
	£m	£m	£m
Wages and salaries	1,169	819	857
Social security costs	84	65	59
Other pension costs	218	132	140
Share-based payments	18	15	14
Severance costs (excluding pension costs)	14	14	23
	1,503	1,045	1,093
Less: payroll costs capitalised	(324)	(225)	(239)
	1,179	820	854

Payroll costs above represent continuing operations only. Payroll costs of discontinued operations for the year ended 31 March 2008 were £16m (2007: £37m; 2006: £67m).

(b) Number of employees

	31 March	Average	Average	Average
	2008	2008	2007	2006
	Number	Number	Number	Number
UK	10,223	10,093	10,356	10,722
US	17,145	13,335	8,618	8,400
Rest of the world	5	5	8	4
Continuing operations	27,373	23,433	18,982	19,126
Discontinued operations	204	119	730	1,403
			19,712	20,529

The vast majority of employees in the US are either directly or indirectly employed in the transmission, distribution and generation of electricity or the distribution of gas, while those in the UK are either directly or indirectly employed in the transmission and distribution of gas or the transmission of electricity. At 31 March 2008, 3,155 employees were employed in other operations.

(c) Key management compensation

	2008	2007	2006
	£m	£m	£m
Salaries and short-term employee benefits	9	8	7
Post-employment benefits	8	5	5
Termination benefits	-	1	_
Share-based payments	3	3	2
	20	17	1/

Key management compensation relates to the Board of Directors, including the Executive Directors and Non-executive Directors for the years presented, together with Cheryl LaFleur, acting Executive Director for Electricity Distribution for the period to 13 August 2007.

(d) Directors' emoluments

Details of Directors' emoluments are contained in the auditable part of the Directors' Remuneration Report, which form part of these financial statements.

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National Grid plc

3. Operating costs continued

(e) Auditors' remuneration

	2008 £m	2007 £m	2006 £m
Audit services			
Audit of parent company and consolidated financial statements	1.4	1.2	1.4
Other services			
Audit of subsidiary financial statements pursuant to legislation	5.1	2.8	2.0
Other services supplied pursuant to legislation	1.8	2.2	0.8
Services relating to tax compliance	0.7	0.6	0.5
Services relating to tax advisory	0.5	0.7	0.9
Services relating to corporate finance transactions	0.7	1.4	0.4
All other services	0.4	1.3	0.8
Fees paid by associated pension schemes			
Audit of pension schemes of the Company pursuant to legislation	_	0.2	0.1
	10.6	10.4	6.9
Total services pursuant to legislation	8.3	6.4	4.3
Total other services	2.3	4.0	2.6
	10.6	10.4	6.9

Other services supplied pursuant to legislation represent fees payable for services in relation to other statutory filings or engagements that are required to be carried out by the auditor. In particular, this includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley) and audit reports on regulatory returns.

Services relating to corporate finance transactions primarily relate to the sale of Basslink, the potential sale of National Grid's property business and the KeySpan acquisition.

Other services include fees relating to corporate responsibility reporting, treasury related projects and sundry services, all of which have been subject to Audit Committee approval.

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4. Exceptional items, remeasurements and stranded cost recoveries

	2008	2007	2006
	£m	£m	£m
Exceptional items – restructuring costs (i)	(133)	(22)	(55)
Exceptional items – environmental related provisions (ii)	(92)	_	_
Exceptional items – gain on disposal of subsidiary (iii)	6	_	_
Exceptional items – profit on sale and reversal of impairment (iv)	_	-	21
Exceptional items – other (v)	(23)	-	_
Remeasurements – commodity contracts (vi)	232	81	(49)
Stranded cost recoveries (vii)*	379	423	489
Total exceptional items, remeasurements and stranded			
cost recoveries included within operating profit*	369	482	406
Exceptional items – debt restructuring costs (viii)	_	(45)	(49)
Remeasurements – commodity contracts (vi)	(9)	(19)	(14)
Remeasurements – net (losses)/gains on derivative financial instruments (ix)	(7)	(153)	6
Total exceptional items and remeasurements included within finance costs	(16)	(217)	(57)
Total exceptional items, remeasurements and stranded cost recoveries before taxation*	353	265	349
Exceptional tax item – deferred tax credit arising from reduction in UK tax rate (x)	170	-	_
Tax on exceptional items – restructuring costs (i)	49	12	7
Tax on exceptional items – environmental related provisions (ii)	20	_	_
Tax on exceptional items – gain on disposal of subsidiary (iii)	(4)	_	_
Tax on exceptional items – other (v)	5	_	_
Tax on remeasurements – commodity contracts (vi)	(90)	(25)	25
Tax on exceptional items – debt restructuring costs (viii)	_	14	15
Tax on remeasurements – derivative financial instruments (ix)	(28)	169	(17)
Tax on stranded cost recoveries (vii)*	(150)	(169)	(196)
Tax on exceptional items, remeasurements and stranded cost recoveries*	(28)	1	(166)
Total exceptional items, remeasurements and stranded cost recoveries*	325	266	183
Total exceptional items after taxation	(2)	(41)	(61)
Total commodity contract remeasurements after taxation	133	37	(38)
Total derivative financial instrument remeasurements after taxation	(35)	16	(11)
Total stranded cost recoveries after taxation*	229	254	293
Total exceptional items, remeasurements and stranded cost recoveries after taxation*	325	266	183

*Comparatives have been adjusted to present items on a basis consistent with the current year classification

- Restructuring costs relate to planned cost reduction programmes in the UK and US (2007: UK and US; 2006: UK only) businesses. For the year ended 31 March 2008, restructuring costs included pension related costs of £83m arising as a result of redundancies (2007: £10m; 2006: £25m).
- The environmental charge for the year ended 31 March 2008 includes a charge of £44m resulting from revised cost estimates in the UK and £48m in the US. Costs incurred with respect to US environmental provisions are substantially recoverable from customers.
- (iii) The gain on disposal of subsidiary relates to the sale of Advantica.
- (iv) Gain on disposal of an investment in Energis Polska of £8m and reversal of a prior year impairment of £13m related to National Grid's investment in Copperbelt Energy Corporation (CEC).
- A cost of £15m was incurred during the year ended 31 March 2008 relating to the potential disposal of National Grid's property business which we subsequently decided not to proceed with. In addition, there was a £4m amortisation charge on acquisition-related intangibles and a £4m increase in nuclear decommissioning provisions.
- (vi) Remeasurements commodity contracts represent mark-to-market movements on certain commodity contract obligations, primarily indexed-linked swap contracts, in the US. Under the existing rate plans in the US, commodity costs are fully recovered from customers, although the pattern of recovery may differ from the pattern of costs incurred. These movements are comprised of those impacting operating profit which are based on the change in the commodity contract liability and those impacting finance costs as a result of the time value of money.
- (vii) Stranded cost recoveries capture the recovery of some of our historical investments in generating plants that were divested as part of the restructuring and wholesale power deregulation process in New England and New York during the 1990s. These recoveries are no longer considered to be part of our core business. Stranded cost recoveries on a pre-tax basis consist of revenue of £382m (2007: £426m; 2006: £517m) and operating costs of £3m (2007: £3m; 2006: £28m).
- (viii) Debt restructuring costs in the year ended 31 March 2007 represent debt redemption costs related to the restructuring of our debt portfolio. For 2006 these related to costs incurred on the early redemption of debt following the disposal of four gas distribution networks (£39m), together with issue costs associated with the B share scheme (£10m).
- (ix) Remeasurements net (losses)/gains on derivative financial instruments comprise losses and gains 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 equity or offset by adjustments to the carrying value of debt. These remeasurements include a loss of £3m (2007: £126m; 2006: £nil) relating to pre-tax losses on investment related derivative financial instruments that offset on a post-tax basis. The tax charge in the year ended 31 March 2008 includes an £11m adjustment in respect of prior years (2007: £56m credit; 2006: £nil).
- (x) The exceptional tax credit in the period of £170m arose from a reduction in the UK corporation tax rate from 30% to 28% included in the Finance Act 2007. This resulted in a reduction in deferred tax liabilities.

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National Grid plc

5. Pensions and other post-retirement benefits

Substantially all National Grid's employees are members of either defined benefit or defined contribution pension plans.

In the UK the principal schemes are the National Grid UK Pension Scheme and the National Grid Electricity Group of the Electricity Supply Pension Scheme. In the US we have a number of defined benefit and defined contribution pension plans and we also provide health care and life insurance benefits to eligible retired US employees. For further details regarding the nature and terms of each scheme/plan and the actuarial assumptions used to value the associated assets and pension or other postretirement benefit obligations, refer to note 31.

The amounts recognised in the income statement with respect to pensions and other post-retirement benefits are as follows:

	•	Pensions	· ·	US other p	ost-retirement bene	efits
	2008	2007	2006	2008	2007	2006
	£m	£m	£m	£m	£m	£m
Defined contribution scheme costs	5	3	2	_	_	_
Defined benefit scheme costs						
Current service cost	125	113	112	21	15	16
Past service cost	5	_	_	5	7	6
Curtailment gain on redundancies	(16)	(10)	(24)	(4)	_	_
Settlements on redundancies	16	_	_	_	_	_
Special termination benefits on redundancies	80	23	45	1	_	_
Curtailment cost – augmentations	3	3	5	-	_	_
Total in payroll costs – continuing	218	132	140	23	22	22
Curtailment gain on sale of subsidiary undertaking	(12)	_	_	-	_	_
Interest cost	912	806	826	89	63	63
Expected return on plan assets	(1,014)	(885)	(860)	(50)	(41)	(41)
Total in finance costs – continuing	(102)	(79)	(34)	39	22	22
Current service costs	2	2	7	1	_	_
Interest cost	_	2	2	_	_	_
Expected return on plan assets	_	(2)	(2)	_	_	-
Curtailment/settlement gain on sale of distribution						
networks	_	_	(168)	_	_	_
Total in discontinued operations	2	2	(161)	1	_	_

The amounts recognised in the statement of recognised income and expense are as follows:

		Pensions		US other p	ost-retirement bene	efits
	2008	2007	2006	2008	2007	2006
	£m	£m	£m	£m	£m	£m
Actuarial net gain/(loss) during the year	497	357	197	(65)	8	(16)
Exchange differences	3	40	(30)	3	75	(51)
Total recognised for the year	500	397	167	(62)	83	(67)
Cumulative actuarial gain/(loss)	1.322	825	468	(91)	(26)	(34)

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5. Pensions and other post-retirement benefits continued

The amounts recognised in the balance sheet with respect to pensions and other post-retirement benefits are as follows:

		Pensions			r post-retirement be	
	2008 £m	2007 £m	2006 £m	2008 £m	2007 £m	2006 £m
Present value of funded obligations	(16,233)	(16,044)	(16,520)	(1,784)	(1,126)	(1,223)
Fair value of plan assets	16,536	15,468	15,341	737	531	568
	303	(576)	(1,179)	(1,047)	(595)	(655)
Present value of unfunded obligations	(158)	(83)	(96)		` _′	` -
Other post-employment liabilities	` -	` _′	`	(34)	(33)	(34)
Unrecognised past service cost	_	_	_	36	42	49
Net asset/(liability) in the balance sheet	145	(659)	(1,275)	(1,045)	(586)	(640)
Liabilities	(701)	(696)	(1,275)	(1,045)	(586)	(640)
Assets	846	37				_
Net asset/(liability)	145	(659)	(1,275)	(1,045)	(586)	(640)
Changes in the present value of the defined benefit						
obligation						
Opening defined benefit obligation (including unfunded						
obligations)	(16,127)	(16,616)	(15,769)	(1,126)	(1,223)	(1,068
Current service cost	(127)	(115)	(119)	(22)	(15)	(16
Interest cost	(912)	(808)	(828)	(89)	(63)	(63
Actuarial gains/(losses)	1,335	450	(1,300)	8	(4)	(40
Curtailment gain on redundancies	16	10	24	4	_	_
Curtailment gain on sale of subsidiary undertaking	12	_	-	-	_	-
Curtailment gain/settlement on sale of distribution						
networks	_	_ (4)	757	-	_	_
Net transfers and disposals	8	(1)	15	_	_	_
Gains on settlements	(90)	(22)	20	(1)	_	_
Special termination benefits Curtailment cost – augmentations	(80)	(23)	(45)	(1)	_	_
Acquisition of subsidiary undertakings	(3) (1,362)	(3) (89)	(5) —	(639)	(19)	_
Plan amendments	(1,302)	(69)	_	(039)	(6)	_
Employee contributions	(15)	(14)	(14)	_	(0)	_
Benefits paid (including unfunded obligations)	875	845	775	- 78	62	59
Transferred to liabilities of businesses held for sale	-	48	775	-	-	_
Exchange adjustments	(6)	189	(127)	3	142	(95)
Closing defined benefit obligation (including unfunded			(.=/)		· · · -	(00)
obligations)	(16,391)	(16,127)	(16,616)	(1,784)	(1,126)	(1,223)
Changes in the fair value of plan accets						
Changes in the fair value of plan assets Opening fair value of plan assets	15,468	15,341	14,077	531	568	488
Expected return on plan assets	1,014	887	862	50	41	41
Actuarial (losses)/gains	(838)	(93)	1,497	(73)	12	24
Assets distributed on settlements and transfers	(16)	(30)	(623)	(/5)	-	_
Transfers (out)/in	(8)	1	(020)	_	_	_
Employer contributions	465	276	191	46	28	30
Employee contributions	15	14	14	-	_	_
Acquisition of subsidiary undertakings	1,302	82		259	7	_
Benefits paid	(875)	(845)	(774)	(76)	(58)	(59)
Transferred to liabilities of businesses held for sale	-	(46)	-	-	(55)	-
Exchange adjustments	9	(149)	97	_	(67)	44
Closing fair value of plan assets	16,536	15,468	15,341	737	531	568
Actual return on plan assets	176	794	2,359	(23)	53	65
Expected contributions to defined benefit plans in			,	(- /		

134 Notes to the consolidated financial statements continued

National Grid plc

6. Finance income and costs

b. Finance income and costs			
	2008	2007	2006
	£m	£m	£m
Interest income and similar income			
Expected return on pension and other post-retirement benefit plan assets	1,064	926	901
Interest income on financial instruments			
Interest income from bank deposits and other financial assets	209	214	130
Interest receivable on finance leases	2	3	4
Gains transferred from equity on disposal of available-for-sale investments	_	1	1_
	1,275	1,144	1,036
Interest expense and other financial costs			
Before exceptional items and remeasurements	(2,035)	(1,691)	(1,638)
Exceptional items and remeasurements	` (16)	(217)	(57)
	(2,051)	(1,908)	(1,695)
Net finance costs	(776)	(764)	(659)
Net illiance costs	(110)	(704)	(039)
Interest expense and other finance costs comprise of the following:			
Interest on pension and other post-retirement benefit plan obligations	(1,001)	(869)	(889)
Interest expense on financial liabilities held at amortised cost:	(1,001)	(000)	(000)
Interest on bank loans and overdrafts	(71)	(48)	(33)
Interest on other borrowings	(984)	(768)	(708)
Interest on finance leases	(11)	(1)	(1)
Exceptional debt redemption costs	(11)	(45)	(39)
Exceptional B share issue costs	_	(+3)	(10)
Interest on derivatives	(46)	(54)	(49)
Unwinding of discounts on provisions	(41)	(21)	(18)
Less: interest capitalised (i)	119	70	60
·			
Interest expense	(2,035)	(1,736)	(1,687)
Net gains/(losses) on derivative financial instruments included in remeasurements:	_		
Ineffectiveness on derivatives designated as fair value hedges (ii)	.1	18	(10)
Ineffectiveness on derivatives designated as cash flow hedges	13		17
Ineffectiveness on derivatives designated as net investment hedges	14	25	(25)
On undesignated forward rate risk relating to derivatives designated as net investment hedges	(53)	(82)	36
On derivatives not designated as hedges or ineligible for hedge accounting (iii)	18	(114)	(12)
Financial element of remeasurements on commodity contracts	(9)	(19)	(14)
Net losses on derivative financial instruments included in remeasurements (iv)	(16)	(172)	(8)
Interest expense and other finance costs	(2,051)	(1,908)	(1,695)

⁽i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 6.3% (2007: 5.6%; 2006: 5.5%).

⁽ii) Includes a net gain on instruments designated as fair value hedges of £87m (2007: £100m loss; 2006: £11m loss) less a net loss of £86m (2007: £118m gain; 2006: £1m gain) arising from fair value adjustments to the carrying value of debt.

⁽iii) Includes a loss of £3m (2007: £126m; 2006: £nil) relating to pre-tax losses on investment-related derivative financial instruments which offset on a post-tax basis.

⁽iv) Includes a net foreign exchange loss on financing activities of £885m (2007: £122m gain; 2006: £273m loss). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

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7. Taxation

Taxation on items charged/(credited) to the income statement

2008	2007	2006
£m	£m	£m
583	442	369
(170)	_	_
198	(1)	166
28	(1)	166
611	441	535
2008	2007	2006
2008	2007	2006
	583 (170) 198 28	£m £m 583 442 (170) - 198 (1) 28 (1)

The tax charge for the year can be analysed as follows:

The tax charge for the year oar be analysed as follows.			
	2008	2007	2006
	£m	£m	£m
United Kingdom			
Corporation tax at 30% (2007: 30%; 2006: 30%)	214	66	269
Corporation tax adjustment in respect of prior years (i)	(156)	(28)	(8)
Deferred tax	42	168	6
Deferred tax adjustment in respect of prior years (ii)	67	9	(6)
	167	215	261
Overseas			
Corporate tax	213	109	122
Corporate tax adjustment in respect of prior years	31	(149)	23
Deferred tax	191	207	158
Deferred tax adjustment in respect of prior years	9	59	(29)
	444	226	274
Total tax charge	611	441	535

*Comparatives have been adjusted to present items on a basis consistent with the current year classification

Taxation on items charged/(credited) to equity

	2008	2007	2006
	£m	£m	£m
Corporate tax credit on share-based payments	(7)	(2)	_
Deferred tax (credit)/charge on available-for-sale investments	(2)	1	1
Deferred tax (credit)/charge on revaluation of cash flow hedges	(2)	10	(20)
Deferred tax charge/(credit) on share-based payments	12	(11)	(7)
Deferred tax charge on actuarial gains	98	70	62
	99	68	36
Total tax charge recognised in consolidated statement of recognised income and expense Total tax charge/(credit) relating to share-based payments recognised directly in equity	94	81	43
(note 26)	5	(13)	(7)
	99	68	36

⁽i) The UK corporation tax adjustment in respect of prior years includes a £9m charge (2007: £51m credit; 2006: £nil) that relates to exceptional items, remeasurements and stranded cost recoveries.

⁽ii) The UK deferred tax adjustment in respect of prior years includes a £2m charge (2007: £5m credit; 2006: £nil) that relates to exceptional items, remeasurements and stranded cost recoveries.

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National Grid plc

7. Taxation continued

The tax charge for the year after exceptional items, remeasurements and stranded cost recoveries is lower (2007: lower; 2006: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

and stranded and stranded and stranded and stranded and stranded	After exceptional items, remeasurements and stranded cost recoveries 2006 £m
remeasurements and stranded cost recoveries 2008 £m 2007 £m 2007 £m 2006 £m 2008 £m 2007 £m 2007 £m 2006 £m 2008 £m 2008 £m 2007 £m 2007 £m 2006 £m 2008 £m 2008 £m 2008 £m 2007 £m 2006 £m 2006 £m 2006 £m 2007 £m 2006 £m 2006 £m 2006 £m 2006 £m 2006 £m 2007 £m 2006 £m 20	remeasurements and stranded cost recoveries 2006 £m
And stranded cost recoveries 2008 2007 2007 2007 2007 2008	and stranded cost recoveries 2006 £m
cost recoveries 2008 £m cost recoveries 2008 £m cost recoveries 2008 £m cost recoveries 2007 2007 2007 2007 2006 cost recoveries 2006 2006 2006 Profit before taxation Before exceptional items, remeasurements and stranded cost recoveries* 1,839 1,839 1,486 1,486 1,369 Exceptional items, remeasurements and stranded cost recoveries* - 353 - 265 - Profit before taxation from continuing operations 1,839 2,192 1,486 1,751 1,369 Profit on continuing operations multiplied by rate of corporation tax in the UK of	cost recoveries 2006 £m
2008 £m 2008 £m 2007 £m 2007 £m 2006 £m Profit before taxation Before exceptional items, remeasurements and stranded cost recoveries* 1,839 1,839 1,486 1,486 1,369 Exceptional items, remeasurements and stranded cost recoveries* - 353 - 265 - Profit before taxation from continuing operations 1,839 2,192 1,486 1,751 1,369 Profit on continuing operations multiplied by rate of corporation tax in the UK of 1,839 2,192 1,486 1,751 1,369	2006 £m
Profit before taxation Before exceptional items, remeasurements and stranded cost recoveries*	1,369
Before exceptional items, remeasurements and stranded cost recoveries* 1,839 1,839 1,486 1,486 1,369 Exceptional items, remeasurements and stranded cost recoveries* - 353 - 265 - Profit before taxation from continuing operations 1,839 2,192 1,486 1,751 1,369 Profit on continuing operations multiplied by rate of corporation tax in the UK of	,
remeasurements and stranded cost recoveries* 1,839 1,839 1,486 1,486 1,369 Exceptional items, remeasurements and stranded cost recoveries* - 353 - 265 - Profit before taxation from continuing operations 1,839 2,192 1,486 1,751 1,369 Profit on continuing operations multiplied by rate of corporation tax in the UK of	,
recoveries* 1,839 1,839 1,486 1,486 1,369 Exceptional items, remeasurements and stranded cost recoveries* - 353 - 265 - Profit before taxation from continuing operations 1,839 2,192 1,486 1,751 1,369 Profit on continuing operations multiplied by rate of corporation tax in the UK of	,
Exceptional items, remeasurements and stranded cost recoveries* Profit before taxation from continuing operations 1,839 2,192 1,486 1,751 1,369 Profit on continuing operations multiplied by rate of corporation tax in the UK of	,
and stranded cost recoveries* – 353 – 265 – Profit before taxation from continuing operations 1,839 2,192 1,486 1,751 1,369 Profit on continuing operations multiplied by rate of corporation tax in the UK of	349
Profit before taxation from continuing operations 1,839 2,192 1,486 1,751 1,369 Profit on continuing operations multiplied by rate of corporation tax in the UK of	349
operations 1,839 2,192 1,486 1,751 1,369 Profit on continuing operations multiplied by rate of corporation tax in the UK of	0.0
Profit on continuing operations multiplied by rate of corporation tax in the UK of	
by rate of corporation tax in the UK of	1,718
30% (2007: 30%; 2006: 30%) 552 658 446 525 410	
	515
Effects of:	
Adjustments in respect of previous years (60) (49) (53) (109) (16)	(12)
Expenses not deductible for tax purposes 102 117 44 111 84	108
Non-taxable income (75) (51) (61) (154) (178)	(180)
Adjustment in respect of foreign tax rates* 26 68 22 70 19	58
Impact of share-based payments 2 2 9 9 (5)	(5)
Remeasurement of deferred tax	` '
- change in UK tax rate - (170)	_
Other 36 36 35 (11) 55	51
Total taxation from continuing operations 583 611 442 441 369	535
% % % % %	
Effective income tax rate 31.7 27.9 29.7 25.2 27.0	%

^{*}Comparatives have been adjusted to present items on a basis consistent with the current year classification

Factors that may affect future tax charges

During the year, as a result of the change in the UK corporation tax rate from 30% to 28% that will be effective from 1 April 2008, the UK deferred tax expected to reverse has been measured using the 28% tax rate.

A number of changes to the UK corporation tax system were announced in the March 2008 Budget Statement and are expected to be enacted in the 2008 Finance Act. These include changes to the industrial building allowance regime. The changes have not been substantively enacted at the balance sheet date and therefore are not included in these financial statements. However, the impact of the changes to the industrial building allowance regime is expected to have a £40m tax charge impact.

8. Discontinued operations

Discontinued operations are businesses that have been sold, or which are held for sale. They include our former wireless infrastructure operations in the UK and US, and the Basslink electricity interconnector in Australia, that were classified as businesses held for sale during the year ended 31 March 2007. Businesses held for sale at 31 March 2008 comprise the Ravenswood generation station in New York City (representing our merchant electricity generation operations), together with KeySpan Communications and KeySpan Engineering Associates that were acquired as part of the KeySpan acquisition on 24

The wireless infrastructure operations in the UK and US were sold on 3 April 2007 and 15 August 2007 respectively, while the Basslink electricity interconnector business was sold on 31 August 2007. The sale of the Ravenswood generation station was agreed on 31 March 2008 for consideration of \$2.9bn. Completion of the sale is dependent upon regulatory approval and is expected during summer 2008.

Results of discontinued operations

	2008	2007	2006
	£m	£m	£m
Revenue	201	383	493
Operating costs	(166)	(321)	(382)
Operating profit before exceptional items, remeasurements and stranded cost recoveries	35	117	131
Exceptional items (i)	_	(55)	(20)
Total operating profit from discontinued operations	35	62	111
Net finance costs before remeasurement finance income	_	(2)	(4)
Remeasurement finance income (ii)	8	37	_
Profit before tax from discontinued operations	43	97	107
Taxation	(7)	(11)	(45)
Profit after tax from discontinued operations	36	86	62
Gain on disposal of wireless operations	1,506	_	_
Gain on disposal of Basslink electricity interconnector	80	_	_
Gain on disposal of gas distribution networks	_	_	2,636
Gain on disposal of discontinued operations before tax	1,586	_	2,636
Taxation	(4)	_	(31)
Gain on disposal of discontinued operations	1,582	-	2,605
Total profit for the year from discontinued operations			
Before exceptional items, remeasurements and stranded cost recoveries	28	104	77
Exceptional items, remeasurements and stranded cost recoveries	1,590	(18)	2,590
	1,618	86	2,667

The exceptional item for the year ended 31 March 2007 reflects an impairment of goodwill within the US wireless infrastructure operations. Exceptional items for the year ended 31 March 2006 related to a fine (£15m) incurred in respect of a breach of health and safety laws in 1999 and to restructuring costs (£5m).

9. Dividends

The following table shows the dividends paid to equity shareholders:

	2008 pence (per ordinary	2008	2007 pence (per ordinary	2007	2006 pence (per ordinary	2006
	share)	£m	share)	£m	share)	£m
Ordinary dividends						
Interim dividend for the year ended 31 March 2008	11.7	300	_	_	_	_
Final dividend for the year ended 31 March 2007	17.8	480	-	_	_	-
Interim dividend for the year ended 31 March 2007	_	_	10.9	297	_	-
Final dividend for the year ended 31 March 2006	_	_	15.9	433	_	_
Interim dividend for the year ended 31 March 2006	_	_	_	_	10.2	276
Final dividend for the year ended 31 March 2005	_	_	_	_	15.2	469
	29.5	780	26.8	730	25.4	745

In addition, the Directors are proposing a final dividend for 2008 of 21.3p per share that will absorb approximately £531m of shareholders' equity. It will be paid on 20 August 2008 to shareholders who are on the register of members at 6 June 2008.

Remeasurement finance income for the year ended 31 March 2008 comprised £8m of mark-to-market gains on financial instruments (2007: £13m) and for the year ended 31 March 2007 an additional £24m relating to the recognition of gains on the termination of a hedging arrangement.

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10. Earnings per share

Earnings per ordinary share have been calculated by dividing the profit for the year attributable to equity shareholders of the parent company by the weighted average number of ordinary shares in issue during the year.

Adjusted earnings per share, excluding exceptional items, remeasurements and stranded cost recoveries, are provided to reflect the business performance subtotals used by the Company as described in accounting policy T. For further details of exceptional items, remeasurements and stranded cost recoveries, refer to note 4.

Diluted earnings per share have been calculated by dividing the net profit attributable to ordinary equity shareholders by the diluted weighted average number of ordinary shares outstanding during the year, adjusted to reflect the dilutive effect of the employee share plan.

(a) Basic earnings per share

		Earnings		Earnings		Earnings
	Earnings	per share	Earnings	per share	Earnings	per share
	2008	2008	2007	2007	2006	2006
	£m	pence	£m	pence	£m	pence
Adjusted earnings – continuing operations*	1,253	48.0	1,042	38.3	998	35.2
Exceptional items after taxation	(2)	(0.1)	(41)	(1.5)	(61)	(2.2)
Commodity contract remeasurements after taxation	133	5.1	37	1.3	(38)	(1.3)
Derivative financial instruments remeasurements after taxation	(35)	(1.3)	16	0.6	(11)	(0.4)
Stranded cost recoveries after taxation*	229	8.8	254	9.4	293	10.3
Earnings – continuing operations	1,578	60.5	1,308	48.1	1,181	41.6
Adjusted earnings – discontinued operations	28	1.1	104	3.8	77	2.7
Gain on disposal of operations after taxation	1,582	60.6	-	-	2,605	91.8
Other exceptional items and remeasurements	8	0.3	(18)	(0.6)	(15)	(0.5)
Earnings – discontinued operations	1,618	62.0	86	3.2	2,667	94.0
Earnings	3,196	122.5	1,394	51.3	3,848	135.6
		2008		2007		2006
		millions		millions		millions
Weighted average number of shares – basic		2,609		2,719		2,837

aratives have been adjusted to present items on a basis consistent with the current year classification

(b) Diluted earnings per share

	Earnings 2008 £m	Earnings per share 2008 pence	Earnings 2007 £m	Earnings per share 2007 pence	Earnings 2006 £m	Earnings per share 2006 pence
Adjusted diluted earnings – continuing operations*	1,253	47.8	1,042	38.1	998	35.0
Exceptional items after taxation	(2)	(0.1)	(41)	(1.5)	(61)	(2.2)
Commodity contract remeasurements after taxation	133	5.0	37	1.3	(38)	(1.3)
Derivative financial instruments remeasurements after taxation	(35)	(1.3)	16	0.6	(11)	(0.4)
Stranded cost recoveries after taxation*	229	8.7	254	9.3	293	10.3
Diluted earnings – continuing operations	1,578	60.1	1,308	47.8	1,181	41.4
Adjusted diluted earnings – discontinued operations	28	1.1	104	3.8	77	2.7
Gain on disposal of operations after taxation	1,582	60.3	_	_	2,605	91.4
Other exceptional items and remeasurements	[′] 8	0.3	(18)	(0.7)	(15)	(0.5)
Diluted earnings – discontinued operations	1,618	61.7	86	3.1	2,667	93.6
Diluted earnings	3,196	121.8	1,394	50.9	3,848	135.0
		0000		2007		2006
		2008 millions		millions		millions
Weighted average number of shares – diluted		2,624		2,737		2,851

paratives have been adjusted to present items on a basis consistent with the current year classification

(c) Reconciliation of basic to diluted average number of shares

	2008	2007	2006
	millions	millions	millions
Weighted average number of ordinary shares – basic	2,609	2,719	2,837
Effect of dilutive potential ordinary shares – employee share plan	15	18	14
Weighted average number of ordinary shares – diluted	2,624	2,737	2,851

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11. Goodwill

	£m
Cost at 1 April 2006	2,156
Exchange adjustments	(192)
Acquisition of subsidiary undertakings	157
Reclassification to assets of businesses held for sale	(641)
Cost at 31 March 2007	1,480
Exchange adjustments	23
Acquisition of subsidiary undertakings (note 28)	2,335
Cost at 31 March 2008	3,838
Accumulated impairment losses at 1 April 2006	14
Exchange adjustments	(1)
Impairment charge	55
Reclassification to assets of businesses held for sale	(68)
Accumulated impairment losses at 31 March 2007 and 31 March 2008	_
Net book value at 31 March 2008	3,838
Net book value at 31 March 2007	1,480

The amounts disclosed above as at 31 March 2008 include balances relating to our operations in New England of £909m (2007: £915m; 2006: £882m), New York of £560m (2007: £565m; 2006: £639m) and our acquired KeySpan businesses of £2.369m.

Goodwill is reviewed annually for impairment.

Within our New England and upstate New York operations, goodwill is allocated to the individual subsidiary companies. These are defined as cash-generating units for impairment testing purposes. The recoverability of the goodwill as at 31 March 2008 that relates to our New England and upstate New York operations has been assessed by comparing the carrying value of these operations with the recoverable amount on a value-in-use basis. Value-in-use has been calculated based on projections that incorporate our best estimates of future cash flows, customer rates, costs, future prices and growth and has been prepared from internal forecasts for the next five years extrapolated into the future by using a 2% growth rate. Cash flow projections have been discounted to reflect the time value of money, using a discount rate of 5.5% (2007: 6%). The discount rate is the post-tax weighted average cost of capital. On a pre-tax basis it is estimated that the discount rate would be approximately 9% (2007:

Within KeySpan, provisional goodwill (see note 28) is allocated based on the fair value of each cash-generating unit following a business enterprise valuation using both income and market-based approaches. For the income approach, a discounted cash flow analysis was prepared. This is an analysis of prospective cash flows discounted to present value at a discount rate, which reflects the risk of the entity being valued. The market-based approach indicates the fair value of a business based on a comparison of the company to comparable publicly traded companies and transactions in its industry, as well as prior company transactions. Once the fair value of the cash-generating unit and any identified intangible assets were estimated, the goodwill was implied as the residual value.

The main companies in the KeySpan group of companies are each defined as cash-generating units. The recoverability of the goodwill as at 31 March 2008 has been assessed by comparing the carrying value of these companies with the recoverable amount on a value-in-use basis. This has been based on projections prepared from internal forecasts extrapolated into the future by using a 2% growth rate. Cash flow projections have been discounted to reflect the time value of money, using discount rates of between 6.5% and 13.5% depending on the cash-generating unit. The discount rates are the post-tax weighted average cost of capital. On a pre-tax basis it is estimated that the discount rates would have been between 8.5% and 14.5%.

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12. Other intangible assets

		Acquisition-		
	Software	related	Other	Total
	£m	£m	£m	£m
Non-current				
Cost at 1 April 2006	292	164	33	489
Exchange adjustments	(5)	_	(5)	(10)
Acquisition of subsidiary undertakings	_	_	55	55
Additions	20	_	12	32
Reclassification to assets of businesses held for sale	(21)	(164)	(71)	(256)
Cost at 31 March 2007	286	_	24	310
Exchange adjustments	2	_	2	4
Acquisition of subsidiary undertakings (note 28)	42	93	-	135
Additions	44	_	1	45
Disposals	(1)	_	_	(1)
Cost at 31 March 2008	373	93	27	493
Amortisation at 1 April 2006	142	17	9	168
Exchange adjustments	(3)	_	(3)	(6)
Amortisation charge for the year (i)	38	11	`5 [°]	54
Reclassification to assets of businesses held for sale	(12)	(28)	(10)	(50)
Amortisation at 31 March 2007	165	· -	1	166
Exchange adjustments	1	_	_	1
Amortisation charge for the year (i)	48	4	2	54
Amortisation at 31 March 2008	214	4	3	221
Net book value at 31 March 2008	159	89	24	272
Net book value at 31 March 2007	121	_	23	144

⁽i) Includes amounts in respect of discontinued operations of £nil (2007: £13m).

Current other intangible assets are presented together with inventories in note 18 and consist of emissions allowances of £145m (2007: £2m).

		Discort	Assets	Motor	
	Land and	Plant and	in the course of	vehicles and office	
	buildings	machinery	construction	equipment	Total
	£m	£m	£m	£m	£m
Cost at 1 April 2006	974	25,702	1,716	677	29,069
Exchange adjustments	(53)	(841)	(27)	(1)	(922)
Additions	16	604	1,611	112	2,343
Acquisition of subsidiary undertakings	12	157	1	_	170
Reclassification to assets of businesses held for sale	(152)	(1,292)	(2)	(22)	(1,468)
Disposals	(57)	(112)	_	(36)	(205)
Other reclassifications	38	1,248	(1,327)	41	
Cost at 31 March 2007	778	25,466	1,972	771	28,987
Exchange adjustments	3	17	1	_	21
Additions	39	599	2,307	64	3,009
Acquisition of subsidiary undertakings (note 28)	353	2,793	129	7	3,282
Disposals	(40)	(135)	-	(56)	(231)
Reclassifications	25	1,840	(1,783)	57	139
Cost at 31 March 2008	1,158	30,580	2,626	843	35,207
Depreciation at 1 April 2006	284	9,400	_	450	10,134
Exchange adjustments	(10)	(311)	_	(1)	(322)
Depreciation charge for the year (i)	18	801	_	70	`889
Reclassification to assets of businesses held for sale	(97)	(350)	_	(18)	(465)
Disposals	(3)	(107)	_	(34)	(144)
Depreciation at 31 March 2007	192	9,433	_	467	10,092
Exchange adjustments	1	6	_	_	7
Depreciation charge for the year (i)	26	853	_	75	954
Disposals	(17)	(113)	_	(49)	(179)
Depreciation at 31 March 2008	202	10,179	_	493	10,874
Net book value at 31 March 2008	956	20,401	2,626	350	24,333
Net book value at 31 March 2007	586	16,033	1,972	304	18,895

⁽i) Includes amounts in respect of discontinued operations of £nil (2007: £59m) and capitalised depreciation of £14m (2007: £nil).

The net book value of land and buildings comprised:

	2008 £m	2007 £m
Freehold	910	540
Long leasehold (over 50 years)	5	13
Short leasehold (under 50 years)	41	33
	956	586

The cost of property, plant and equipment at 31 March 2008 included £674m (2007: £565m) relating to interest capitalised.

Included within trade and other payables and other non-current liabilities at 31 March 2008 are contributions to the cost of property, plant and equipment amounting to £31m (2007: £28m) and £1,228m (2007: £1,079m) respectively.

Reclassifications for 2007/08 include an amount of £139m transferred to trade and other payables, and other non-current liabilities.

The carrying value of property, plant and equipment held under finance leases at 31 March 2008 was £193m (2007: £107m). Additions during the year include £26m (2007: £1m) of property, plant and equipment held under finance leases.

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14. Other non-current assets

	2008	2007
	£m	£m
Lease receivables	4	15
Prepayments	7	6
Other receivables	186	15
Commodity contract assets	58	_
	255	36

The fair value of other non-current receivables at 31 March 2008 was £246m (2007: £35m). For further information on commodity contract assets, refer to note 34. Other receivables include a £152m (2007: £nil) receivable from the Long Island Power Authority.

15. Financial and other investments

	2008 £m	2007 £m
Non-current		
Available-for-sale investments	180	132
Investments in joint ventures and associates	71	5
	251	137
Current		
Available-for-sale investments	2,062	1,800
Loans and receivables	33	298
Ebalis and receivables	2,095	2,098
Total financial and other investments	2,346	2,235
	,	
Financial and other investments include the following:		
Investments in short-term money funds	1,803	1,591
UK managed investments in equity and bonds	224	213
US managed investments in equity and bonds	107	74
Bank deposits	-	250
Restricted cash balances		
Collateral	17	22
Other	10	22
Cash surrender value of life insurance policies	101	53
Investment in joint ventures and associates	71	5
Other investments	13	5
	2.346	2.235

Available-for-sale investments are recorded at fair value. Due to their short maturities the carrying value of loans and receivables approximates their fair value.

The maximum exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our treasury-related credit risk, refer to note 33. None of the financial investments is past due or impaired.

16. Deferred tax assets and liabilities

The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current and prior reporting periods:

Deferred tax (assets)/liabilities

			Pensions and other			
	Accelerated	Share-	post-		Other net	
	tax	based	retirement	Financial	temporary	
	depreciation £m	payments £m	benefits £m	instruments £m	differences £m	Total £m
Deferred tax assets at 31 March 2006	(5)	(28)	(397)	(6)	(835)	(1,271)
Deferred tax liabilities at 31 March 2006	3,126	(20)	(007)	20	127	3,273
At 1 April 2006	3,121	(28)	(397)	14	(708)	2,002
Exchange adjustments	(90)	(20)	13	'-	91	14
Charged/(credited) to income statement (i)	321	9	82	(9)	54	457
(Credited)/charged to equity	-	(11)	70	11	_	70
Acquisition of subsidiary undertakings	_	(··/	2		(13)	(11)
Reclassification to liabilities of businesses held for sale	(129)	1	1	_	3	(124)
Other	63	_	(238)	5	151	(19)
At 31 March 2007	3,286	(29)	(467)	21	(422)	2,389
Deferred tax assets at 31 March 2007	(4)	(29)	(532)	(9)	(452)	(1,026)
Deferred tax liabilities at 31 March 2007	3,290	-	65	30	30	3,415
At 1 April 2007	3,286	(29)	(467)	21	(422)	2,389
Exchange adjustments	(1)	`	`	_	` 11 [′]	10
Charged/(credited) to income statement (i)	123	_	(9)	(2)	196	308
Charged/(credited) to equity	_	12	98	(4)	_	106
Acquisition of subsidiary undertakings (note 28)	289	_	(60)	(3)	365	591
Other	(2)	1	2	_	2	3
At 31 March 2008	3,695	(16)	(436)	12	152	3,407
Deferred tax assets at 31 March 2008	(2)	(16)	(685)	(17)	(322)	(1,042)
Deferred tax liabilities at 31 March 2008	3,697	` -	249	29	474	4,449
	3,695	(16)	(436)	12	152	3,407

⁽i) Deferred tax charged to the income statement includes a £1m tax credit (2007: £14m tax charge) reported within profit for the year from discontinued operations.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is intention to settle the balances net. As at 31 March 2008 and 2007 the deferred tax balances are liabilities after offset.

At the balance sheet date there were no material current deferred tax assets or liabilities (2007; £nil).

Deferred tax assets in respect of capital losses and non-trade deficits have not been recognised as their future recovery is uncertain or not currently anticipated. The deferred tax assets not recognised are as follows:

	2008 £m	2007 £m
Capital losses	220	216
Non-trade deficits	10	203
Trading losses	_	3

The capital losses and non-trade deficits are available to carry forward indefinitely. The capital losses can be offset against specific types of future capital gains and non-trade deficits can be offset against specific future non-trade profits.

The aggregate amount of temporary differences associated with the unremitted earnings of overseas subsidiaries and joint ventures for which deferred tax liabilities have not been recognised at the balance sheet date is approximately £930m (2007: £811m). No liability is recognised in respect of the differences because the Company and its subsidiaries are in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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17. Derivative financial instruments

Our use of derivatives may entail a derivative transaction qualifying for one or more hedge type designations under IAS 39. For further information and a detailed description of our derivative financial instruments and hedge type designations, refer to note 32. The fair value amounts by designated hedge type can be analysed as follows:

		2008			2007	
	Assets	Liabilities	Total	Assets	Liabilities	Total
	£m	£m	£m	£m	£m	£m
Fair value hedges						
Interest rate swaps	23	(8)	15	16	(30)	(14)
Cross-currency interest rate swaps	271	(43)	228	50	(137)	(87)
	294	(51)	243	66	(167)	(101)
Cash flow hedges						
Interest rate swaps	49	(76)	(27)	15	(6)	9
Cross-currency interest rate swaps	609	(8)	601	69	(25)	44
Foreign exchange forward contracts	16	(7)	9	_	` _′	-
	674	(91)	583	84	(31)	53
Net investment hedges						
Cross-currency interest rate swaps	362	(49)	313	270	(32)	238
Foreign exchange forward contracts	_	(20)	(20)	4	(13)	(9)
	362	(69)	293	274	(45)	229
Derivatives not in a formal hedge relationship						
Interest rate swaps	76	(100)	(24)	17	(35)	(18)
Interest rate swaptions	_	(6)	(6)	_	_	_
Cross-currency interest rate swaps	4	_	4	123	(4)	119
Equity index-linked (i)	_	_	_	145	(189)	(44)
	80	(106)	(26)	285	(228)	57
	1,410	(317)	1,093	709	(471)	238
Hedge positions offset within derivative instruments	116	(116)	_	(52)	52	_
Total	1,526	(433)	1,093	657	(419)	238

⁽i) The equity index-linked derivatives are investment related derivative financial instruments that offset each other on a post-tax basis.

The maturity of derivative financial instruments is as follows:

	2008			2007		
	Assets	Liabilities	Total	Assets	Liabilities	Total
	£m	£m	£m	£m	£m	£m
In one year or less	463	(114)	349	277	(235)	42
Current	463	(114)	349	277	(235)	42
In more than one year, but not more than two years	104	(3)	101	26	(10)	16
In more than two years, but not more than three years	113	(21)	92	12	(7)	5
In more than three years, but not more than four years	358	(68)	290	5	(3)	2
In more than four years, but not more than five years	170	(36)	134	173	(22)	151
In more than five years	318	(191)	127	164	(142)	22
Non-current	1,063	(319)	744	380	(184)	196
	1,526	(433)	1,093	657	(419)	238

For each class of derivatives, our exposure, based on the sterling equivalent notional value of the pay leg is as follows:

	2008	2007
	£m	£m
Interest rate swaps	(10,105)	(7,026)
Interest rate swaptions	(202)	_
Cross-currency interest rate swaps	(7,120)	(8,631)
Foreign exchange forward contracts	(2,020)	(2,213)
Equity index-linked	<u> </u>	(607)
Total	(19,447)	(18,477)

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18. Inventories and current intangible assets

	2008	2007
	£m	£m
Raw materials and consumables	116	69
Work in progress	16	17
Fuel stocks	178	20
Current intangible assets	145	2
	455	108

£446m of inventories were consumed and recognised within operating costs during the year (2007: £97m; 2006: £58m). The above table includes a £4m provision for obsolescence as at 31 March 2008 (2007: £3m).

Current intangible assets consists of emissions allowances.

19. Trade and other receivables

	2008	2007
	£m	£m
Trade receivables	1,162	638
Other receivables	80	60
Commodity contract assets	78	_
Prepayments and accrued income	949	538
	2,269	1,236

Trade receivables are non interest-bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their book value. Commodity contract assets are recorded at fair value. For further details of commodity risk, refer to note 34. All other receivables are recorded at amortised cost.

Provision for impairment of receivables

	2008	2007
	£m	£m
At 1 April	102	107
Exchange adjustments	(1)	(12)
Charge for the year, net of recoveries	108	63
Acquisition of subsidiary undertaking	37	_
Uncollectable amounts written off against receivables	(91)	(51)
Reclassification to assets held for sale	_	(5)
At 31 March	155	102

As at 31 March 2008, trade receivables of £188m (2007: £18m) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2008 £m	2007 £m
Up to 3 months past due	100	10
3 to 6 months past due	36	2
Over 6 months past due	52	6
	188	18

For further information on our wholesale and retail credit risk, refer to note 33. For further information on our commodity risk, refer to note 34.

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20. Cash and cash equivalents

	2008	2007
	£m	£m
Cash at bank	93	50
Short-term deposits	81	1,543
Cash and cash equivalents excluding bank overdrafts	174	1,593
Bank overdrafts	(10)	(6)
Net cash and cash equivalents	164	1,587

The carrying amounts of cash and cash equivalents and bank overdrafts approximates their fair values.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements, and earn interest at the respective short-term deposit rates.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 33.

National Grid USA and its public utility subsidiaries (all consolidated subsidiaries) are subject to restrictions on the payment of dividends by administrative order and contract. At 31 March 2008, £51m (2007: £132m) of cash and cash equivalents were restricted.

21. Borrowings

The following table analyses borrowings, including bank overdrafts:

	2008	2007
	£m	£m
Current		
Bank loans	502	136
Bonds	2,545	849
Commercial paper	562	-
Finance leases	256	10
Other loans	7	30
Bank overdrafts	10	(
	3,882	1,03
Non-current		
Bank loans	1,541	930
Bonds	15,287	13,54
Finance leases	165	92
Other loans	128	120
	17,121	14,686
Total borrowings	21,003	15,717
Total borrowings are repayable as follows:		
	2008	200
	£m	£r
n one year or less	3,882	1,03
n more than one year, but not more than two years	1,386	1,869
n more than two years, but not more than three years	1,413	1,01
n more than three years, but not more than four years	1,700	748
n more than four years, but not more than five years	1,302	1,41
n more than five years:		
by instalments	78	110
other than by instalments	11,242	9,53
	21,003	15,717

The fair value of borrowings at 31 March 2008 was £20,208m (2007: £15,919m). Market values, where available, have been used to determine fair value. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

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21. Borrowings continued

Charges over property, plant and other assets were provided as collateral over borrowings totalling £388m at 31 March 2008 (2007: £418m).

The notional amount outstanding of the debt portfolio at 31 March 2008 was £21,143m (2007: £16,042m).

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 is £345m (2007: £134m) in respect of cash received under collateral agreements. Cash placed under collateral agreements is shown in note 15.

Obligations under finance leases at the balance sheet dates are analysed as follows:

	2008	2007
	£m	£m
Gross finance lease liabilities repayable as follows:		
In one year or less	266	17
In more than one year, but not more than five years	120	48
In more than five years	99	94
	485	159
Less: finance charges allocated to future periods	(64)	(57)
	421	102
The present value of finance lease liabilities is as follows:		
In one year or less	256	10
In more than one year, but not more than five years	94	21
In more than five years	71	71
	421	102

For further details of our bonds in issue and borrowing facilities, refer to note 35.

22. Trade and other payables

	2008	2007
	£m	£m
Trade payables	1,708	1,246
Commodity contract liabilities	36	138
Social security and other taxes	114	108
Other payables	482	279
Deferred income	99	81
	2 439	1 852

Due to their short maturities, the fair value of trade and other payables (excluding deferred income) approximates their book value. Commodity contract liabilities are recorded at fair value. For further details of commodity risk, refer to note 34. All other trade and other payables are recorded at amortised cost.

23. Other non-current liabilities

	2008	2007
	£m	£m
Commodity contract liabilities	88	130
Other payables	347	214
Deferred income	1,286	1,131
	1 701	1 175

Commodity contract liabilities are recorded at fair value. For further details of commodity risk, refer to note 34. All other noncurrent liabilities are recorded at amortised cost. The fair value of other payables at 31 March 2008 was £332m (2007: £204m).

Notes to the consolidated financial statements continued

National Grid plc

24. Provisions

						Total
	Decommissioning £m	Environmental £m	Emissions £m	Restructuring	Other £m	provisions
At 4. A				£m		£m
At 1 April 2006	127	429	23	75	117	771
Exchange adjustments	(12)	(27)	-	_	_	(39)
Acquisition of subsidiary undertakings	1	7	_	_	_	8
Additions	_	14	13	14	1	42
Unused amounts reversed	(13)	(11)	(23)	(1)	(2)	(50)
Reclassification to working capital	· -	(4)	· -	-	-	(4)
Reclassification to assets of businesses held for						
sale	(12)	_	_	_	(15)	(27)
Unwinding of discount	4	15	_	_	2	21
Utilised	(25)	(51)	(12)	(32)	(8)	(128)
At 31 March 2007	70	372	1	56	95	594
Exchange adjustments	_	3	2	-	1	6
Acquisition of subsidiary undertakings	23	338	125	_	157	643
Additions	5	124	5	25	17	176
Unused amounts reversed	(4)	(14)	(1)	_	(5)	(24)
Unwinding of discount	`6 [°]	`27		_	`8	`41´
Utilised	(13)	(69)	(4)	(15)	(3)	(104)
At 31 March 2008	87	781	128	66	270	1,332

Provisions have been analysed as current and non-current as follows:

	2008	2007
	£m	£m
Current	389	167
Non-current	943	427
	1.332	594

The decommissioning provision of £87m at 31 March 2008 (2007: £70m) primarily represented the net present value of the estimated expenditure (discounted at a nominal rate of 6%) expected to be incurred in respect of the decommissioning of certain nuclear generating units. It also included £33m (2007: £9m) relating to other asset retirement obligations. Expenditure is expected to be incurred between financial years 2009 and 2061.

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to a number of sites owned and managed by subsidiary undertakings. The environmental provision is comprised as follows:

	2008		2007			
	Discounted	Undiscounted	Discounted	Undiscounted	Nominal	
	£m	£m	£m	£m	discount rate	
UK gas site decontamination (i)	192	280	168	246	5.0%	
US sites (ii)	587	792	200	296	6.0%-6.5%	
Other (iii)	2	2	4	4	n/a	
	781	1.074	372	546		

Represents the statutory decontamination costs of old gas manufacturing sites in the UK. The anticipated timing of the cash flows for statutory decontamination cannot be predicted with certainty, but they are expected to be incurred over the financial years 2009 to 2058 with some 50% of the spend over the next five years.

There are a number of uncertainties that affect the calculation of the provision for UK gas site decontamination, 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. We have made our best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision and hence the income

The undiscounted amount of the provision is the undiscounted best estimate of the liability having regard to the uncertainties above

(ii) The remediation expenditure in the US is expected to be incurred between financial years 2009 and 2059. The uncertainties regarding the calculation of this provision are similar to those considered in respect of UK gas decontamination. However, unlike the UK, with the exception of immaterial amounts of such costs, this expenditure is expected to be recoverable from rate payers under the terms of various rate agreements in the US.

In determining the undiscounted amount of the environmental provision relating to US sites we do not have sufficient information to calculate a range of outcomes, but it is expected that any outcome of the liability would be recovered from rate payers (with the exception of immaterial amounts of site costs).

(iii) The remainder of the environmental provision relates to the expected cost of remediation of certain other sites in the UK. This is expected to be utilised within the next five years and there is no material difference between the discounted and undiscounted amounts.

Emissions provision

The provision for emission costs is expected to be settled using emissions allowances granted.

Restructuring provision
At 31 March 2008, £32m of the total restructuring provision (2007: £31m) consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties. The remainder of the restructuring provision related to business reorganisation costs in the UK, to be paid between financial years 2009 and 2010.

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24. Provisions continued

Other provisions

Other provisions at 31 March 2008 included £52m (2007: £49m) of estimated liabilities in respect of past events insured by insurance subsidiary undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates are based on experience from previous years and there is, therefore, no identifiable payment date. Other provisions at 31 March 2008 also included £17m (2007: £24m) in respect of the sales of four UK gas distribution networks relating to property transfer costs; and £11m (2007: £11m) in respect of obligations associated with investments in joint ventures.

As at 31 March 2008 other provisions also included a £165m onerous lease provision that was recognised upon the acquisition of KeySpan at a fair value of £157m. The associated operating lease relates to the Ravenswood generation station but the lease commitment will remain with National Grid following completion of its sale.

25. Share capital

	Allotted, called up	
	and fully p	aid
Ordinary shares	millions	£m
At 31 March 2005	3,090	309
Issued during the year	8	1
Effect of share consolidation (i)	(378)	
At 31 March 2006	2,720	310
Issued during the year	4	-
Repurchased during the year (ii)	(23)	(2)
At 31 March 2007	2,701	308
Issued during the year (iii)	8	1
Repurchased during the year (iv)	(127)	(15)
At 31 March 2008	2,582	294

- (i) On 29 July 2005, the ordinary share capital was consolidated with 43 new ordinary shares of 11¹⁷/₄₃ pence each issued for every 49 existing ordinary shares of 10 pence each cancelled.
- From 20 November 2006 to 22 March 2007, the Company repurchased, and subsequently cancelled, under its share repurchase programme 22,388,381 ordinary shares for aggregate consideration of £169m, including transaction costs. The shares repurchased have a nominal value of £2m and represented approximately 1% of the ordinary shares in issue as at 31 March 2007. The excess of the consideration over the nominal value was charged against retained earnings.
- (iii) Included within issued share capital is 3,705,193 ordinary shares that were issued following the conversion of the Company's B shares to ordinary shares on 28 September 2007.
- (iv) From 30 May 2007 to 27 November 2007, the Company repurchased, and subsequently cancelled, under its share repurchase programme 126,817,712 ordinary shares for aggregate consideration of £946m, including transaction costs. The shares repurchased have a nominal value of £15m and represented approximately 5% of the ordinary shares in issue as at 31 March 2008. The excess of the consideration over the nominal value has been charged against retained earnings.

In June 2005, we issued a Circular to Shareholders, outlining a £2bn return of cash to shareholders by way of a B share scheme. Shareholders were issued one B share (a non-cumulative preference share of 10 pence nominal value per share) for every existing ordinary share they held. Shareholders then had choices in respect of the B shares and the return of cash, details of which were set out in the Circular to Shareholders.

Under the return of cash scheme the holders of B shares who elected not to receive the return of cash immediately could retain their B shares for future repurchase. Under the terms set out in the Circular dated 6 June 2005, a final repurchase offer was made in August 2007 for all outstanding B shares. As a result on 28 September 2007, the Company converted 41,988,387 B shares into 3,705,193 ordinary shares of 11¹⁷/₄₃ pence each. Fractions were disregarded and 202,514 B shares were deferred and then subsequently cancelled on 28 January 2008.

At 31 March 2008, the Company held per the share register 66,696,328 (2007 and 2006: nil) of its own shares. At 31 March 2008 a further 3,960,000 ordinary shares had been repurchased but had yet to be included on the register.

The Company made the following transactions in respect of its own shares during the year ended 31 March 2008:

- From 21 June 2007 to 31 March 2008 the Company repurchased, under its share repurchase programme 73,328,706 ordinary shares for aggregate consideration of £570m, including transaction costs. The shares repurchased have a nominal value of £8m and represented approximately 3% of the ordinary shares in issue as at 31 March 2008.
- During the year, 100,000 treasury shares were gifted to a National Grid Employee Share Trust and 2,572,378 treasury shares were re-issued in relation to employee share schemes, in total representing approximately 0.1% of the ordinary shares in issue as at 31 March 2008. The nominal value of these shares was £0.3m and the total proceeds received were
- (iii) During the year the Company made gifts totalling £6m to National Grid Employee Share Trusts, outside of its share repurchase programme, to enable the trustees to make purchases of National Grid plc shares in order to satisfy the requirements of employee share option and reward plans.

The maximum number of treasury shares held during the year was 66,696,328 ordinary shares representing approximately 3% of the ordinary shares in issue as at 31 March 2008 and having a nominal value of £8m. The market value of these shares as at 31 March 2008 was £462m.

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National Grid plc

25. Share capital continued

Additional information in respect of share capital

	2008 millions	2008 £m	2007 millions	2007 £m	2006 millions	2006 £m
Consideration received in respect of ordinary shares						
issued during the year	8	23	4	16	8	28
Authorised share capital						
Ordinary shares (i)	4,392	501	4,388	500	4,388	500
Non-cumulative B shares	_	_	3,150	315	3,150	315
	4,392	501	7,538	815	7,538	815

⁽i) On 28 September 2007, the Company increased its authorised ordinary share capital by 3,705,183 ordinary shares to 4,391,705,193 ordinary shares of 1117/43 pence each.

For details in respect of share options and reward plans, refer to note 36.

26. Reconciliation of movements in total equity

	Called-up	Share		Other	Total		
	share	premium	Retained	equity	shareholders'	Minority	Total
	capital £m	account £m	earnings £m	reserves £m	equity £m	interests £m	equity £m
At 1 April 2005	309	1,289	5,559	(5,089)	2,068	10	2.078
Total recognised income and expense for the year	_	-,200	3,969	128	4,097	3	4,100
Equity dividends	_	_	(745)	-	(745)	_	(745)
Return of capital to shareholders through B share			(7.10)		(7.10)		(, 10)
scheme	_	_	(2,009)	_	(2,009)	_	(2,009)
Issue of ordinary share capital	1	27	(2,000)	_	28	_	28
Other movements in minority interests	_		_	_	_	(2)	(2)
Movement in shares held in employee share trusts	_	_	19	_	19	(2)	19
Share-based payment	_	_	17	_	17	_	17
Tax on share-based payment	_	_	7	_	7	_	7
At 31 March 2006	310	1,316	6,817	(4,961)	3,482	11	3,493
Total recognised income and expense for the year	-	1,010	1,689	(191)	1,498	'i	1,499
Equity dividends	_	_	(730)	(101)	(730)		(730)
Issue of ordinary share capital	_	16	(750)	_	16	_	16
Repurchase of shares	(2)	-	(169)	2	(169)	_	(169)
Other movements in minority interests	(<u>-</u>)	_	(100)	_	(100)	(1)	(1)
Share-based payment	_	_	15	_	15	· · /	15
Tax on share-based payment	_	_	13	_	13	_	13
At 31 March 2007	308	1,332	7,635	(5,150)	4,125	11	4,136
Total recognised income and expense for the year	_	,	3,530	(54)	3,476	3	3,479
Equity dividends	_	_	(780)	-	(780)	_	(780)
Issue of ordinary share capital	1	12	` _′	_	` 13 [′]	_	` 13 [′]
B shares converted to ordinary shares	_	27	_	_	27	_	27
Repurchase of share capital and purchase of							
treasury shares (i)	(15)	_	(1,522)	15	(1,522)	_	(1,522)
Other movements in minority interests	_	_		_		4	\
Share-based payment	_	_	18	_	18	_	18
Transfer between reserves	_	_	63	(63)	_	_	_
Issue of treasury shares	_	_	10	` _′	10	_	10
Tax on share-based payment	_	_	(5)	_	(5)	_	(5)
At 31 March 2008	294	1,371	8,949	(5,252)	5,362	18	5,380

⁽i) From 30 May 2007 to 31 March 2008, the Company repurchased under its share repurchase programme 200.1m ordinary shares for aggregate consideration of £1,516m including transaction costs. The shares repurchased have a nominal value of 11¹⁷/₄₉ pence each and represented 8% of the ordinary shares in issue as at 31 March 2008. Included within total equity is a deduction of £570m for treasury shares (31 March 2007: £nil). Further purchases of shares relating to employee share schemes were made for an aggregate consideration of £6m.

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26. Reconciliation of movements in total equity continued

Other equity reserves

		Cash flow	Available-	Capital		
	Translation	hedge	for-sale	redemption	Merger	Total
At 1 April 2005	(13)	51	4	2	(5,133)	(5,089)
Net income/(expense) recognised directly in equity	140	(14)	2	_		128
At 31 March 2006	127	37	6	2	(5,133)	(4,961)
Net (expense)/income recognised directly in equity	(175)	(11)	(5)	_		(191)
Repurchase of share capital	_	_	_	2	_	2
At 31 March 2007	(48)	26	1	4	(5,133)	(5,150)
Net (expense)/income recognised directly in equity	(25)	(37)	8	_		(54)
Repurchase of share capital	_	_	_	15	_	15
Transfer between reserves	_	(31)	_	_	(32)	(63)
At 31 March 2008	(73)	(42)	9	19	(5,165)	(5,252)

The merger reserve represents the difference between the carrying value of subsidiary undertakings, investments and their respective capital structures following the Lattice demerger from BG Group plc and the 1999 Lattice refinancing of £(5,745)m and merger differences of £221m and £359m.

A £32m gain on transfer of fixed assets to a former joint venture which subsequently became a subsidiary undertaking was transferred from other reserves to profit and loss reserve, as a result of the disposal of our wireless business.

Gains and losses recognised in the cash flow hedge reserve on interest rate swap contracts as of 31 March 2008 will be continuously transferred to the income statement until the borrowings are repaid (refer to note 21).

The amount of the cash flow hedge reserve due to be released from reserves to the income statement within the next year is £10m, with the remaining amount due to be released with the same maturity profile as borrowings due after more than one year as shown in note 21.

27. Consolidated cash flow statement

(a) Cash flow from operating activities – discontinued operations

	2000 Cm	£m	£m
	£m	LIII	
Operating profit	35	62	111
Adjustments for:			
Exceptional items	-	55	20
Depreciation and amortisation	-	72	77
Share-based payment charge	-	_	3
Changes in working capital, provisions and pensions	(25)	(8)	(47)
Cash flow relating to exceptional items	-	_	(26)
Cash flow relating to discontinued operations	10	181	138
·			

(b) Cash flow from investing activities - discontinued operations

	£m	£m	£m
Disposal proceeds	3,064	27	5,750
Acquisition of subsidiaries, net of cash acquired	_	(85)	_
Other investing activities	(14)	(47)	(209)
Cash flow relating to discontinued operations	3,050	(105)	5,541

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27. Consolidated cash flow statement continued

(c) Reconciliation of net cash flow to movement in net debt

	2008	2007	2006
	£m	£m	£m
Movement in cash and cash equivalents	(1,450)	175	1,181
(Decrease)/increase in financial investments	(45)	1,725	(25)
(Increase)/decrease in borrowings and derivatives	(1,589)	(3,045)	2,304
Cash paid to shareholders under B share scheme	26	26	1,957
Net interest paid	694	597	704
Change in net debt resulting from cash flows	(2,364)	(522)	6,121
Changes in fair value of financial assets and liabilities and exchange movements	(133)	331	(299)
Issue of B shares	· -	_	(2,009)
Net interest charge on the components of net debt	(901)	(655)	(660)
Borrowings of subsidiary undertaking acquired	(2,446)	(48)	_
Amounts reclassified to businesses held for sale	17	(42)	_
Other non-cash movements	(26)	(2)	(17)
Movement in net debt (net of related derivative financial instruments) in the year	(5,853)	(938)	3,136
Net debt at start of year	(11,788)	(10,850)	(13,638)
Impact of adoption of IAS 32 and IAS 39 (i)			(348)
Net debt (net of related derivative financial instruments) at end of year	(17.641)	(11.788)	(10.850)

⁽i) The adoption of IAS 39 resulted in changes to the carrying value of borrowings and financial investments as at 1 April 2005.

(d) Analysis of changes in net debt

(u) Analysis of changes in	not dobt						
	Cash		Net cash				
	and cash	Bank	and cash	Financial			
	equivalents	overdrafts	equivalents	investments(ii)	Borrowings(ii)	Derivatives(ii)	Total
	£m	£m	£m	£m	£m	£m	£m
At 31 March 2005	272	(18)	254	398	(14,290)	_	(13,638)
Impact of adoption of IAS 32							
and IAS 39 (i)	-	-	_	3	(894)	543	(348)
Cash flow	1,166	15	1,181	(155)	5,037	58	6,121
Fair value gains and losses	14	-	14	3	(207)	(109)	(299)
Issue of B shares	-	-	_	-	(2,009)	_	(2,009)
Interest charges	-	-	_	135	(746)	(49)	(660)
Other non-cash movements			_		(17)	_	(17)
At 31 March 2006	1,452	(3)	1,449	384	(13,126)	443	(10,850)
Cash flow	178	(3)	175	1,509	(2,233)	27	(522)
Fair value gains and losses	(14)	_	(14)	(9)	511	(157)	331
Interest charges	_	-	_	215	(833)	(37)	(655)
Other non-cash movements	(23)	_	(23)	(1)	(30)	(38)	(92)
At 31 March 2007	1,593	(6)	1,587	2,098	(15,711)	238	(11,788)
Cash flow	(1,446)	(4)	(1,450)	(251)	(729)	66	(2,364)
Fair value gains and losses	4	_	4	4	(990)	849	(133)
Interest charges	_	_	_	211	(1,066)	(46)	(901)
Acquisition of subsidiary							
undertaking	-	-	_	33	(2,479)	-	(2,446)
Other non-cash movements	23	-	23	_	(18)	(14)	(9)
At 31 March 2008	174	(10)	164	2,095	(20,993)	1,093	(17,641)

⁽i) National Grid adopted IAS 39 with effect from 1 April 2005 consistent with the requirements of IFRS 1. The adoption of IAS 39 also resulted in changes to the carrying value of borrowings and financial investments as at 1 April 2005.

⁽ii) Includes interest. Accrued interest at 31 March 2008 was £(225)m.

Notes to the consolidated financial statements supplementary information

28. Acquisitions

On 24 August 2007, the acquisition of KeySpan was completed, with 100% of the shares acquired for total cash consideration of £3.8bn, including acquisition costs of £25m. The provisional amount of goodwill that arose on the acquisition was £2.3bn, however, this is subject to change as the exercise of establishing fair values of the assets and liabilities acquired is not final at this stage. Provisional goodwill principally relates to the market and regulatory position and retail customer relationships of the acquired operations, the opportunity to make future capital investment, expected synergies and opportunities for further cost improvements in the future, to the assembled workforce and to the potential for future growth. The fair values of the assets and liabilities acquired have been updated from the provisional fair values reported in our half year results for the six months ended 30 September 2007.

Fair values of assets and liabilities remain provisional and are subject to further adjustment within one year of acquisition dates. The principal items outstanding include the fair values of tax liabilities, contingent and unrecorded liabilities and businesses

The majority of the acquired operations relate to gas distribution and electricity distribution and generation activities and so are presented within the Gas Distribution US and Electricity Distribution & Generation US segments. Certain acquired activities, comprising the Ravenswood electricity generation station in New York City, KeySpan Communications and KeySpan Engineering Associates operations are disclosed as discontinued operations in the income statement as we plan, and expect, to dispose of these activities.

	IFNO	
	book value at	
	acquisition	Fair value*
	£m	£m
Other intangible assets	42	135
Property, plant and equipment	3,152	3,282
Financial and other investments – non-current	129	129
Inventories and current intangibles	505	505
Trade and other receivables	767	748
Financial and other investments – current	33	33
Cash and cash equivalents	260	260
Assets of businesses held for sale	472	1,487
Borrowings – current	(545)	(545)
Trade and other payables	(713)	(749)
Borrowings – non-current	(1,852)	(1,934)
Other non-current liabilities	(169)	(169)
Deferred tax liabilities	(132)	(591)
Pensions and other post-retirement benefit obligations	(440)	(440)
Provisions	(649)	(643)
Liabilities of businesses held for sale	(73)	(73)
Minority interest	(8)	(8)
Net assets acquired	779	1,427
Goodwill arising on acquisition		2,335
Total consideration		3,762

^{*}Provisional fair value subject to adjustment

The total consideration net of cash acquired (£260m) was £3,502m.

The KeySpan acquired activities contributed revenue of £2,498m to our continuing operations; contributed a profit from continuing operations after taxation of £225m; and reported an adjusted profit (before exceptional items, remeasurements and stranded cost recoveries) from continuing operations after taxation of £174m for the period from 24 August 2007 to 31 March 2008. Exceptional items, remeasurements and stranded cost recoveries included pre-tax costs of £53m relating to restructuring costs and pre-tax gains on remeasurements of £138m.

28. Acquisitions continued

Pro forma information

As required by IFRS 3 Business Combinations, the following summary presents the consolidated results as if KeySpan had been acquired on 1 April 2007. The pro forma information includes the results of KeySpan for the year 1 April 2007 to 31 March 2008, adjusted for the estimated effect of accounting policies adopted by National Grid and the impact of provisional fair value accounting adjustments (eg amortisation of intangible assets) together with the recognition of the impact on pro forma net interest expense as a result of the acquisition. All of the pre-tax pro forma adjustments have been taxed (where appropriate) at the rate of tax pertaining to the jurisdiction in which the pro forma adjustment arose. The pro forma information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the enlarged National Grid.

	2008	2008
	Actual	Pro forma
	£m	£m
Revenue	11,423	12,345
Operating profit before exceptional items, remeasurements and stranded cost recoveries	2,595	2,625
Total operating profit	2,964	2,901
Profit after taxation from continuing operations before exceptional items, remeasurements and stranded cost		
recoveries	1,256	1,175
Profit for the year from continuing operations	1,581	1,443
Profit for the year	3,199	3,087

29. Commitments and contingencies

(a) Future capital expenditure

	2008	2007
	£m	£m
Contracted for but not provided	1,097	1,554

(b) Lease commitments

Total commitments under non-cancellable operating leases were as follows:

	2008	2007
	£m	£m
In one year or less	83	80
In more than one year, but not more than two years	83	76
In more than two years, but not more than three years	80	72
In more than three years, but not more than four years	69	68
In more than four years, but not more than five years	66	64
In more than five years	356	440
	727	900

The majority of the leases were in respect of properties.

(c) Energy purchase commitments

At 31 March 2008, there were obligations under contracts for the forward purchase of energy. The following table analyses these commitments, excluding commodity contracts carried at fair value.

	2008 £m	2007 £m
In one year or less	1,790	1,233
In more than one year, but not more than two years	900	642
In more than two years, but not more than three years	475	476
In more than three years, but not more than four years	295	186
In more than four years, but not more than five years	130	141
In more than five years	1,163	1,053
	4.753	3.731

Energy commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves. Such commitments are for our normal purchase, sale or usage and hence are accounted as ordinary purchase contracts.

Details of commodity contracts that do not meet the normal purchase, sale or usage criteria and hence are accounted for as derivative contracts are shown in note 34.

29. Commitments and contingencies continued

(d) Other commitments, contingencies and guarantees

The value of other commitments, contingencies and guarantees at 31 March 2008 amounted to £1,387m (2007: £537m), including guarantees amounting to £925m (2007: £229m) and commitments largely relating to gas purchasing and property remediation of £432m (2007: £198m).

Details of the guarantees entered into by the Company or its subsidiary undertakings at 31 March 2008 are shown below:

- guarantees of a subsidiary company's obligations under a membership interest and stock purchase agreement amounting to £282m. These will expire on closing the agreement;
- a letter of support of obligations under a shareholders' agreement relating to the interconnector project between Great (ii) Britain and The Netherlands amounting to approximately £227m. This expires in 2010;
- a guarantee amounting to approximately £105m of half of the obligations of the interconnector project between Great Britain and The Netherlands. This expires in 2010;
- guarantees of certain obligations in respect of the UK Grain LNG Import Terminal for which the maximum annual liability (iv) amounts to £86m. These run for varying lengths of time, expiring between 2019 and 2028;
- guarantees of £59m relating to certain property obligations of subsidiary undertakings. The majority of these expire by (v) December 2025;
- a guarantee of £50m in respect of liabilities under a meter operating contract that runs until May 2008; (vi)
- an uncapped guarantee, for which the maximum liability is estimated at £40m, to The Crown Estates in support of the transfer of the interconnector between France and England to National Grid Interconnectors Limited as part of the Licence to Assign Lease. This is ongoing;
- (viii) letters of credit in support of gas balancing obligations amounting to £25m, lasting for less than one year;
- (ix) collateral of £15m to secure syndicate insurance obligations which are evergreen;
- guarantees in respect of a former associate amounting to £14m, the majority of which relates to its obligations to supply (x) telecommunications services. These are open-ended; and
- other guarantees amounting to £22m arising in the normal course of business and entered into on normal commercial terms. These guarantees run for varying lengths of time.

The Company has entered into an agreement with a stockbroker to repurchase the Company's shares, which is cancellable at any time other than during a close period. The Company entered a close period on 1 April 2008, at which point authority existed for the repurchase of shares up to a maximum value of £248m during the close period. The close period ended following the full year results announcement on 15 May 2008. During the period between 1 April and 14 May 2008, share repurchases amounted to £97.8m.

(e) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £35m (2007: £32m).

(f) Litigation and claims

On 25 February 2008, the Gas and Electricity Markets Authority (GEMA) imposed a £41.6m fine on National Grid for infringement of the Competition Act 1998 in relation to a number of metering contracts entered into with gas suppliers in 2004. We believe that the contracts do not infringe competition law, they were entered into voluntarily by gas suppliers, and Ofgem was consulted throughout the process of contract development and negotiation. Therefore, we have lodged an appeal with the Competition Appeal Tribunal. GEMA has suspended the fine pending the outcome of the appeal and no provision has been made in the accounts.

We remain convinced that National Grid has not breached the Competition Act 1998, that our position will be upheld and the fine reversed upon appeal.

30. Related party transactions

The following information is provided in accordance with IAS 24, Related Party Disclosures, as being material transactions with related parties during the year. These transactions are with joint ventures and associates and a pension plan and were in the normal course of business and are summarised below:

	2008 £m	2007 £m	2006 £m
Sales: Services supplied to a pension plan	3	4	4
Purchases: Services received from joint ventures and associates	33	26	32

At 31 March 2008, there were amounts receivable and payable from and to related parties amounting to £nil (2007: £nil; 2006: £nil) and £2m (2007: £2m; 2006: £1m) respectively, which are due on normal commercial terms.

Details of investments in principal subsidiary undertakings, joint ventures and associates are disclosed in note 37 and information relating to pension fund arrangements is disclosed in notes 5 and 31. For details of Directors and key management remuneration, refer to note 3c and the auditable section of the Directors' Remuneration Report.

Notes to the consolidated financial statements continued

National Grid plc

31. Actuarial information on pensions and other post-retirement benefits

UK pension schemes

National Grid's defined benefit pension schemes are funded with assets held in separate trustee administered funds. The schemes are subject to independent actuarial valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

National Grid UK Pension Scheme

The National Grid UK Pension Scheme provides final salary defined benefits for employees who joined prior to 31 March 2002 and defined contribution benefits for employees joining from 1 April 2002.

The latest full actuarial valuation was carried out by Watson Wyatt LLP at 31 March 2006. The aggregate market value of the scheme's assets was £12,743m and the value of the assets represented 97% of the actuarial value of benefits due to members, calculated on the basis of pensionable earnings and service at 31 March 2006 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £371m on the valuation date.

The results of the actuarial valuation carried out at 31 March 2006 showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 32% of pensionable earnings (29% employers and 3% employees). The ongoing contribution rate does not include an allowance for administration expenses. These contributions are reviewed annually. From 1 April 2007, the rate used for the recovery of administration costs was 3.7% of salary. Employers are currently, therefore, paying a total contribution rate of 32.7%. The contribution rate will be reviewed as part of the 2007 actuarial valuation which is currently in progress.

In line with the agreement made after the 2003 valuation, no funding of the deficit identified in the 2006 actuarial valuation will be provided to the scheme until the outcome of the actuarial valuation as at 31 March 2007 is known. At this point, National Grid will pay the gross amount of any deficit up to a maximum amount of £520m (£373m net of tax) into the scheme. Until the 31 March 2007 actuarial valuation has been completed, National Grid has arranged for banks to provide the trustees with letters of credit. The main conditions under which these letters of credit could be drawn relate to events that would imperil the interests of the scheme, such as National Grid Gas plc, a subsidiary undertaking, becoming insolvent or National Grid failing to make agreed payments into the scheme.

The actuarial valuation as at 31 March 2007 is currently in progress but has not yet been completed. In anticipation of the finalisation of the valuation, the Company made deficit payments to the scheme totalling £115m (£81m net of tax) prior to 31 March 2008 and a further £250m (£180m net of tax) in April 2008. The Company and trustees are currently in the process of agreeing a recovery plan in respect of the outstanding deficit amount which will be agreed before the end of June 2008.

Electricity Supply Pension Scheme
The Electricity Supply Pension Scheme is a funded scheme which is divided into sections, one of which is National Grid's section. National Grid's section of the scheme provides final salary defined benefits and was closed to new entrants on 1 April 2006.

The latest full actuarial valuation as at 31 March 2007 has been carried out by Hewitt Associates Limited. The aggregate market value of the scheme's assets at that date was £1,345m and the value of the assets represented 77% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 March 2007 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £405m on the valuation date.

The actuarial valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 26.5% of pensionable earnings (20.5% employers and 6% employees). This contribution rate will be reviewed as part of the next full actuarial valuation due on 31 March 2010.

Following the 2004 actuarial valuation it had been agreed that no funding of the deficit identified would be provided to the scheme until the outcome of the actuarial valuation at 31 March 2007 was known. At this point, National Grid would pay the gross amount of any deficit up to a maximum amount of £68m (£48m net of tax) plus interest into the scheme. Over the year to 31 March 2008, deficit payments equal to £40m (£28m net of tax) were paid into the scheme and a further payment of £60m (£43m net of tax) was paid in April 2008. The Company and the trustees have agreed a recovery plan which will see the remaining deficit paid off by March 2017. In addition, the Company agreed to put in place triggers which would bring forward payment of the outstanding deficit. The conditions under which payment of the outstanding deficit would be made are if National Grid Electricity Transmission plc (NGET) ceases to hold the licence granted under the Electricity Act 1989 or NGET's credit rating by two out of three specified agencies falls below an agreed level for a period of 40 days.

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31. Actuarial information on pensions and other post-retirement benefits continued US pension plans

National Grid's defined benefit pension plans in the US provide annuity or lump sum payments for all vested employees. In addition, all employees with greater than one year's service are provided with defined contribution benefits. KeySpan companies also have defined benefit pension plans covering substantially all employees. In addition, employees are provided with defined contribution benefits. The assets of the plans are held in separate trustee administered funds.

Employees do not contribute to the defined benefit plans. Employer contributions are made in accordance with the rules set out by the US Internal Revenue Code. These contributions vary according to the funded status of the plans and the amounts that are tax deductible. At present, there is some flexibility in the amount that is contributed on an annual basis. The policy for the New York plans, including the acquired KeySpan plans is to set the contribution amount equal to the amount that is collected in rates. These contributions are expected to meet the requirements of the Pension Protection Act of 2006. In New England, our subsidiaries contribute an amount such that 100% of the Funding Target under the Pension Protection Act will be obtained by 2009.

US retiree healthcare and life insurance plans

National Grid and the acquired KeySpan companies provide healthcare and life insurance benefits to eligible retired US employees. Eligibility is based on certain age and length of service requirements and in most cases retirees must contribute to the cost of their coverage.

In the US, there is no governmental requirement to pre-fund post-retirement health and welfare plans. However, there may be requirements under the various state regulatory agreements to contribute to these plans. Depending upon the rate jurisdiction and the plan, the funding level may be: equal to the expense as determined under SFAS 106; equal to the amount collected in rates; equal to the maximum tax deductible contribution; or zero. These requirements may change as rate agreements are reset.

National Grid expects to contribute approximately £268m to the pension and post-retirement benefit plans from 1 April 2008 to 31 March 2009, although this figure may vary due to changes in market conditions and regulatory recovery.

Asset allocations and actuarial assumptions

The major categories of plan assets as a percentage of total plan assets were as follows:

		UK pensions			US pensions		US other post-retirement benefits			
	2008 %	2007 %	2006 %	2008 %	2007 %	2006 %	2008 %	2007 %	2006 %	
Equities (i)	35.9	35.8	40.7	60.6	63.7	66.4	63.1	68.5	69.0	
Corporate bonds (ii)	25.0	18.6	19.2	33.6	33.5	32.0	32.3	31.1	30.6	
Gilts	29.8	33.9	30.1	_	_	-	_	_	_	
Property	6.7	8.5	8.5	_	_	0.2	_	_	_	
Other	2.6	3.2	1.5	5.8	2.8	1.4	4.6	0.4	0.4	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

- (i) Included within equities at 31 March 2008 were ordinary shares of National Grid plc with a value of £24m (2007: £24m).
- (ii) Included within corporate bonds is an investment in a bond issued by a subsidiary undertaking with a value of £20m (2007: £nil).

In respect of UK schemes, the expected long-term rate of return on assets has been set reflecting the price inflation expectation, the expected real return on each major asset class and the long-term asset allocation strategy adopted for each scheme. The expected real returns on specific asset classes reflect historical returns, investment yields on the measurement date and general future return expectations, and have been set after taking advice from the schemes' actuaries. The current target asset allocation for the National Grid UK Pension Scheme is 34% equities, 58% bonds and 8% property and other. The current target asset allocation for National Grid's section of the Electricity Supply Pension Scheme is 58% equities, 35% bonds, 7% property and other.

In respect of US plans, the estimated rate of return for various passive asset classes is based both on analysis of historical rates of return and forward-looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of our long-term assumptions. A small premium is added for active management of both equity and fixed income. The rates of return for each asset class are then weighted in accordance with our target asset allocation. The long-term target asset allocation for the National Grid US pension plans is 66% equities, 34% bonds and cash. The long-term target asset allocation for other National Grid US post-retirement benefit plans is 67% equities and 33% bonds. For all KeySpan plans (including post-retirement benefit plans) the long-term asset allocation is 70% equities and 30% bonds and cash.

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2007

405

(152)

42

1,521 192

(1,340)

(81)

446

(911)

152

2006

n/a

n/a

n/a

31. Actuarial information on pensions and other post-retirement benefits continued

The principal actuarial assumptions used were:

	UK pensions			L	US pensions			US other post-retirement benefits		
	2008	2007	2006	2008	2007	2006	2008	2007	2006	
	%%	%	%	%%	%	%	%	%	%	
Discount rate (i)	6.6	5.4	4.9	6.5	5.8	6.0	6.5	5.8	6.0	
Expected return on plan assets	6.4	6.1	5.8	7.9	8.3	8.3	7.6	8.3	8.3	
Rate of increase in salaries (ii)	4.6	4.2	3.9	4.0	4.1	4.1	4.0	4.1	4.1	
Rate of increase in pensions in payment	3.8	3.3	3.0	_	_	-	n/a	n/a	n/a	
Rate of increase in pensions in deferment	3.7	3.2	2.9	_	_	-	n/a	n/a	n/a	
Rate of increase in Retail Price Index or										
equivalent	3.7	3.2	2.9	3.0	2.5	3.0	n/a	n/a	n/a	
Initial healthcare cost trend rate	n/a	n/a	n/a	n/a	n/a	n/a	10.0	10.0	10.0	
Ultimate healthcare cost trend rate	n/a	n/a	n/a	n/a	n/a	n/a	5.0	5.0	5.0	

⁽i) The discount rates for pension liabilities have been determined by reference to appropriate yields prevailing in the UK and US debt markets at the balance sheet date.

The assumed life expectations for a retiree at age 65 are:

	2008		2007	
	UK	US	UK	US
	years	years	years	years
Today:				
Males	20.9	18.2	20.1	17.6
Females	23.1	20.5	22.5	20.2
In 20 years:				
Males	23.2	18.2	21.2	17.6
Females	25.4	20.5	23.6	20.2

Sensitivities analysed - all other assumptions held constant:

Difference between the expected and actual return on plan assets (i)

Experience gains on plan liabilities (i)
Actuarial gains/(losses) on plan liabilities (i)

	Change	in .		
	pension and other		Change	e in
	post-retirement	obligation	annual pens	ion cost
	2008	2007	2008	2007
	£m	£m	£m	£m
0.1% increase (2007: 0.1% decrease) in discount rate	251	260	4	4
0.5% increase in long-term rate of increase in salaries	131	139	5	8
Increase of one year to life expectations at age 60	588	557	4	4

Assumed healthcare cost trend rates have a significant impact on the amounts recognised in the income statement. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

			£m	£m	£m
Increase					
Effect on the aggregate of the service cost and interest cost			16	14	15
Effect on defined benefit obligation			251	170	186
Decrease					
Effect on the aggregate of the service cost and interest cost			(13)	(12)	(12)
Effect on defined benefit obligation			(214)	(147)	(161)
The history of experience adjustments is as follows:					
	2008	2007	2006	2005	2004
	£m	£m	£m	£m	£m
Details of experience gains/(losses) for all plans					
Present value of funded and unfunded obligations	(18,175)	(17,253)	(17,839)	(16,837)	(16,405)
Fair value of plan assets	17,273	15,999	15,909	14,565	13,907
	(902)	(1,254)	(1,930)	(2,272)	(2,498)

⁽i) National Grid adopted IAS 19 from 1 April 2004 hence no information has been presented for the year ended 31 March 2004.

⁽ii) A promotional age-related scale has also been used where appropriate.

32. Supplementary information on derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives enable their users to alter exposure to market or credit risks. We use derivatives to manage both our treasury and operational market risks. Operational market risks are managed using commodity contracts which are detailed in note 34.

Treasury financial instruments

Derivatives are used for hedging purposes in the management of exposure to market risks. This enables the optimisation of the overall cost of accessing debt capital markets, and mitigates the market risk which would otherwise arise from the maturity and other profiles of its assets and liabilities.

Hedging policies using derivative financial instruments are further explained in note 33. Derivatives that are 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. These 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. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to the income statement as a yield adjustment over the remainder of the hedging period.

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 which is swapped into fixed sterling rate. 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. Amounts are transferred from equity and recognised in the income statement as the income or expense is recognised on the hedged asset or liability.

Forward foreign currency contracts are used to hedge anticipated and committed future currency cash flows. Where these contracts qualify for hedge accounting they are designated as cash flow hedges. On recognition of the underlying transaction in the financial statements, the associated hedge gains and losses deferred in equity are transferred and included with the recognition of the underlying transaction.

The gains and losses on ineffective portions of such derivatives are recognised immediately in remeasurements within the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement or on the balance sheet. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to remeasurements within the income statement.

Net investment hedges

Borrowings, cross-currency swaps and forward currency contracts are used in the management of the foreign exchange exposure arising from the investment in non sterling denominated subsidiaries. Where these contracts qualify for hedge accounting they are designated as net investment hedges.

The cross-currency swaps and forward foreign currency contracts are hedge accounted using the spot to spot method. The foreign exchange gain or loss on retranslation of the debt and the spot to spot movements on the cross-currency swaps and forward currency contracts are transferred to equity to offset gains or losses on translation of the net investment in the non sterling denominated subsidiaries.

Derivatives not in a formal hedge relationship

Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting under IAS 39 some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in remeasurements within the income statement.

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National Grid plc

33. Financial risk

Our activities expose us to a variety of financial risks: market risk (including foreign exchange risk; fair value interest rate risk; cash flow interest rate risk; commodity risk); credit risk and liquidity risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. Derivative financial instruments are used to hedge certain risk exposures.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Board of Directors. This department identifies, evaluates and hedges financial risks in close co-operation with the operating units. The Board 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, use of derivative financial instruments and nonderivative financial instruments, and investment of excess liquidity as discussed further in our treasury policy, described on pages 76 to 78.

(a) Market risk

(i) Foreign exchange risk

National Grid operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and investments in foreign operations.

With respect to near term foreign exchange risk, we use foreign exchange forwards to manage foreign exchange transaction exposure. Our policy is to hedge a minimum percentage of known contracted foreign currency flows in order to mitigate foreign currency movements in the intervening period. Where cash forecasts are less certain, we generally cover a percentage of the foreign currency flows depending on the level of agreed probability for those future cash flows.

We also manage the foreign exchange exposure to net investments in foreign operations, within a policy range, by maintaining a percentage of net debt and foreign exchange forwards in the relevant currency. The primary managed foreign exchange exposure arises from the US dollar denominated assets and liabilities held by the US operations, and in the prior year, a small Australian dollar foreign exchange exposure with respect to our discontinued operations in Australia.

During 2008 and 2007, derivative financial instruments were used to manage foreign currency risk as follows:

			2008					2007		
	Sterling	Euro	US dollar	Other	Total	Sterling	Euro	US dollar	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	168	6	_	_	174	733	2	858	_	1,593
Financial investments	1,063	92	898	42	2,095	1,663	61	345	29	2,098
Borrowings*	(9,111)	(5,342)	(5,769)	(781)	(21,003)	(8,030)	(4,677)	(2,443)	(567)	(15,717)
Pre-derivative position	(7,880)	(5,244)	(4,871)	(739)	(18,734)	(5,634)	(4,614)	(1,240)	(538)	(12,026)
Derivative effect	1,069	5,301	(6,016)	739	1,093	(1,709)	4,693	(2,972)	226	238
Net debt position	(6,811)	57	(10,887)	_	(17,641)	(7,343)	79	(4,212)	(312)	(11,788)

^{*} Includes bank overdrafts

The overall exposure to US dollars largely relates to our net investment hedge activities as described and shown in note 32

The currency exposure on other financial instruments is as follows:

		2008						2007		
	Sterling	Euro	US dollar	Other	Total	Sterling	Euro	US dollar	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Trade and other										
receivables	182	_	1,138	_	1,320	172	_	526	_	698
Trade and other payables	(1,290)	_	(1,050)	_	(2,340)	(1,208)	-	(563)	-	(1,771)
Other non-current liabilities	(18)	_	(417)	_	(435)	(11)	_	(333)	_	(344)

The carrying amounts of other financial instruments are denominated in the above currencies, which in most instances are the functional currency of the respective subsidiaries. Our exposure to US dollars is due to activities in our US subsidiaries. We do not have any other significant exposure to currency risk on these amounts.

33. Financial risk continued

(a) Market risk continued

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from our borrowings. Borrowings issued at variable rates expose National Grid to cash flow interest rate risk. Borrowings issued at fixed-rates expose National Grid to fair value interest rate risk. Our interest rate risk management policy as further explained on page 76 is to minimise the finance costs (being interest costs and changes in the market value of debt). Some of our borrowings issued are index-linked; that is, their cost is linked to changes in the UK retail price index (RPI). We believe that these borrowings provide a good hedge for regulated UK revenues and our UK regulatory asset values that are also RPI-linked.

Interest rate risk arising from the financial investments is primarily variable being composed of short dated money funds.

The following table sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps:

	2008	2007
	£m	£m
Fixed interest rate borrowings		
In one year or less	(2,620)	(619)
In more than one year, but not more than two years	(906)	(1,525)
In more than two years, but not more than three years	(642)	(569)
In more than three years, but not more than four years	(1,008)	(263)
In more than four years, but not more than five years	(900)	(901)
In more than five years	(5,579)	(4,886)
	(11,655)	(8,763)
Floating interest rate borrowings (including RPI)	(9,348)	(6,954)
Total borrowings	(21,003)	(15,717)

During 2008 and 2007, net debt was managed using derivative instruments to hedge interest rate risk as follows:

		2008			2007					
	Fixed- rate £m	Floating- rate £m	RPI ⁽ⁱ⁾ £m	Other ⁽ⁱⁱ⁾ £m	Total £m	Fixed- rate £m	Floating- rate £m	RPI ⁽ⁱ⁾ £m	Other ⁽ⁱⁱ⁾ £m	Total £m
Cash and cash										
equivalents	_	174	_	_	174	_	1,593	_	_	1,593
Financial investments	223	1,835	_	37	2,095	_	1,872	_	226	2,098
Borrowings*	(11,655)	(4,825)	(4,523)	_	(21,003)	(8,763)	(3,307)	(3,647)	_	(15,717)
Pre-derivative position	(11,432)	(2,816)	(4,523)	37	(18,734)	(8,763)	158	(3,647)	226	(12,026)
Derivative effect	ì,814´	(708)	(2)	(11)	1,093	2,747	(2,501)		(8)	238
Net debt position	(9,618)	(3,524)	(4,525)	26	(17,641)	(6,016)	(2,343)	(3,647)	218	(11,788)

*Includes bank overdrafts

⁽i) Represents financial instruments which are linked to the UK retail price index.

⁽ii) Represents financial instruments which are not directly affected by interest rate risk, such as investments in equity, foreign exchange forward contracts or other similar financial instruments.

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National Grid plc

33. Financial risk continued

(b) Credit risk

Credit risk is managed on a portfolio basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Treasury related credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. As at 31 March 2008 the following limits were in place for investments held with banks and financial institutions:

	Maximum limit £m	Long-term limit £m
Rating	LIII	2,111
AAA rated G8 sovereign entities	Unlimited	Unlimited
Triple 'A' vehicles	140	140
Triple 'A' range institutions (AAA)	620 to 965	310 to 505
Double 'A' range institutions (AA)	345 to 450	175 to 225
Single 'A' range institutions (A)	80 to 140	40 to 70

As at 31 March 2008 and 2007, we had a number of exposures to individual counterparties. In accordance with our treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. Management does not expect any significant losses from non-performance by these counterparties.

The counterparty exposure under derivative financial contracts as shown in note 17 was £1,526m (2007: £657m), after netting agreements it was £1,277m (2007: £364m). This exposure is further reduced by collateral received as shown in note 21.

Wholesale and retail credit risk

Our principal commercial exposure in the UK is governed by the credit rules within the regulated codes Uniform Network Code and Connection and Use of System Code. These lay down the level of credit relative to the Regulatory Asset Value (RAV) for each credit rating. In the US, we are required to supply electricity and gas under state regulations. Our credit policies and practices are designed to limit credit exposure by collecting prepayments prior to providing utility services. Collection activities are managed on a daily basis. The utilisation of credit limits is regularly monitored. Sales to retail customers are usually settled in cash or using major credit cards. Management does not expect any significant losses of receivables that have not been provided for as shown in note 19.

33. Financial risk continued

(c) Liquidity analysis

We determine our liquidity requirements by the use of both short- 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 12 month period.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the balance sheet date:

	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 2008	£m	£m	£m	£m	£m
Non derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(3,379)	(1,345)	(1,380)	(14,626)	(20,730)
Interest payments on borrowings (i)	(822)	(728)	(663)	(7,946)	(10,159)
Finance lease liabilities	(266)	(38)	(34)	(147)	(485)
Other non interest-bearing liabilities	(2,190)	(347)	-	_	(2,537)
Derivative financial liabilities					
Derivative contracts – receipts	990	495	710	5,329	7,524
Derivative contracts – payments	(647)	(364)	(587)	(5,538)	(7,136)
Commodity contracts	(490)	(257)	(188)	(279)	(1,214)
Total at 31 March 2008	(6,804)	(2,584)	(2,142)	(23,207)	(34,737)
	_	Due	Due	Due	
	Due within	between 1 and 2	between 2 and 3	3 years and	
	1 year	years	years	beyond	Total
At 31 March 2007	£m	£m	£m	£m	£m
Non derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(776)	(1,865)	(1,013)	(12,283)	(15,937)
Interest payments on borrowings (i)	(686)	(612)	(548)	(6,489)	(8,335)
Finance lease liabilities	(17)	(17)	(12)	(113)	(159)
Other non interest-bearing liabilities	(1,525)	(214)	` -	` -	(1,739)
Derivative financial liabilities					
Derivative contracts – receipts	382	608	299	2,116	3,405
Derivative contracts – payments	(443)	(571)	(318)	(1,910)	(3,242)
Commodity contracts	(56)	(55)	(38)	(240)	(389)
Total at 31 March 2007	(3,121)	(2,726)	(1,630)	(18,919)	(26,396)

⁽i) The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating-rate interest is estimated using a future interest rate curve as at 31 March.

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National Grid plc

33. Financial risk continued

(d) Sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits, derivative financial instruments and commodity contracts. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity to changes in market variables, being UK and US interest rates, the UK retail price index and the US dollar to sterling exchange rate on our financial instruments.

The analysis also excludes the impact of movements in market variables on the carrying value of pension and other postretirement obligations, provisions and on the non-financial assets and liabilities of overseas subsidiaries.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2008 and 31 March 2007, respectively. As a consequence, this sensitivity analysis relates to the positions at those dates and is not representative of the years then ended, as all of these varied.

The following assumptions were made in calculating the sensitivity analysis:

- the balance sheet sensitivity to interest rates relates only to derivative financial instruments and available-for-sale investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move:
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- changes in the carrying value of derivatives from movements in interest rates designated as cash flow hedges are assumed
 to be recorded fully within equity;
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in interest rates are recorded in the income statement as they are designated using the spot rather than the forward translation method. The impact of movements in the US dollar to sterling exchange rate are recorded directly in equity;
- changes in the carrying value of derivative financial instruments not in hedging relationships only affect the income statement.
- all other changes in the carrying value of derivative financial instruments designated as hedges are fully effective with no impact on the income statement;
- debt with a maturity below one year is floating rate for the accrued interest part of the calculation;
- the floating leg of any swap or any floating-rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations; and
- sensitivity to the retail price index does not take into account any changes to revenue or operating costs that are affected by the retail price index or inflation generally.

Using the above assumptions, the following table shows the illustrative impact on the income statement and items that are recognised directly in equity that would result from reasonably possible movements in the UK retail price index, UK and US interest rates and in the US dollar to sterling exchange rate, after the effects of tax.

		2008		2007
	Income	Other equity	Income	Other equity
	statement	reserves	statement	reserves
	-/+ £m	-/+ £m	-/+ £m	-/+ £m
UK retail price index +/- 0.50%	16	_	13	-
UK interest rates +/- 0.50%	46	57	35	43
US interest rates +/- 0.50%	31	7	26	8
US dollar exchange rate +/- 10%	18	590	36	194

The income statement sensitivities impact interest expense and financial instrument remeasurements.

The other equity reserves impact does not reflect the exchange translation in our US subsidiary investments which it is estimated would change by £718m (2007: £380m) in the opposite direction if the US dollar exchange rate changed by 10%.

(e) Capital and risk management

National Grid's objectives when managing capital are to safeguard our ability to continue as a going concern, to remain within regulatory constraints and to operate an efficient balance sheet thus achieving an optimal capital structure and cost of capital.

In order to maintain or adjust the capital structure, we may return excess capital to shareholders, issue new shares or sell assets to reduce debt.

The principal measure of our balance sheet efficiency is our interest cover ratio. Interest cover for the year ended 31 March 2008 decreased to 3.2 from 3.8 for the year ended 31 March 2007. Our long-term target range for interest cover is between 3.0 and 3.5.

We purchase electricity and gas in order to supply our customers in the US and also to meet our own energy requirements. We purchased gas and oil for our discontinued Ravenswood generation station prior to 31 December 2007 when we entered a tolling agreement with a third party. We also engage in the sale of gas that is produced primarily by our West Virginia gas fields. In the US substantially all of our costs of purchasing electricity and gas for supply to customers are typically recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular financial period. The most significant gas purchases for our own use relate to the operation of our gas transmission and gas distribution networks, mainly in the UK, while we also purchase fuel for our vehicle fleets in the UK and the US.

We enter into forward contracts for the purchase of commodities; some of these do not meet the normal purchase, sale or usage exemption for accounting purposes and hence are reported as derivatives. We also enter into derivative instruments including index-linked swaps and futures contracts linked to commodity prices. These derivatives are used to reduce market price volatility and are carried at fair value in the balance sheet. Mark-to-market changes in these contracts are reflected through earnings with the exception of electricity and gas futures contracts, and gas sales swaps which are designated as cash flow hedges.

Our Energy Procurement Risk Management Policy and Delegations of Authority govern our US commodity trading activities for energy transactions. The purpose of the policy is to ensure that our US operating companies participate in the physical and financial markets only for those commodities that we or our customers have a physical market requirement, and will transact only within predefined risk parameters approved by the Energy Procurement Risk Management Committee.

The fair value of our commodity contracts by type can be analysed as follows:

		2008		2007*
	Assets	Liabilities	Total	Total
	£m	£m	£m	£m
Commodity purchase contracts accounted for as derivative contra	acts			
Forward purchases of electricity	_	(47)	(47)	(132)
Forward purchases of gas	116	(39)	77	· -
Forward purchases of electricity capacity	1	(12)	(11)	_
Derivative financial instruments linked to commodity prices				
Electricity swaps	_	(26)	(26)	(136)
NYMEX gas and electricity futures	19		19	
	136	(124)	12	(268)

The maturity of commodity contracts measured at fair value can be analysed as follows:

		2008		2007*
	Assets	Liabilities	Total	Total
	£m	£m	£m	£m
In one year or less	78	(36)	42	(138)
Current	78	(36)	42	(138)
In more than one year, but not more than two years	40	(36)	4	(42)
In more than two years, but not more than three years	14	(12)	2	(11)
In more than three years, but not more than four years	4	(18)	(14)	(12)
In more than four years, but not more than five years	_	(12)	(12)	(12)
In more than five years	_	(10)	(10)	(53)
Non-current	58	(88)	(30)	(130)
Total	136	(124)	12	(268)

*In 2007 all commodity contracts were liabilities

For each class of commodity contract, our exposure, based on the notional quantities is as follows:

	2008	2007
Forward purchases of electricity (i)	Nil	Nil
Forward purchases of gas (ii)	197m Dth	n/a
Forward purchases of electricity capacity	23 GWh	n/a
Electricity swaps	5,466 GWh	6,845 GWh
NYMEX electricity futures	581 GWh	n/a
NYMEX gas futures	19m Dth	n/a

⁽i) Forward electricity purchases have terms up to 12 years but do not have specified notional quantities as these are defined by a percentage of unit output. The future obligations of these contracts are £316m (2007: £389m).

⁽ii) Forward gas purchases have terms up to seven years. The future obligations of these contracts are £873m (2007: n/a).

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National Grid plc

34. Commodity risk continued

A sensitivity analysis has been prepared on the basis that all commodity contracts are constant from the balance sheet date. Based on this, an illustrative 10% movement in commodity prices would have the following impacts after the effects of tax:

	2008		200	7
	Income	Other equity	Income	Other equity
	statement	reserves	statement	reserves
	£m	£m	£m	£m
10% increase in commodity prices	25	(1)	10	_
10% reduction in commodity prices	(22)	1	(10)	_

The income statement sensitivities will impact commodity remeasurements.

35. Bonds and facilities

The table below shows our significant bonds in issue, being £50m notional value or greater. Unless otherwise indicated, these instruments were outstanding at both 31 March 2008 and 31 March 2007.

Issuer	Original Notional Value	Description of instrument	Due
Bonds			
British Transco Finance Inc.	USD 300m	6.625% Fixed Rate	2018
British Transco International Finance BV	FRF 2,000m	5.125% Fixed Rate	2009
	USD 1,500m	Zero Coupon Bond	2021
Brooklyn Union Gas Company (i)	USD 153m	NYSERDA 4.7% GFRB's Series 1996	2021
	USD 400m	KEDNY 5.6% Senior Unsecured Note	2016
KeySpan Corporation (i)	USD 700m	KeySpan MTN 7.625%	2010
	USD 250m	KeySpan MTN 8.00%	2030
	USD 160m	KeySpan 4.9% Notes	2008
	USD 307m	KeySpan 5.803% Notes	2035
	USD 150m	KeySpan 4.65% Notes	2013
	USD 150m	KeySpan 5.875% Notes	2033
KeySpan Gas East Corporation (i)	USD 400m	KeySpan 7.875% Gas East MTN Program	2010
(National Grid Energy Delivery Long Island)	USD 100m	KEDLI 5.6% Senior Unsecured Note	2016
KeySpan Ravenswood LLC (i)	USD 412m	Ravenswood Master Lease Notes	2009
National Grid Electricity Transmission plc	EUR 600m	4.125% Fixed Rate	2008
	GBP 250m	4.75% Fixed Rate	2010
	GBP 300m	2.983% Guaranteed Retail Price Index-Linked	2018
	GBP 220m	3.806% Retail Price Index-Linked	2020
	GBP 450m	5.875% Fixed Rate	2024
	GBP 360m	6.5% Fixed Rate	2028
	GBP 70m	3.589% Limited Retail Price Index-Linked	2030
	GBP 50m	2.817% Guaranteed Limited Retail Price Index-Linked	2032
	GBP 75m	5.0% Fixed Rate	2035
	GBP 50m	2.2280% Retail Price Index-Linked	2035
	GBP 75m	2.0353% Retail Price Index-Linked	2035
	GBP 50m	1.8204% Retail Price Index-Linked	2035
	JPY 10,000m	Callable Fixed Rate Notes	2035
	GBP 200m	1.6449% Retail Price Index-Linked	2036
	GBP 50m	1.6747% Retail Price Index-Linked	2036
	GBP 50m	1.819% Retail Price Index-Linked	2056
	GBP 150m	1.823% Retail Price Index-Linked	2056
	GBP 50m	1.797% Retail Price Index-Linked	2056
	GBP 50m	1.6574% Retail Price Index-Linked	2056
	GBP 50m	1.8055% Index-Linked (ii)	2039
	GBP 150m	1.8575% Index-Linked (ii)	2039

35. Bonds and facilities continued

Issuer	Original Notional Value	Description of instrument	Due
New England Power Company	USD 136m	Floating Rate Tax Exempt Pollution Control Revenue Bonds	2020
	USD 106m	Floating Rate Tax Exempt Pollution Control Revenue Bonds	2022
National Grid Gas Holdings plc	GBP 503m	Floating Rate (iii)	2009
	GBP 503m	4.1875% Index-Linked (iii)	2022
	GBP 503m	7.0% Fixed Rate (iii)	2024
National Grid Gas plc	GBP 300m	5.625% Fixed Rate (iv)	2007
·	GBP 250m	8.875% Fixed Rate	2008
	AUD 500m	7.0% Fixed Rate	2008
	GBP 300m	5.375% Fixed Rate	2009
	GBP 300m	6.0% Fixed Rate	2017
	GBP 275m	8.75% Fixed Rate	2025
	GBP 50m	6.2% Fixed Rate	2028
	GBP 100m	1.6747% Retail Price Index-Linked	2036
	GBP 115m	1.7298% Retail Price Index-Linked	2046
	GBP 100m	1.6298% Retail Price Index-Linked	2048
	GBP 100m	1.5522% Retail Price Index-Linked	2048
	GBP 300m	1.754% Retail Price Index-Linked	2036
	GBP 140m	1.7864% Index-Linked	2037
	GBP 50m	1.7552% Index-Linked	2037
	GBP 50m	1.6783% Index-Linked	2037
	GBP 100m	1.9158% Index-Linked	2037
	GBP 50m	1.8928% Index-Linked	2037
	GBP 65m	1.9211% Index-Linked	2037
	GBP 50m	1.7642% Index-Linked	2037
	GBP 100m	1.7762% Index-Linked	2037
	EUR 100m	4.445% Fixed Rate (ii)	2009
	GBP 100m	1.7744% Index-Linked (ii)	2039
	GBP 100m	1.8625% Index-Linked (ii)	2039
	GBP 75m	1.5803% Index-Linked (ii)	2052
	GBP 300m	6.375% Fixed Rate (ii)	2020
	GBP 503m	Floating Rate (iii)	2009
	GBP 503m	4.1875% Index-Linked (iii)	2022
	GBP 503m	7.0% Fixed Rate (iii)	2024
National Grid plc	CAD 200m	4.98% Fixed Rate	2011
·	EUR 500m	3.75% Fixed Rate	2008
	EUR 1,000m	4.125% Fixed Rate	2013
	EUR 600m	5.0% Fixed Rate	2018
	EUR 500m	4.375% Fixed Rate	2020
	EUR 600m	Floating Rate	2010
	EUR 300m	Floating Rate (iv)	2008
	EUR 750m	Floating Rate	2012
	EUR 300m	Floating Rate	2009
	EUR 450m	Floating Rate	2008
	EUR 100m	3.25% Fixed Rate	2009
	GBP 300m	5.25% Fixed Rate	2011
	GBP 250m	5.5% Fixed Rate	2013
	USD 1,000m	6.3% Fixed Rate	2016
	USD 100m	Floating Rate	2011
NGG Finance plc	EUR 750m	6.125% Fixed Rate	2011
Niagara Mohawk Power Corporation	USD 200m	8.875% Senior Notes (iv)	2007
inagara monawa i ower corporation	USD 600m	7.75% Senior Notes	2007
	USD 116m	7.79% Seriio Notes 7.2% Tax-Exempt First Mortgage Bonds (v)	2029
	000 110111	1.2 /0 Tax Exempli Hist Worldage Dollas (V)	2029

⁽i) These bonds were acquired as part of the KeySpan acquisition in August 2007.

⁽ii) Issued during the year ended 31 March 2008.

⁽iii) The bonds were transferred from National Grid Gas Holdings plc to National Grid Gas plc during the year.

⁽iv) Matured during the year ended 31 March 2008.

⁽v) Secured against the assets of Niagara Mohawk Power Corporation.

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National Grid plc

35. Bonds and facilities continued

Issuer	Original Notional Value	Description of instrument	Due
Bank loans and other loans			
National Grid plc	USD 150m	Floating Rate (i)	2011
National Grid Grain LNG Limited	GBP 120m	Floating Rate	2014
	GBP 140m	Floating Rate (i)	2023
National Grid Electricity Transmission plc	GBP 200m	Floating Rate	2012
·	GBP 200m	Floating Rate	2017
National Grid Gas plc	GBP 200m	Floating Rate	2012
	GBP 180m	1.88% Retail Price Index-Linked	2022
	GBP 190m	2.14% Retail Price Index-Linked (i)	2022
	JPY 10,000m	4.31% Fixed Rate	2029
	JPY 10,000m	4.63% Fixed Rate	2029
National Grid USA	EUR 100m	Floating Rate (i)	2011
	USD 150m	Floating Rate (i)	2011

No significant bonds have been announced to the market prior to 31 March 2008 but not issued until after that date. However, the following bonds and loans have been issued since 31 March 2008:

Issuer	Original Notional Value	Description of instrument	Due
Bonds and loans issued after 31 March 2008			
National Grid plc	USD 150m	Floating Rate	2011
National Grid Gas plc	EUR 750m	5.125% Fixed Rate	2013
•	GBP 300m	6.00% Fixed Rate	2038

Borrowing facilities

At 31 March 2008, there were bilateral committed credit facilities of £1,315m (2007: £1,290m), of which £1,235m (2007: £1,290m) were undrawn. In addition, there were committed credit facilities from syndicates of banks of £1,628m at 31 March 2008 (2007: £879m), of which £1,628m (2007: £879m) were undrawn. An analysis of the maturity of these undrawn committed facilities is shown below:

Undrawn committed borrowing facilities

	2008 £m	2007 £m
Expiring:		
In one year or less	756	762
In more than one year, but not more than two years	408	_
In more than two years	1,699	1,407
	2,863	2,169

At 31 March 2008, of the unused facilities £2,747m (2007: £2,052m) was held as back-up to commercial paper and similar borrowings.

36. Share options and reward plans

We operate four principal forms of share option and share reward plans. These plans include an employee Sharesave scheme, a Performance Share Plan (PSP), the Deferred Share Plan and the Retention Award Plans. In any 10 year period, the maximum number of shares that may be issued or issuable pursuant to these share plans may not exceed the number of shares representing 10% of the issued ordinary share capital.

The Sharesave scheme is savings-related where, under normal circumstances, share options are exercisable on completion of a three and/or five year Save-As-You-Earn contract. The exercise price of options granted represents 80% of the market price at the time of the invitation.

Under the PSP, awards have been made to Executive Directors and approximately 350 senior employees. Awards made in 2004 have lapsed. For awards made from 2005, the criteria was amended so that 50% is based on the Company's Total Shareholder Return (TSR) performance when compared to the FTSE 100 and 50% is based on the annualised growth of the Company's EPS compared to the growth in RPI (the general index of retail prices for all items). Awards are delivered in National Grid plc shares.

Under the Deferred Share Plan, one half of any bonus earned by Executive Directors and a predetermined part of any bonus earned by UK senior employees is automatically deferred into National Grid shares. The shares are held in trust for three years before release.

Retention awards have been made to a small number of senior employees following the acquisition of KeySpan. Awards were made in November 2007 in National Grid ADSs and will vest in three equal tranches over three years, provided the employee remains employed by the Company. The Retention Awards are conditional share awards with no performance conditions attached.

36. Share options and reward plans continued Additional information in respect of active share schemes

	2008 millions	2007 millions	2006 millions
Performance Share Plan			
Awards of ordinary share equivalents at 1 April	8.0	9.2	6.6
Awards made	3.1	2.6	3.1
Lapses/forfeits	(3.4)	(3.8)	(0.5)
Awards vested	(0.2)		
Awards of ordinary share equivalents at 31 March	7.5	8.0	9.2
Conditional awards available for release at 31 March	_	_	_
Deferred Share Plan			
Awards of ordinary share equivalents at 1 April	0.4	_	_
Awards made	0.2	0.4	_
Lapses/forfeits	-	_	_
Awards vested	(0.1)	_	_
Awards of ordinary share equivalents at 31 March	0.5	0.4	_
Conditional awards available for release at 31 March	-	0.1	_
Retention Award Plans			
Awards of ordinary share equivalents at 1 April	_	_	_
Awards made	0.8	_	_
Lapses/forfeits	_	_	_
Awards vested	-	_	_
Awards of ordinary share equivalents at 31 March	0.8	_	_
Conditional awards available for release at 31 March	_	_	_

Non-active share plans

We also have a number of historical plans where awards are still outstanding but no further awards will be granted. These include the Executive Share Option Plan and the Share Matching Plan.

The Executive Share Option Plan applied to senior executives, including Executive Directors. Options granted were subject to the achievement of performance targets related to TSR over a three year period and those for 2000 are awaiting retest. The share options are generally exercisable between the third and tenth anniversaries of the date of grant if the relevant performance target is achieved.

The Share Matching Plan applied to Executive Directors and other senior employees whereby a predetermined part of each participant's bonus entitlement was automatically deferred into National Grid plc shares (known as qualifying shares) and a matching award may be exercised under the Plan after a three year period provided the Director or senior employee remains employed by the Company or its subsidiary undertakings.

In addition to the above, following the sale of the UK Wireless business, Transitional Share Awards and Special Share Awards which were made during the year ended 31 March 2005 to former Wireless employees vested in full on completion.

Additional information in respect of non-active share schemes

	000s	000s	000s
Share Matching Plan			
Awards at 1 April	384	436	342
Awards granted	1	_	149
Lapses/forfeits	-	_	(1)
Awards exercised	(183)	(52)	(54)
Awards at 31 March	202	384	436
Options exercisable at 31 March	109	164	45
Transitional Share Awards/Special Share Awards			
Awards of ordinary share equivalents at 1 April	77	133	234
Awards made	-	_	_
Lapses/forfeits	(1)	(6)	(39)
Awards vested	(73)	(50)	(62)
Awards of ordinary share equivalents at 31 March	3	77	133
Conditional awards available for release at 31 March	3	1	_

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36. Share options and reward plans continued

Share options

Movement in options to subscribe for ordinary shares under the Company's various options schemes for the three years ended 31 March 2008 is shown below and includes those options related to shares issued by employee benefit trusts:

	Shares scheme o		Executive Plan options		
	Weighted average price £	millions	Weighted average price £	millions	Total options millions
At 31 March 2005	3.35	31.2	4.86	10.4	41.6
Granted	4.34	5.6	_	_	5.6
Lapsed – expired	3.33	(4.1)	4.32	(0.9)	(5.0)
Exercised	3.25	(12.8)	4.04	(2.3)	(15.1)
At 31 March 2006	3.68	19.9	5.01	7.2	27.1
Granted	5.58	4.2	_	_	4.2
Lapsed – expired	3.82	(0.9)	5.48	(1.9)	(2.8)
Exercised	3.43	(1.9)	5.00	(2.1)	(4.0)
At 31 March 2007	4.07	21.3	4.74	3.2	24.5
Granted	6.55	2.9	_	_	2.9
Lapsed — expired	4.43	(1.0)	5.31	(0.1)	(1.1)
Exercised	3.37	(6.3)	4.45	(1.1)	(7.4)
At 31 March 2008	4.74	16.9	4.87	2.0	18.9
Included within options outstanding at 31 March 2008, 31 March 2007	and 31 March 2006 we	re the followi	ng options tha	at were exerc	isable:
At 31 March 2008	3.74	0.5	4.78	1.3	1.8
At 31 March 2007	3.17	4.1	4.63	2.4	6.5
At 31 March 2006	3.24	0.5	5.03	7.1	7.6
The weighted average remaining contractual life of options in the employment of these options have exercise prices between £3.17 and £6.55. The weighted average share price at the exercise dates was as follows	•	e at 31 Marc	h 2008 was 2	years and 2	months.
The weighted average share price at the exercise dates was as follows			2008 £	2007 £	2006 £
Sharesave scheme options			7.79	6.50	5.89

	£	£	£
Sharesave scheme options	7.79	6.50	5.89
Executive Plan options	7.68	6.68	5.50
Additional information in respect of share options			
	2008 £m	2007 £m	2006 £m
Chara antiana avarainad			

Tax benefits realised from share options exercised during the year Options outstanding and exercisable and their weighted average exercise prices for the respective ranges of exercise prices and years at 31 March 2008 are as follows:

	Weighted average exercise price of exercisable options £	Number exercisable millions	Weighted average exercise price of outstanding options £	Number outstanding millions	Exercise price per share pence	Normal dates of exercise years
Executive Plan	3.91	0.1	3.91	0.1	375.8-490.0	2002-2009
	5.34 5.27	0.2	5.34 5.26	0.2 0.6	424.0-566.5 526.0-623.0	2003-2010 2004-2011
	4.70	1.0	4.70	1.0	434.3-481.5	2006-2013
	4.05	_	4.05	0.1	405.0	2007-2014
	4.78	1.3	4.87	2.0		

The aggregate intrinsic value of all options outstanding and exercisable at 31 March 2008 amounted to £47m and £5m respectively.

Share-based payment charges

Cash received on exercise of all share options during the year

The charge to the income statement for the year ended 31 March 2008 was £18m (2007: £15m; 2006: £14m). The related tax charge recognised in the income statement was £1m (2007: £9m charge; 2006: £2m credit).

36. Share options and reward plans continued

Awards under share option plans

The average share prices at the date of options being granted, the average exercise prices of the options granted and the estimated average fair values of the options granted during each of the three financial years ended 31 March were as follows:

	2008	2007	2006
Average share price	846.0p	746.0p	569.0p
Average exercise price	655.0p	558.0p	434.0p
Average fair value	190.0p	166.8p	128.0p

These amounts have been calculated in respect of options where the exercise price is less than the market price at the date of grant.

The fair values of the options granted were estimated using the following principal assumptions:

	2008	2007	2006
Dividend yield (%)	4.5	4.5	4.5
Volatility (%)	15.6-18.9	15.6-18.9	15.6-18.9
Risk-free investment rate (%)	4.2	4.2	4.2
Average life (years)	4.1	3.9	4.3

The fair values of awards under the Sharesave scheme have been calculated using the Black-Scholes European model for awards made prior to 1 April 2006. This is considered appropriate given the short exercise window of sharesave options. The fair value of awards made in 2007 onwards have been calculated by reference to the prior year's Black-Scholes European model calculation.

Volatility was derived based on the following and is assumed to revert from its current implied level to its long run mean, based on historical volatility under (ii) below:

- implied volatility in traded options over the Company's shares;
- historical volatility of the Company's shares from October 2002 (the date of the business combination with Lattice Group (ii) plc); and
- (iii) implied volatility of comparator companies where options in their shares are traded.

Awards under other share scheme plans

The average share prices and fair values at the date share awards were granted during each of the three financial years ended 31 March were as follows:

	2008	2007	2006
Average share price	766.9p	594.0p	535.6p
Average fair value	522.8p	403.1p	358.0p
The fair values of the awards granted were estimated using the following	principal assumptions:		
	2008	2007	2006
Dividend yield (%)	4.4	4.4	4.4
Volatility (%)	19.9	19.9	19.9
Risk-free investment rate (%)	<i>A</i> 1	41	41

Fair values have been calculated using a Monte Carlo simulation model for awards with total shareholder return performance conditions made prior to 1 April 2006. The fair value of awards made in 2007 onwards has been calculated by reference to the prior year's Monte Carlo simulation model calculation. Fair values of awards with performance conditions based on earnings per share have been calculated using the share price at date of grant less the present value of dividends foregone during the performance period.

For other share scheme awards, where the primary vesting condition is that employees complete a specified number of years service, the fair value has been calculated as the share price at date of grant, adjusted to recognise the extent to which participants do not receive dividends over the vesting period. Volatility for share awards has been calculated on the same basis as used for share options, as described above.



Notes to the consolidated financial statements continued

National Grid plc

37. Subsidiary undertakings, joint ventures and associates Principal subsidiary undertakings

The principal subsidiary undertakings included in the consolidated financial statements at 31 March 2008 are listed below. These undertakings are wholly-owned and, unless otherwise indicated, are incorporated in Great Britain.

	Principal activity
National Grid Gas plc (i)	Transmission and distribution of gas
National Grid Electricity Transmission plc (i)	Transmission of electricity in England and Wales
New England Power Company (incorporated in the US) (i)	Transmission of electricity
Massachusetts Electric Company (incorporated in the US) (i)	Distribution of electricity
The Narragansett Electric Company (incorporated in the US) (i)	Distribution of electricity
Niagara Mohawk Power Corporation (incorporated in the US) (i)	Distribution and transmission of electricity and gas
National Grid Metering Limited (i)	Metering services
OnStream Metering Services Limited (i)	Metering services
National Grid Grain LNG Limited (i)	LNG import terminal
Boston Gas Company (incorporated in the US) (i)	Distribution of gas
National Grid Electric Services LLC (incorporated in the US) (i)	Transmission and distribution of electricity
National Grid Generation LLC (incorporated in the US) (i)	Generation of electricity
New England Electric Transmission Corporation (incorporated in the US) (i)	Transmission of electricity
Nantucket Electric Company (incorporated in the US) (i)	Distribution of electricity
KeySpan Gas East Corporation (incorporated in the US) (i)	Distribution of gas
KeySpan-Ravenswood, LLC (incorporated in the US) (i)	Electricity generation
The Brooklyn Union Gas Company (incorporated in the US) (i)	Distribution of gas
NGG Finance plc (ii)	Financing
British Transco Finance, Inc. (incorporated in the US) (i)	Financing
British Transco International Finance B.V. (incorporated in The Netherlands) (i)	Financing
National Grid Property Limited (i)	Property services
National Grid Holdings One plc (ii)	Holding company
_attice Group plc (i)	Holding company
National Grid USA (incorporated in the US) (i)	Holding company
Niagara Mohawk Holdings, Inc. (incorporated in the US) (i)	Holding company
National Grid Commercial Holdings Limited (i)	Holding company
National Grid Gas Holdings plc (i)	Holding company
National Grid (US) Holdings Limited (ii)	Holding company
National Grid Holdings Limited (i)	Holding company
KeySpan Corporation (incorporated in the US) (i)	Holding company

- (i) Issued ordinary share capital held by subsidiary undertakings.
- (ii) Issued ordinary share capital held by National Grid plc.

Principal joint ventures and associates

The principal joint ventures and associate undertakings included in the financial statements at 31 March 2008 are listed below. These undertakings are incorporated in Great Britain (unless otherwise indicated).

	% ownership	Principal activity
Blue – ng (Holdings) Limited	50	Holding company
BritNed Development Limited	50	Interconnector between UK and Netherlands
Millennium Pipeline Company, LLC (incorporated in the US)	26.25	Gas pipeline construction
Iroquois Gas Transmission System, L.P. (incorporated in the US)	20.4	Transmission of gas

A full list of all subsidiary and associated undertakings is available from the Company Secretary & General Counsel of the Company.

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures

The following condensed consolidating financial information, comprising income statements, balance sheets and cash flow statements, is given in respect of National Grid Gas plc (Subsidiary guarantor), which became joint full and unconditional guarantor on 11 May 2004 with National Grid plc (Parent guarantor) of the 6.625% Guaranteed Notes due 2018 issued in June 1998 by British Transco Finance Inc. (then known as British Gas Finance Inc.) (issuer of notes). Condensed consolidating financial information is also provided in respect of Niagara Mohawk Power Corporation as a result of National Grid plc's guarantee (dated 29 October 2007) of Niagara Mohawk's 3.6% and 3.9% issued preferred shares. National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation are wholly-owned subsidiaries of National Grid plc.

The following financial information for National Grid plc, National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation on a condensed consolidating basis is intended to provide investors with meaningful and comparable financial information and is provided pursuant to Rule 3-10 of Regulation S-X in lieu of the separate financial statements of each subsidiary issuer of public debt securities.

This parent company-only financial information should be read in conjunction with the Company's financial statements and footnotes presented in our 2007/08 Annual Report and Accounts.

Summary income statements are presented, on a consolidating basis, for the three years ended 31 March 2008. Summary income statements of National Grid plc and National Grid Gas plc are presented under IFRS measurement principles, as modified by the inclusion of the results of subsidiary undertakings on the basis of equity accounting principles.

The summary balance sheets of National Grid plc and National Grid Gas plc include the investments in subsidiaries recorded under the equity method for the purposes of presenting condensed consolidating financial information under IFRS. The IFRS summary balance sheets present these investments within 'Investments'.

The consolidation adjustments column includes the necessary amounts to eliminate the inter-company balances and transactions between National Grid plc, National Grid Gas plc, British Transco Finance Inc., Niagara Mohawk Power Corporation, and other subsidiaries.

Summary income statement for the year ended 31 M	arch 200	8 – IFRS					
	Parent guarantor	Issuer	of notes	Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	_	2,108	_	2,459	7,104	(248)	11,423
Other operating income	-	_	_	8	67	· -	75
Operating costs							
Depreciation and amortisation	-	(101)	_	(432)	(461)		(994)
Payroll costs	-	(201)	_	(226)	(752)		(1,179)
Purchases of electricity	-	(609)	_		(744)		(1,353)
Purchases of gas	-	(297)	_	(110)	(1,604)		(2,011)
Rates and property taxes	-	(93)	_	(227)	(288)		(608)
Electricity transmission services scheme direct costs	_	_	_	_	(574)	_	(574)
Payments to Scottish electricity transmission network owners					(000)		(000)
Other operating charges	_	(248)	_	(514)	(226)		(226)
Other operating charges	_	(1,549)	_	(1,509)	(1,075) (5,724)	248	(1,589) (8,534)
Operating profit		559		958	1,447	240	2,964
Operating profit Net finance costs	(116)	(116)	_	(298)	(246)	_	(776)
Dividends receivable	(110)	(110)	_	(230)	500	(500)	(770)
Interest in equity accounted affiliates	1,711	_	_	(27)	(7)	(1,673)	4
Profit before taxation	1,595	443	_	633	1.694	(2,173)	2,192
Taxation	(14)	(194)	_	(141)	(262)	(=,)	(611)
Profit for the year from continuing operations	1,581	249	_	492	1,432	(2,173)	1,581
Profit for the year from discontinued operations	1,618	_	_	3	1,615	(1,618)	1,618
Profit for the year	3,199	249	_(i)	495	3,047	(3,791)	3,199
Attributable to:							
Equity shareholders	3,196	249	_	495	3,044	(3,788)	3,196
Minority interests	3	_		_	3	(3)	3
	3.199	249	_(i)	495	3.047	(3.791)	3.199

⁽i) Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

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National Grid plc

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Summary income statement for the year ended 31 March 2007 - IFRS

	Parent guarantor	Issuer	of notes	Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	_	2,189	_	2,231	4,593	(318)	8,695
Other operating income	-	-	-	6	77	_	83
Operating costs		(1.5.5)		()	()		(== t)
Depreciation and amortisation	_	(102)	_	(389)	(380)	_	(871)
Payroll costs Purchases of electricity	_	(209) (633)	_	(228)	(383) (960)	_	(820) (1,593)
Purchases of gas	_	(309)	_	(113)	(122)	_	(544)
Rates and property taxes	_	(104)	_	(211)	(157)	_	(472)
Electricity transmission services scheme direct costs	_	-	_	(= : : /	(558)	_	(558)
Payments to Scottish electricity transmission					, ,		` '
network owners	_	-	_	-	(237)	_	(237)
Other operating charges	(2)	(154)	-	(531)	(801)	318	(1,170)
	(2)	(1,511)		(1,472)	(3,598)	318	(6,265)
Operating profit	(2)	678	-	765	1,072	_	2,513
Net finance costs	18	(131)	_	(280)	(371)	(4.050)	(764)
Dividends receivable	1 000	_	_	-	1,850	(1,850)	_
Interest in equity accounted affiliates	1,286			15	(1)	(1,298)	2
Profit before taxation	1,302	547	-	500	2,550	(3,148)	1,751
Taxation	8	(238)		(239)	28	(0.140)	(441)
Profit for the year from continuing operations Profit for the year from discontinued operations	1,310 86	309	_	261 13	2,578 73	(3,148)	1,310 86
,						(86)	
Profit for the year	1,396	309	_(1)	274	2,651	(3,234)	1,396
Attributable to:							
Equity shareholders	1,394	309	_	274	2,649	(3,232)	1,394
Minority interests	2	_	_	_	2	(2)	2
	1,396	309	_(i)	274	2,651	(3,234)	1,396

⁽i) Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Summary income statement for the year ended 31 March 2006 - IFRS

	Parent guarantor	Issuer	of notes	Subsidiary guarantor			
	National Grid	Niagara Mohawk Power	British Transco	National Grid Gas	Other	Consolidation	National Grid
	plc £m*	Corporation £m*	Finance Inc. £m*	plc £m*	subsidiaries £m*	adjustments £m*	consolidated £m*
Revenue	1	2,360	_	2,281	4,589	(363)	8,868
Other operating income	-	_	_	4	76	-	80
Operating costs							
Depreciation and amortisation	_	(105)	-	(396)	(387)	-	(888)
Payroll costs	_	(221)	_	(213)	(420)	_	(854)
Purchases of electricity	_	(694)			(1,283)	_	(1,977)
Purchases of gas	_	(418)	-	(148)		_	(566)
Rates and property taxes	_	(104)	-	(180)	(153)	_	(437)
Electricity transmission services scheme direct costs	_	_	-	-	(536)	_	(536)
Payments to Scottish electricity transmission					()		()
network owners	_	(22.1)	-	()	(259)		(259)
Other operating charges	_	(281)	-	(983)	(588)	795	(1,057)
		(1,823)		(1,920)	(3,626)	795	(6,574)
Operating profit	1	537	-	365	1,039	432	2,374
Net finance costs	(1)	(130)	-	(193)	(335)	-	(659)
Dividends receivable	-	-	_	-	310	(310)	_
Interest in equity accounted affiliates	1,149	_		441	3	(1,590)	3
Profit before taxation	1,149	407	_	613	1,017	(1,468)	1,718
Taxation	34	(148)	_	(123)	(298)	_	(535)
Profit for the year from continuing operations	1,183	259	_	490	719	(1,468)	1,183
Profit for the year from discontinued operations	2,667	_	_	2,494	185	(2,679)	2,667
Profit for the year	3,850	259	_(i)	2,984	904	(4,147)	3,850
Attributable to:							
Equity shareholders	3,848	259	_	2,984	902	(4,145)	3,848
Minority interests	2	_	_		2	(2)	2
	3,850	259	_(i)	2,984	904	(4,147)	3,850

^{*}Comparatives have been adjusted to reclassify amounts relating to discontinued operations

⁽i) Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

176 Notes to the consolidated financial statements continued

National Grid plc

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Balance sheet as at 31 March 2008 - IFRS

	D			0 1 1 1			
	Parent guarantor	Issuer	of notes	Subsidiary guarantor			
		Niagara					
	National Grid	Mohawk Power	British Transco	National Grid Gas	Other	Consolidation	National Grid
	plc	Corporation	Finance Inc.	plc	subsidiaries	adjustments	consolidated
	£m	£m	£m	£m	£m	£m	£m
Non-current assets							
Goodwill	_	564	_		3,274	_	3,838
Other intangible assets	_	12	-	56	204	-	272
Property, plant and equipment Deferred tax assets	3	2,756 67	_	9,761	11,816	(70)	24,333
Other non-current assets	- -	- 67	_	_	1,101	(70)	1,101
Amounts owed by subsidiary undertakings	_	_	_	5,630	1,101	(6,697)	1,101
Financial and other investments (i)	3,189	20	_	19	11,082	(14,059)	251
Derivative financial assets	751	_	_	101	211	(11,000)	1,063
Total non-current assets	3,943	3,419	_	15,567	28,755	(20,826)	30,858
Current assets	0,010	0,110		10,007	20,700	(20,020)	- 50,555
Inventories and current intangible assets	_	18	_	31	406	_	455
Trade and other receivables	3	401	_	254	1,611	_	2,269
Amounts owed by subsidiary undertakings	11,350	_	154	125	6,465	(18,094)	_,
Financial and other investments	787	2	_	499	807		2,095
Derivative financial assets	341	_	_	81	41	-	463
Cash and cash equivalents		5		3	166		174
Total current assets	12,481	426	154	993	9,496	(18,094)	5,456
Assets of businesses held for sale	_	_	-	_	1,508	-	1,508
Total assets	16,424	3,845	154	16,560	39,759	(38,920)	37,822
Current liabilities							
Borrowings	(1,019)	(351)	(3)	(680)	(1,829)	_	(3,882)
Derivative financial liabilities	(79)	` _		(27)	(8)	_	(114)
Trade and other payables	(51)	(231)	_	(580)	(1,577)	_	(2,439)
Amounts owed to subsidiary undertakings	(4,804)	(170)	_	(1,490)	(11,630)	18,094	
Current tax liabilities	_	(41)	_	(27)	(230)	_	(298)
Provisions		(16)	-	(50)	(323)		(389)
Total current liabilities	(5,953)	(809)	(3)	(2,854)	(15,597)	18,094	(7,122)
Non-current liabilities							
Borrowings	(4,460)	(417)	(151)	(4,906)	(7,187)	_	(17,121)
Derivative financial liabilities	(179)	(400)	_	(83)	(57)	-	(319)
Other non-current liabilities Amounts owed to subsidiary undertakings	(452)	(188) (615)	-	(1,043)	(490) (5,630)	6,697	(1,721)
Deferred tax liabilities	(452)	(015)	_	(1,630)	(1,847)	70	(3,407)
Pensions and other post-retirement benefits	_	(784)	_	(1,000)	(962)	70	(1,746)
Provisions	_	(166)	_	(64)	(713)	_	(943)
Total non-current liabilities	(5,091)	(2,170)	(151)	(7,726)	(16,886)	6,767	(25,257)
Liabilities of businesses held for sale	(5,55.)	(=,,	(,	(,,,=0)	(63)	-	(63)
Total liabilities	(11,044)	(2,979)	(154)	(10,580)	(32,546)	24,861	(32,442)
Net assets (i)	5,380	(2,979) 866	(134)	5,980	7,213	(14,059)	5,380
	3,300	000		5,300	7,213	(14,059)	3,300
Equity Called up share capital	294	94	_	45	182	(321)	294
Share premium account	1,371	1,486	_	204	3,642	(5,332)	1,371
Retained earnings	8,949	(723)	_	4,433	10,055	(13,765)	8,949
Other equity reserves	(5,252)	9	_	1,298	(6,666)	5,359	(5,252)
Total shareholders' equity (i)	5,362	866	_	5,980	7,213	(14,059)	5,362
Minority interests	18	-	_	-	-,=.0	(,555)	18
Total equity (i)	5,380	866	_	5,980	7,213	(14,059)	5,380

⁽i) Includes parent Company's subsidiaries, associates and joint ventures presented on an equity accounted basis.

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Balance sheet as at 31 March 2007 - IFRS

	Parent			Subsidiary			
	guarantor	Issuer Niagara	of notes	guarantor			
	National	Mohawk	British	National			National
	Grid plc	Power Corporation	Transco Finance Inc.	Grid Gas plc	Other subsidiaries	Consolidation adjustments	Grid consolidated
	£m	£m	£m	£m	£m	£m	£m
Non-current assets							
Goodwill	_	569	_	-	911	_	1,480
Other intangible assets	_	12	_	41	91	_	144
Property, plant and equipment	-	2,624	-	8,829	7,442		18,895
Deferred tax assets	3	143	_	_		(146)	
Other non-current assets	-	-	_	2	71	(0.004)	73
Amounts owed by subsidiary undertakings	1 500	- 20	-	5,611 47	620	(6,231)	- 137
Financial and other investments (i)	1,508	20	_	47 65	11,385	(12,823)	380
Derivative financial assets	192		<u>_</u>		123	(10,000)	
Total non-current assets	1,703	3,368		14,595	20,643	(19,200)	21,109
Current assets		16		00	64		100
Inventories and current intangible assets Trade and other receivables	3	16 377	_	28 238	64 618	-	108 1.236
Amounts owed by subsidiary undertakings	9.047	3//	156	230 92	5.432	(14,727)	1,230
Financial and other investments	279	19	150	305	1.495	(14,727)	2.098
Derivative financial assets	119	-	_	9	1,433	_	277
Cash and cash equivalents	751	4	_	172	666	_	1,593
Total current assets	10,199	416	156	844	8,424	(14,727)	5,312
Assets of businesses held for sale	- 10,100				1,968	(14,727)	1,968
Total assets	11,902	3,784	156	15,439	31,035	(33,927)	28,389
Current liabilities	(260)	(120)	(2)	(252)	(105)		(1.021)
Borrowings Derivative financial liabilities	(360) (29)	(120)	(3)	(353) (12)	(195) (194)	_	(1,031) (235)
Trade and other payables	(23)	(306)	_	(587)	(194)	_	(1,852)
Amounts owed to subsidiary undertakings	(2,776)	(216)	_	(2,440)	(9,295)	14,727	(1,032)
Current tax liabilities	(2,770)	(210)	_	(34)	(41)	,	(75)
Provisions	_	(13)	_	(31)	(123)	_	(167)
Total current liabilities	(3,188)	(655)	(3)	(3,457)	(10,784)	14,727	(3,360)
Non-current liabilities	(3,:30)	(555)	(0)	(0, .0.)	(10,101)	,	(0,000)
Borrowings	(4,524)	(710)	(153)	(3,219)	(6.080)	_	(14,686)
Derivative financial liabilities	(54)	(, .0)	(.00)	(83)	(47)	_	(184)
Other non-current liabilities	(5.)	(148)	_	(1,012)	(315)	_	(1,475)
Amounts owed to subsidiary undertakings	_	(620)	_		(5,611)	6,231	
Deferred tax liabilities	-	` _′	_	(1,627)	(908)	146	(2,389)
Pensions and other post-retirement benefits	_	(876)	_	_	(406)	_	(1,282)
Provisions		(130)		(74)	(223)		(427)
Total non-current liabilities	(4,578)	(2,484)	(153)	(6,015)	(13,590)	6,377	(20,443)
Liabilities of businesses held for sale	_	_	_	_	(450)	_	(450)
Total liabilities	(7,766)	(3,139)	(156)	(9,472)	(24,824)	21,104	(24,253)
Net assets (i)	4,136	645	_	5,967	6,211	(12,823)	4,136
Equity	.,			-,		(-=,-=-,	-,
Called up share capital	308	95	_	45	181	(321)	308
Share premium account	1,332	1,499	_	204	3,091	(4,794)	1,332
Retained earnings	7,635	(951)	_	4,467	9,454	(12,970)	7,635
Other equity reserves	(5,150)	2	_	1,251	(6,515)	5,262	(5,150)
Total shareholders' equity (i)	4,125	645	_	5,967	6,211	(12,823)	4,125
Minority interests	11	_	_	´ –	_		11
Total equity (i)	4,136	645	_	5,967	6,211	(12,823)	4,136
	,				,		,

⁽i) Includes parent Company's subsidiaries, associates and joint ventures presented on an equity accounted basis.

178 Notes to the consolidated financial statements continued

National Grid plc

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Cash flow statements

Cash flow statements							
	Parent guarantor	Issuer	of notes	Subsidiary guarantor			
		Niagara					
	National Grid	Mohawk Power	British Transco	National Grid Gas	Other	Consolidation	National Grid
	plc	Corporation	Finance Inc.	plc	subsidiaries	adjustments	consolidated
	£m	£m	£m	£m	£m	£m	£m
Year ended 31 March 2008							
Net cash provided by operating activities –	4	316		1 550	1 000		0.155
continuing operations Net cash provided by operating activities –	4	310	_	1,552	1,283	_	3,155
discontinued operations	_	_	_	_	10	_	10
Net cash provided by operating activities	4	316	_	1,552	1,293	_	3,165
Net cash provided by/(used in) investing activities –	·	010		1,002	1,200		3,100
continuing operations	1,547	(209)	_	(1,630)	(3,658)	(2,123)	(6,073)
Net cash (used in)/provided by investing activities –	.,•	(200)		(1,000)	(0,000)	(=,:==)	(0,0.0)
discontinued operations	_	_	_	(4)	3,054	_	3,050
Net cash used in investing activities	1,547	(209)	_	(1,634)	(604)	(2,123)	(3,023)
Net cash (used in)/provided by financing activities	(2,302)	(105)	_	(87)	(1,221)	2,123	(1,592)
(Decrease)/increase in cash and cash equivalents		, ,			. , , , ,	· · · · · · · · · · · · · · · · · · ·	· , , , , , , , , , , , , , , , , , , ,
in the year	(751)	2	_	(169)	(532)	_	(1,450)
Year ended 31 March 2007							
Net cash provided by operating activities –							
continuing operations	1	374	-	1,341	1,064	-	2,780
Net cash provided by operating activities – discontinued operations					178	_	178
		374		1,341	1,242		2,958
Net cash provided by operating activities Net cash used in investing activities – continuing operations							
Net cash provided by/(used in) investing activities –	(1,225)	(140)	_	(1,381)	(403)	(807)	(3,956)
discontinued operations	_	_	_	27	(132)	_	(105)
Net cash used in investing activities	(1,225)	(140)	_	(1,354)	(535)	(807)	(4,061)
Net cash provided by/(used in) financing activities	940	(232)	_	(42)	(195)	807	1,278
(Decrease)/increase in cash and cash equivalents	340	(202)		(42)	(193)	007	1,270
in the year	(284)	2	_	(55)	512	_	175
in the year	(204)			(55)	312		173
Year ended 31 March 2006							
Net cash provided by operating activities –							
continuing operations	_	329	_	1,140	1,401	_	2,870
Net cash (used in)/provided by operating activities –							
discontinued operations	_			(57)	158		101
Net cash provided by operating activities		329		1,083	1,559	_	2,971
Net cash used in investing activities – continuing operations	-	(192)	_	(146)	(659)	(492)	(1,489)
Net cash provided by/(used in) investing activities –							
discontinued operations				5,635	(94)		5,541
Net cash (used in)/provided by investing activities	_	(192)	_	5,489	(753)	(492)	4,052
Net cash provided by/(used in) financing activities	914	(141)	_	(6,355)	(752)	492	(5,842)
Increase/(decrease) in cash and cash equivalents in the year	914	(4)	_	217	54		1,181

Cash dividends were received by National Grid plc from consolidated subsidiaries amounting to £2,500m during the year ended 31 March 2008 (2007: £220m; 2006: £nil).

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Company accounting policies

A. Basis of preparation of individual financial statements under UK GAAP

These individual financial statements of the Company have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act

The individual financial statements of the Company have been prepared on a historical cost basis, except for the revaluation of financial instruments.

These financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates.

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The Company has taken the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash flow statements'.

In accordance with exemptions under FRS 8 'Related party disclosures', the Company has not disclosed transactions with related parties, as the Company's financial statements are presented together with its consolidated financial statements. Further, in accordance with exemptions under FRS 29 'Financial Instruments: Disclosures', the Company has not presented the financial instruments disclosures required by the standard, as disclosures which comply with the standard are included in the consolidated financial statements.

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

B. Fixed asset investments

Investments held as fixed assets are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value in use.

C. Taxation

Current tax for the current and prior periods is provided at the amount expected to be paid (or recovered) using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

D. Foreign currencies

Transactions in currencies other than the functional currency of the Company are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates.

Gains and losses arising on retranslation of monetary assets and liabilities are included in the profit and loss account.

E. Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs.

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

Current asset financial investments are recognised at fair value plus directly related incremental transaction costs and are subsequently carried at fair value on the balance sheet. Changes in the fair value of investments classified as available-for-sale are recognised directly in equity, 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 net profit or loss for the period. Investment income on investments classified as availablefor-sale is recognised in the profit and loss account as it accrues.

180 Company accounting policies continued

National Grid plc

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

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

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

F. Hedge accounting

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

Hedge accounting allows derivatives to be designated as a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility in the profit and loss account. The Company uses two hedge accounting methods.

Firstly, changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ('cash flow hedges') are recognised directly in equity and any ineffective portion is recognised immediately in the profit and loss account. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the profit and loss account in the same period in which the hedged item affects net profit or loss.

Secondly, changes in the carrying value of financial instruments that are designated as hedges of the changes in the fair value of assets or liabilities ('fair value hedges') are recognised in the profit and loss account. An offsetting amount is recorded as an adjustment to the carrying value of hedged items, with a corresponding entry in the profit and loss account, to the extent that the change is attributable to the risk being hedged and that the fair value hedge is effective.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. 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 profit and loss account in the same periods in which the previously hedged item affects net profit or loss. For fair value hedges the cumulative adjustment recorded to its carrying value at the date hedge accounting is discontinued is amortised to the profit and loss account using the effective interest rate method.

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

G. Parent Company guarantees
The Company has guaranteed the repayment of the principal and any associated premium and interest on specific loans due from certain subsidiary undertakings to third parties. In the event of default or non-performance by the subsidiary, the Company recognises such guarantees as insurance contracts, at fair value with a corresponding increase in the carrying value of the investment.

H. Share-based payments

The Company issues equity-settled, share-based payments to certain employees of subsidiary undertakings, detailed in the Directors' Report, the Directors' Remuneration Report and in note 36 to the consolidated financial statements.

Equity-settled, share-based payments are measured at fair value at the date of grant. The Company has no employees. Equity-settled, share-based payments that are made available to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investments in subsidiaries, based on an estimate of the number of shares that will eventually vest. Where payments are subsequently received from subsidiaries, these are accounted for as a disposal of investment.

I. Dividends

Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

Company balance sheet

	Notes	2008 £m	2007 £m
Fixed assets			
Investments	2	4,276	3,707
Current assets			
Debtors (amounts falling due within one year)	3	8,545	9,050
Debtors (amounts falling due after more than one year)	3	2,811	3
Derivative financial instruments (amounts falling due within one year)	5	341	119
Derivative financial instruments (amounts falling due after more than one year)	5	751	192
Current asset investments		787	1,030
		13,235	10,394
Creditors (amounts falling due within one year)			
Borrowings	6	(1,019)	(360)
Derivative financial instruments	5	(79)	(29)
Other creditors		(4,855)	(2,799)
	4	(5,953)	(3,188)
Net current assets		7,282	7,206
Total assets less current liabilities		11,558	10,913
Creditors (amounts falling due after more than one year)		,	·
Borrowings	6	(4,460)	(4,524)
Derivative financial instruments	5	(179)	(54)
Amounts owed to subsidiary undertakings		(452)	_
		(5,091)	(4,578)
Net assets employed		6,467	6,335
Capital and reserves			
Called up share capital	7	294	308
Share premium account	8	1,371	1,332
Cash flow hedge reserve	8	14	22
Other equity reserves	8	124	91
Profit and loss account	8	4,664	4,582
Total shareholders' funds	9	6,467	6,335

Commitments and contingencies are shown in note 10 to the Company financial statements on page 185.

The notes on pages 182 to 185 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 14 May 2008 and were signed on its behalf by:

Sir John Parker Chairman Steve Lucas Finance Director

182 Notes to the Company financial statements

National Grid plc

Notes to the Company financial statements

1. Adoption of new accounting standards

New financial reporting standards (FRS) and abstracts adopted in 2007/08

During the year the Company has adopted the following FRSs and abstracts. None of these had a material impact on consolidated results or assets and liabilities.

Amendment to FRS 3 on reporting financial performance	Removes inconsistencies between FRS 3 and both FRS 26 'Financial Instruments: Recognition and measurement' and FRS 23 'The effects of changes in foreign exchange rates', in particular as regards recycling to the profit and loss account of gains and losses and exchange differences previously recognised in the statement of recognised gains and losses.
Amendment to FRS 26 on financial instruments: measurement – recognition and derecognition	Implements the recognition and derecognition material in IAS 39. The requirements of FRS 5, 'Reporting the substance of transactions', are superseded for transactions that fall within FRS 26's scope, but FRS 5 continues to apply to transactions in non-financial assets and liabilities.
UITF Abstract 42 on reassessment of embedded derivatives	Prohibits reassessment of the treatment of embedded derivatives subsequent to initial recognition unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.
UITF Abstract 44 on group and treasury share transactions	Provides guidance on whether share-based transactions involving treasury shares or involving group entities (for instance, options over a parent's shares) should be accounted for as equity-settled or cash-settled.

New FRS not yet adopted
The Company has yet to adopt the following FRS, however, it is not expected to have a material impact on the Company's results or assets and liabilities.

Amendment to FRS 20 on	Clari
share-based payment	cano
	norfo

rifies the definition of vesting conditions and the accounting treatment of cellations. Vesting conditions are defined as either service conditions or performance conditions. Cancellations by employees are accounted for in the same way as cancellations by the Company. It is expected that the amendment to FRS 20 will be adopted on 1 April 2009.

2. Fixed asset investments

At 31 March 2008	4,276	-	4,276
Reclassification of loan as amounts owed by subsidiary undertakings	_	(327)	(327)
Additions	896	_	896
At 31 March 2007	3,380	327	3,707
Additions	952	327	1,279
At 31 March 2006	2,428	_	2,428
	£m	£m	£m
	subsidiary undertakings	subsidiary undertaking	Total
	Shares in	Loan to	

During the year the Company acquired a further 500,000 ordinary shares of £1 each in National Grid (US) Holdings Limited for a total consideration of £878m.

The names of the principal subsidiary undertakings, joint ventures and associates are included in note 37 in the consolidated financial statements.

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

3. Debtors

	2008 £m	2007 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	8,542	9,047
Prepayments and accrued income	3	3
	8,545	9,050
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	2,808	_
Deferred taxation	3	3
	2,811	3

At 31 March 2008	3
Credited to the profit and loss account (i)	(4)
Credited to equity	4
At 1 April 2007	3
Charged to the profit and loss account (i)	12
Charged to equity	(4)
At 1 April 2006	(5)
	£m
	taxation
	Deterred

⁽i) Included is a deferred tax charge of £2m (2007: credit of £13m) in respect of prior years.

Factors that may affect future deferred tax charges

The changes enacted in the Finance Act 2007 included a reduction in the UK Corporation Tax rate from 30% to 28% with effect from 1 April 2008. The deferred tax expected to reverse has been measured using the 28% rate.

4. Creditors (amounts falling due within one year)

	2008	2007
	£m	£m
Borrowings (note 6)	1,019	360
Derivative financial instruments	79	29
Amounts owed to subsidiary undertakings	4,804	2,776
Other creditors	51	23
	5,953	3,188

5. Derivative financial instruments

The fair value of derivative financial instruments shown on the balance sheet is as follows:

		2008			2007	
	Assets	Liabilities	Total	Assets	Liabilities	Total
	£m	£m	£m	£m	£m	£m
Current	341	(79)	262	119	(29)	90
Non-current	751	(179)	572	192	(54)	138
	1,092	(258)	834	311	(83)	228

For each class of derivative financial instruments, our exposure, based on the sterling equivalent notional value of the pay leg is as follows:

	2008 £m	2007 £m
Interest rate swaps	(4,952)	(3,625)
Interest rate swaptions	(202)	
Cross-currency interest rate swaps	(4,919)	(5,179)
Foreign exchange forward contracts	(5,721)	(2,114)
Total	(15,794)	(10,918)

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184 Notes to the Company financial statements continued

National Grid plc

6. Borrowings The following table of

The following table analyses the Company's total borrowings:	
2008	2007
£m	£m
Amounts falling due within one year:	
Bank loans and overdrafts	30
Bonds 827	301
Other loans –	29
1,019	360
Amounts falling due after more than one year:	
Bank loans 75	_
Bonds 4,385	4,524
4,460	4,524
Total borrowings 5,479	4,884
2008	2007
£m	£m
Total borrowings are repayable as follows:	
In one year or less 1,019	360
In more than one year, but not more than two years 342	642
In more than two years, but not more than three years 650	295
In more than three years, but not more than four years 999	495
In more than four years, but not more than five years 792	897
In more than five years, other than by instalments	2,195
5,479	4,884

The notional amount of borrowings outstanding as at 31 March 2008 was £5,417m (2007: £4,872m). For further information on significant borrowings, refer to note 35 of the consolidated financial statements.

7. Called up share capital

	Called up and	fully paid
	millions	£m
At 31 March 2006	2,720	310
Issued during the year	4	_
Repurchased during the year (i)	(23)	(2)
At 31 March 2007	2,701	308
Issued during the year (ii)	8	1
Repurchased during the year (iii)	(127)	(15)
At 31 March 2008	2,582	294

From 20 November 2006 to 22 March 2007, the Company repurchased, and subsequently cancelled, under its share repurchase programme 22,388,381 ordinary shares for aggregate consideration of £169m, including transaction costs. The shares repurchased have a nominal value of £2m and represented approximately 1% of the ordinary shares in issue as at 31 March 2007. The consideration has been charged against retained earnings. (i)

For further details on share capital, refer to note 25 in the consolidated financial statements.

Included within issued share capital was 3,705,193 ordinary shares that were issued following the conversion of the Company's B shares to ordinary shares on 28 September 2007. (ii)

From 30 May 2007 to 27 November 2007, the Company repurchased, and subsequently cancelled, under its share repurchase programme 126,817,712 ordinary shares for aggregate consideration of £946m, including transaction costs. The shares repurchased have a nominal value of £15m and represented approximately 5% of the ordinary shares in issue as at 31 March 2008. The consideration has been charged against retained earnings. (iii)

8. Reserves

	Share	Cash flow	Other	Profit
	premium	hedge	equity	and loss
	account	reserve	reserves	account
	£m	£m	£m	£m
At 1 April 2006	1,316	7	74	5,237
Net loss transferred from equity in respect of cash flow hedges (net of tax)	_	15	_	_
Issue of ordinary share capital	16	_	_	_
Repurchase of shares	_	_	2	(169)
Share-based payment	-	-	15	-
Retained loss for the year		_	_	(486)
At 31 March 2007	1,332	22	91	4,582
Net gain transferred from equity in respect of cash flow hedges (net of tax)	_	(8)	_	_
Issue of ordinary share capital	12	_	_	_
B shares converted to ordinary shares	27	_	_	_
Repurchase of share capital and purchase of treasury shares (i)	_	_	15	(1,520)
Issue of treasury shares	_	_	_	12
Share-based payment	_	_	18	_
Retained profit for the year	_	_	_	1,590
At 31 March 2008	1,371	14	124	4,664

⁽i) From 30 May 2007 to 31 March 2008, the Company repurchased under its share repurchase programme 200.1m ordinary shares for aggregate consideration of £1,516m including transaction costs. Further purchases of shares outside the official share repurchase programme were for an aggregate consideration of £4m.

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The Company's profit after taxation was £2,370m (2007: £244m). Of the Company's profit and loss account reserve of £4,664m at 31 March 2008 (2007: £4,582m), £1,623m (2007: £2,131m) relating to gains on intra-group transactions was not distributable to shareholders.

9. Reconciliation of movements in shareholders' funds

	2008 £m	2007 £m
Profit for the year after taxation	2,370	244
Dividends (i)	(780)	(730)
Profit/(loss) for the financial year	1,590	(486)
Proceeds of issue of ordinary shares	13	16
Proceeds of issue of treasury shares	12	_
B shares converted to ordinary shares	27	_
Movement on cash flow hedge reserve (net of tax)	(8)	15
Share-based payment	18	15
Repurchase of ordinary shares	(1,520)	(169)
Net increase/(decrease) in shareholders' funds	132	(609)
Opening shareholders' funds	6,335	6,944
Closing shareholders' funds	6,467	6,335

⁽i) For further details on dividends, refer to note 9 in the consolidated financial statements.

10. Commitments and contingencies

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due from certain subsidiary undertakings to third parties. At 31 March 2008, the sterling equivalent amounted to £1,088m (2007: £650m). The guarantees are for varying terms from 3 years to open-ended.

The Company has also guaranteed the lease obligations of a former associate to a subsidiary undertaking, amounting to £13m (2007: £23m).

11. Directors and employees

There are no employees of the Company (2007: nil). The Directors of the Company were paid by subsidiary undertakings in 2008 and 2007. Details of Directors' emoluments are contained in the Directors' Remuneration Report.

186 Definitions and glossary of terms

National Grid plc

Definitions and glossary of terms

Our aim is to use plain English in this Annual Report and Accounts. However, where necessary, we do use a number of technical terms and/or abbreviations and we summarise the principal ones below, together with an explanation of their meanings. The descriptions below are not formal legal definitions.

Α

accounts

Shares

(ADSs)

A set of financial statements, including all the associated notes.

American Depositary

Securities of National Grid listed on the New York Stock Exchange, each of which represents five ordinary shares.

В

B shares

Non-cumulative preference shares of 10 pence nominal value each that were issued in 2004 in connection with a £2 billion return of capital to shareholders. The last remaining B shares were converted into ordinary shares in September 2007.

BETTA

The British Electricity Trading and Transmission Arrangements, being the regulations that govern our role as operator of the electricity networks in Great Britain, together with those of other market participants.

participante

Board

The Board of Directors of the Company (for more information see pages 12 and 13).

BSIS

The Balancing Services Incentive Scheme, an incentive arrangement applicable to our UK electricity transmission operations.

C

consolidated financial statements

Financial statements that include the results and financial position of the Company and its subsidiaries together as if they are a single entity.

called up share capital Shares (common stock) that have been issued and have been fully paid for.

capital allowances

Depreciation or amortisation charges that are allowed as deductions for tax purposes. This often differs from the amount of depreciation or amortisation recorded for accounting purposes, resulting in the recognition of deferred tax.

carrying value

The amount at which an asset or a liability is recorded in the balance sheet.

Combined Code

The Combined Code on Corporate Governance, being guidance on how companies should be governed applicable to UK listed companies, including National Grid. the Company, National Grid, we, our or us We use terms 'the Company', 'National Grid', 'we', 'our' or 'us' to refer to either National Grid plc itself or to National Grid plc and its subsidiaries collectively, depending on context.

contingent liability

A possible obligation or potential liability arising from past events for which no provision has been recorded, but for which disclosure in the financial statements is made.

D

deferred tax

For most assets and liabilities, this is the difference between the carrying value for accounting purposes in the balance sheet and the amount of tax that will be deductible (or payable) for that asset or liability in future tax returns.

decatherm

An amount of energy equal to 1 million British thermal units (BTUs), equivalent to approximately 293 kWh.

approximately 293 kWh

derivative

A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates or commodity prices. In most cases, contracts for the sale or purchase of commodities that are used to supply customers or for our own needs are excluded from this definition.

Ε

equity

In financial statements, the amount of net assets attributable to shareholders.

F

FERC

The US Federal Energy Regulatory Commission.

finance lease

A lease where the asset is treated as if it was owned for the period of the lease and the obligation to pay future rentals is treated as if they were borrowings. Also known as a capital lease.

financial year

For National Grid this is an accounting year ending on 31 March. Also known as a fiscal

FRS

A UK Financial Reporting Standard as issued by the UK Accounting Standards Board. These apply to the Company's individual financial statements on pages 179 to 185, which are prepared in accordance with UK GAAP.

Y59930.SUB, DocName: EX-15.1, Doc: 16, Page: 178

Description: EXHIBIT 15.1

CRC: 27711 EDGAR 2 Phone: (212)924-5500 Operator: BNY99999T Date: 17-JUN-2008 03:10:51.35 BNY Y59930 374.00.00.00-1 0/7

FSA	The UK Financial Services Authority, the financial markets regulator, which includes regulation of companies with listed	kW	Kilowatts, being an amount of power equal to 1,000 watts.
	securities in the UK, including National Grid and certain of its subsidiaries.	kWh	Kilowatt hours, being an amount of energy equal to delivering 1,000 watts of power for a period of one hour.
G		L	
Great Britain	England, Wales and Scotland.	lifetime	The lifetime allowance is an overall ceiling
GW	Gigawatt, being an amount of power equal to 1 billion watts (10 ⁹ watts).	allowance	on the amount of UK tax privileged pension savings that any one individual can draw.
GWh	Gigawatt hours, being an amount of energy equal to delivering 1 billion watts of power for one hour (equivalent to 3.6 million joules).	LNG	Liquefied natural gas, being natural gas that has been condensed into a liquid form, typically at temperatures at or below -163°C (-260°F).
Н		lost time	An incident arising out of National Grid's
HSE	Health & Safety Executive, the main safety regulator in the UK.	the employee of time off the follow	operations which leads to an injury where the employee or contractor normally has time off the following day or shift following the incident. It relates to one specific
I			(acute) identifiable incident which arises as a result of National Grid's premises, plant or
IAS or IFRS	An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting		activities, which was reported to the supervisor at the time and was subject to appropriate investigation.
	Standards Board. IFRS is also used as the term to describe international generally	M	
	accepted accounting principles as a whole. The Company's consolidated financial statements are prepared in accordance with	m³	A cubic metre.
individual	IFRS. Financial statements of a company on its	mcm	Million standard cubic metres, equivalent to approximately 35.3 million standard cubic feet.
financial statements	own, not including its subsidiaries or joint ventures.	mcm/d	Million standard cubic metres per day.
IFRIC	The International Financial Reporting Interpretations Committee, which provides	MW	Megawatts, being an amount of power equal to 1 million watts.
	guidance on how to apply accounting standards.	MWh	Megawatt hours, being an amount of energy equal to delivering 1 million watts of power for a period of one hour.
J		N	pono. 10: a ponoa e, ene nea.
joint venture	A company or other entity which is controlled jointly with other parties.		
K		net assets	In financial statements, the amount by which total assets exceeds total liabilities at their carrying values.
KeySpan	KeySpan Corporation and its subsidiaries, acquired by National Grid on 24 August 2007.	New England	The states of Massachusetts, New Hampshire, Vermont and Maine.
kV	Kilovolt, being an amount of electric force equal to 1,000 volts.	northeastern US	The northeastern region of the US, comprising the states of New York, Massachusetts, Rhode Island, New

188 Definitions and glossary of terms continued

ne: (212)924-5500 Operator: BNY99999T Date: 17-JUN-2008 03:10:51.35 BNY Y59930 376.00.00.00 0/5

National Grid plc

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0 Т The UK Office of Gas and Electricity An amount of energy equal to 10,000 British Thermal Units (BTUs), equivalent to Ofgem therm Markets, part of the UK Gas and Electricity approximately 29.3 kWh, primarily used to Markets Authority (GEMA), which regulates the energy markets in the UK. measure natural gas. The Occupational Safety & Health **OSHA** Amounts invoiced by suppliers for services trade Administration, the main federal agency payables received for which payment has yet to be charged with the enforcement of safety and made. health legislation in the US. Amounts billed to customers for services trade ordinary Voting shares entitling the holder to partreceivables provided for which payment has yet to be ownership of a company. Also known as received. shares common stock. National Grid's ordinary Shares that have been repurchased but not shares have a nominal value of 11¹⁷/₄₃ treasury pence. cancelled. shares P A unit of mass equal to 1,000 kilograms, tonne equivalent to approximately 2,205 pounds. **Personal** The lifetime allowance applicable to tonnes CO₂ A measure of greenhouse gas emissions in Lifetime individuals who registered their pre-6 terms of the equivalent amount of carbon Allowance April 2006 UK pension benefits for equivalent dioxide. protection. TWh Terawatt hours, being an amount of energy A liability of uncertain timing or amount, provision equal to delivering 1 billion watts of power arising from a past event, that has not yet for 1,000 hours. become due for payment. The accounting process of aligning the U purchase accounting accounting policies of an acquired business with those of National Grid and of adjusting UK The United Kingdom, comprising England, the carrying value of assets and liabilities Wales, Scotland and Northern Ireland. acquired from their previous accounting book value to their fair values at the date **UK GAAP** Generally accepted accounting principles in control was acquired by National Grid. the UK. These differ from IFRS and from US GAAP. **PWh** Petawatt hour, being an amount of energy equal to delivering 1 billion watts of power Uniform The legal and contractual framework for the for 1 million hours. **Network** supply and transport of gas in the UK, comprising a common set of rules for all Code S industry participants which ensure competition can be facilitated on level Standard cubic metre, a quantity of gas terms. scm which at 15°C and atmospheric pressure US The United States of America. (1.013 bar) occupies the volume of 1m3. **US GAAP** Generally accepted accounting principles in The US Securities and Exchange SEC the US. These differ from IFRS and from UK GAAP. Commission, the financial regulator for companies with registered securities in the US, including National Grid and certain of its subsidiaries. The difference between the amounts share shares are issued for and the nominal value premium of those shares A company or other entity that is controlled subsidiary by National Grid.

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Summary consolidated financial information

Financial summary (unaudited)
The financial summary set out below has been derived from the audited consolidated financial statements of National Grid for the five financial years ended 31 March 2008. It should be read in conjunction with the consolidated financial statements and related notes, together with the Operating and Financial Review. The information presented below for the years ended 31 March 2005, 2006, 2007 and 2008 has been prepared under IFRS issued by the IASB and as adopted by the European Union. For the year ended 31 March 2005, information is also presented under UK GAAP. For the year ended 31 March 2004, information has been presented under UK GAAP, as no IFRS information has been prepared prior to the date of adoption of IFRS (1 April 2004). Comparatives have been adjusted to reclassify amounts relating to discontinued operations.

	IFRS				As previously measured under UK GAAP	
	31 March 2008	31 March 2007	31 March 2006	31 March 2005	31 March 2005	31 Marc 200
Summary income statement	£m	£m	£m	£m	£m	£r
Revenue	11,423	8,695	8,868	7,174	8,313	9,019
Operating profit						
Before exceptional items, remeasurements and stranded cost recoveries	2,595	2,031	1,968	1,936	2,045	2,07
Exceptional items, remeasurements and stranded cost recoveries	369	482	406	1,930	(120)	(13
Goodwill amortisation	n/a	n/a	n/a	n/a	(85)	(9
adodwiii amortisation	2,964	2,513	2,374	2,113	1,840	1,84
rofit before taxation	2,00	2,010	2,07 1	2,110	1,010	1,0
Before exceptional items, remeasurements and stranded cost						
recoveries	1,839	1,486	1,369	1,235	1,299	1,25
Exceptional items, remeasurements and stranded cost recoveries	353	265	349	177	(37)	18
Goodwill amortisation	n/a	n/a	n/a	n/a	(85)	(9
	2,192	1,751	1,718	1,412	1,177	1,34
Profit for the year attributable to equity shareholders						
Before exceptional items, remeasurements and stranded cost						
recoveries	1,281	1,146	1,075	1,376	1,027	95
Exceptional items, remeasurements and stranded cost recoveries	1,915	248	2,773	48	(5)	2
Goodwill amortisation	n/a	n/a	n/a	n/a	(85)	(9
	3,196	1,394	3,848	1,424	937	1,08
ummary statement of net assets						
on-current assets	30,858	21,109	22,106	25,596	19,897	18,39
Current assets	5,456	5,312	3,818	1,964	4,814	5,00
assets of businesses held for sale	1,508	1,968				
otal assets	37,822	28,389	25,924	27,560	24,711	23,39
Current liabilities	(7,122)	(3,360)	(5,683)	(5,974)	(5,679)	(4,14
lon-current liabilities	(25,257)	(20,443)	(16,748)	(19,465)	(17,172)	(17,61
iabilities of businesses held for sale otal liabilities	(63)	(450)	(22.421)	(25.420)	(22.951)	(21.7)
	(32,442)	(24,253)	(22,431)	(25,439)	(22,851)	(21,76
let assets	5,380	4,136	3,493	2,121	1,860	1,60
summary cash flow statement						
Cash generated from operations	0.005	0.000	0.070	0.000	0.000	0.0
Continuing operations	3,265	3,090	2,973	2,820	2,909	2,8
Discontinued operations	10	181	138	638	n/a	n
'annual annual annual annual all annual annual annual annual	3,275	3,271	3,111	3,458	2,909	2,81
ax paid – continuing and discontinued operations	(110)	(313)	(140)	(150)	(150)	(1
let cash inflow from operating activities	3,165	2,958	2,971	3,308	2,759	2,79
let cash flows (used in)/from investing activities	(3,023)	(4,061)	4,052	(2,900)	n/a	n
lividends received from joint ventures	n/a	n/a	n/a	n/a	5	(4.0)
let cash outflow for capital expenditure and financial investment	n/a	n/a	n/a	n/a	(1,262)	(1,2
let cash (outflow)/inflow for acquisitions and disposals	n/a	n/a	n/a	n/a	(1,130)	
let cash (outflow)/inflow for the management of liquid resources let cash flows (used in)/from financing activities	n/a (1,592)	n/a 1,278	n/a (5,842)	n/a (400)	(54) n/a	(4 n
let cash outflow for returns on investments and servicing of finance	(1,592) n/a	1,276 n/a	(5,642) n/a	(400) n/a	(758)	(69
equity dividends paid	n/a	n/a	n/a	n/a	(628)	(56
let cash inflow/(outflow) from financing activities	n/a	n/a	n/a	n/a	1,081	(24
let (decrease)/increase in cash and cash equivalents (UK GAAP – cash	11/4	11/4	11/α	11/α	1,001	\Z-
only)	(1,450)	175	1,181	8	13	
Orny)	(1,450)	1/5	1,101	0	10	

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National Grid plc

Shareholder Information

Financial calendar

The following dates have been announced or are indicative of future dates:

4 June 2008	Ordinary shares go ex-dividend for 2007/08 final dividend
6 June 2008	Ordinary shares dividend record date
9 July 2008	DRIP election deadline
28 July 2008	2008 Annual General Meeting and Interim Management Statement
20 August 2008	2007/08 Final dividend paid on ordinary shares
20 November 2008	2008/09 Interim/half-year results
3 December 2008	Ordinary shares go ex-dividend for 2008/09 interim dividend
5 December 2008	Ordinary shares dividend record date
5 December 2008	DRIP election deadline
21 January 2009	2008/09 Interim dividend paid on ordinary shares
30 January 2009	Interim Management Statement
May 2009	2008/09 Preliminary results

Dividends and dividend re-investment plan (DRIP)

National Grid normally pays dividends twice each year, in accordance with the timetable above.

Many shareholders have elected to have their dividends paid to them direct to their bank or building society account. As well as being convenient for the shareholder, as the dividend will normally reach their account on the day of payment, there will be no delays from paying in cheques, and there is no possibility of losing or damaging cheques. This also saves money and paper as fewer cheques need to be produced and sent out. Tax vouchers are still provided for shareholders' records. Overseas shareholders can also have their dividends paid direct to their bank account in their local currency (IPS). As set out in the IPS terms and conditions, charges are payable for this service.

Shareholders can re-invest dividends in further National Grid shares under the DRIP. As set out in the DRIP terms and conditions, charges are payable in respect of the DRIP.

For further information on the DRIP and IPS and to request direct payment of your dividends, please contact Capita Registrars or register electronically at www.nationalgrid.com/shareholders.

If you think you have outstanding dividend payments please contact Capita Registrars who will be able to provide duplicate cheques if necessary (an administrative charge may be payable).

Website and electronic communication

More information about National Grid, including full details of previous dividends and information about proposed dividends, up-to-date announcements and current and historic share prices, is available on the National Grid website at www.nationalgrid.com.

As a shareholder you can manage your holding online at www.nationalgrid.com/shareholders. This allows you to check your shareholding, recent dividend payments and information such as address and any direct payment details. If you register you can also change information such as your home address and bank details or apply to join the DRIP.

Shareholder documents are now, following changes in company law and shareholder approval, primarily made available via the Company's website at www.nationalgrid.com/investors unless a shareholder has requested to continue to receive hard copies of such documents. If a shareholder has registered their up-to-date email address an email is sent to that address when such documents are available on the website. If shareholders have not provided an up-to-date email address and have not elected to receive documents in hard copy, a hard copy form of notification is sent to their address on the Register notifying them that the documents are available on the website. Shareholders can continue to receive hard copies of shareholder documents by contacting Capita Registrars.

If you have not already registered your current email address, you can do so at www.nationalgrid.com/shareholders.

Investors who hold their shares via an intermediary should contact the intermediary regarding the receipt of shareholder documents from the Company.

Share dealing

A share dealing service is available from Capita Registrars, allowing you to buy and sell National Grid shares. Trading by telephone or online enables shareholders to have a more upto-date indicative share price when dealing than when using the postal dealing service. For more information please call 0871 664 0445 (8am - 4.30pm) or visit www.capitadeal.com. Calls are charged at 10p per minute plus network extras.

High street banks may also offer share dealing services.

These details are provided for information only and any action you take is at your own risk. If you have any doubt as to the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, accountant or other independent financial advisor authorised pursuant to the Financial Services and Markets Act 2000.

National Grid operates a Shareholder Networking programme, the aim of which is to allow shareholders to gain a better understanding of the Company. The programme, which is normally run twice a year in June and during early December over two days, includes visits to operational sites and presentations by senior managers and employees. Participants also have the opportunity to meet and question Directors. The costs of the programme (including shareholder travel to and from the event) are paid for by National Grid.

If you would like to take part, please write to:

Shareholder Networking Organiser National Grid House Warwick Technology Park Gallows Hill Warwick CV34 6DA

Participants will be selected by ballot from those applying, with priority given to those who have not recently attended.

Individual savings accounts (ISAs)

Corporate ISAs for National Grid shares are available from Stocktrade. For more information, call Stocktrade on 0131 240 0443 or write to Stocktrade, 81 George Street, Edinburgh EH2 3ES.

National Grid cannot advise you on what action, if any, you should take in respect of your shares. If you have any doubt as to the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, accountant or other independent financial advisor authorised pursuant to the Financial Services and Markets Act 2000.

ShareGift

If you hold only a few shares and feel that it is uneconomical or otherwise not worthwhile to sell them, you could consider donating your shares to charity. ShareGift is an independent registered charity (no. 1052686) that provides a free service for shareholders wishing to give holdings of shares to benefit charitable causes. For more information please visit www.sharegift.org or call Capita Registrars.

Capital Gains Tax (CGT)

CGT information relating to National Grid shares can be found on our website or obtained from Capita Registrars. Share prices on specific dates can be found at www.nationalgrid.com.

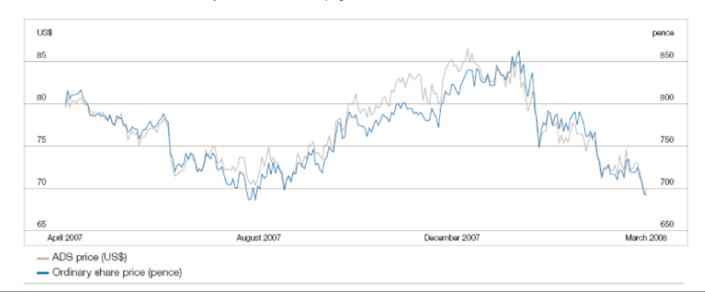
Shareholdings

The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2008:

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1-50	226.065	19.0466	6.951.153	0.2693
51-100	356,269	30.0167	24,183,116	0.9366
101-500	506,385	42.6644	100,729,641	3.9015
501-1,000	52,727	4.4424	37,038,159	1.4345
1,001-10,000	43,218	3.6412	100,134,486	3.8783
10,001-50,000	1,108	0.0934	21,825,810	0.8453
50,001-100,000	249	0.0210	18,104,707	0.7012
100,001-500,000	455	0.0383	106,876,744	4.1394
500,001-1,000,000	167	0.0141	114,779,960	4.4455
1,000,001+	260	0.0219	2,051,289,740	79.4484
Total	1,186,903		2,581,913,516	

Share price

The following graph represents the movement of National Grid's share price during 2007/08. A graph showing the total shareholder return over the last five years is available on page 104.



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For queries about ORDINARY **SHARES** contact:

Capita Registrars



Telephone: 0871 664 0500* (from outside the UK: +44 20 7098 1198) (textphone: 18001 0870 242 2379)

*Calls are charged at 10p per minute plus network extras



nationalgrid@capitaregistrars.com www.nationalgrid.com/shareholders



Postal address: National Grid Share Register **Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0GA**

For queries about **AMERICAN DEPOSITARY SHARES (ADSs or ADRs) contact:**

The Bank of New York Mellon



Telephone: 1-800-466-7215 (from outside the US: +1-212-815-3700)



email: shareowners@bankofny.com Website: www.adrbny.com



Postal address: The Bank of New York Mellon **Shareholders Correspondence** PO Box 11258 Church Street Station New York NY 10286-1258

Cautionary Statement

This document comprises the Annual Report and Accounts for the year ended 31 March 2008 for National Grid and its subsidiaries. It contains the Directors' Report and Financial Statements, together with the Independent Auditor's Report thereon, as required by the UK Companies Act 1985. The Annual Review of National Grid for the same period is published as a separate document. The Directors' Report on pages 98 and 99 and the Directors' Remuneration Report on pages 100 to 110 have each been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to National Grid.

This document also contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as 'anticipates', 'expects', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'may', 'will', 'continue', 'project' and similar expressions, as well as 'totaments in the future texas identify. statements in the future tense, identify

forward-looking statements. These forwardlooking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as delays in obtaining, or adverse conditions contained in, regulatory approvals and contractual consents, unseasonable weather affecting the demand for electricity and gas, competition and industry restructuring, changes in economic conditions, currency fluctuations, changes in interest and tax rates, changes in energy market prices, changes in historical weather patterns changes in laws, regulations or regulatory policies, developments in legal or public policy doctrines, the impact of changes to accounting standards and technological developments. Other factors that could cause actual results to differ materially from those described in this document include the ability to integrate the businesses relating to announced acquisitions with our existing business to realise the expected synergies from such integration, the availability of new acquisition opportunities and the timing and success of future acquisition opportunities the timing and success or other impact of the

sales of our non-core businesses, the failure for any reason to achieve reductions in costs or to achieve operational efficiencies, the failure to retain key management, the behaviour of UK electricity market participants on system balancing, the timing of amendments in prices to shippers in the UK gas market, the performance of our pension schemes and the regulatory treatment of pension costs, and any adverse consequences arising from outages on or otherwise affecting energy networks, including gas pipelines, which we own or operate. For a more detailed description of some of these assumptions, risks and uncertainties, together with any other risk factors, please see our filings with and submissions to the US Securities and Exchange Commission (the 'SEC') (and in particular the 'Risk Factors' and 'Operating and Financial Review' sections in our most recent Annual Report on Form 20-F). Except as may be required by law or regulation, National Grid undertakes no obligation to update any of its forward-looking statements. The effects of these factors are difficult to predict. New factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.



from 100% de-inked post consumer waste. It has been certified according to the rules of the Forest Stewardship Council (FSC) and it is produced at a mill that is certified to ISO 14001 environmental management standards. The mill uses pulps that are an elemental chlorine free (ECF) process and the inks used are all vegetable oil based.

Printed on revive 100 uncoated paper. This paper is made

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CRC: 49762 **EDGAR 2** Name: NATIONAL GRID

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Description: EXHIBIT 15.2

[E/O]

CRC: 38458 **EDGAR 2** **EXHIBIT 15.2**

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File numbers 333-33094, 333-65968, 333-97249, 333-103768 and 333-107727) and Form F-3 (File number 333-135407) of National Grid plc of our report dated May 14, 2008 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Annual Report on Form 20-F.

/S/ PRICEWATERHOUSECOOPERS LLP PricewaterhouseCoopers LLP London, UK June 17, 2008