

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

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended 31 March 2009

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** _____

Commission file number: 001-14958

NATIONAL GRID PLC

(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

Name of each exchange on which registered

Ordinary Shares of 11¹/₄s pence each
American Depositary Shares, each representing five
Ordinary Shares of 11¹/₄s 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

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
The New York Stock Exchange

* 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.

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, 2009 was

Ordinary Shares of 11¹/₄s pence each

2,581,974,851

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 ☐ No ☒

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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.

Large accelerated filer ☒

Accelerated filer ☐

Non-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 ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☒ Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.
Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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 (the “Exchange Act”). 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; technological developments; and the ability to access capital markets and other sources of credit in a timely manner or on acceptable terms, especially considering the recent deterioration of market conditions in the global economy and financial markets. 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 United Kingdom (“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.

Selected financial data

Amounts in accordance with IFRS¹:

		<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenue	£m	15,624	11,423	8,695	8,868	7,174
Total operating profit	£m	2,623	2,964	2,513	2,374	2,113
Profit for the year from continuing operations	£m	922	1,575	1,310	1,183	1,106
Profit for the year	£m	947	3,193	1,396	3,850	1,424
Basic earnings per share from continuing operations	Pence	37.4	60.3	48.1	41.6	35.9
Diluted earnings per share from continuing operations	Pence	37.1	59.9	47.8	41.4	35.7
Basic earnings per share	Pence	38.5	122.3	51.3	135.6	46.2
Diluted earnings per share	Pence	38.2	121.6	50.9	135.0	46.0
Number of shares — basic	Millions	2,455	2,609	2,719	2,837	3,082
Number of shares — diluted	Millions	2,472	2,624	2,737	2,851	3,096
Total assets	£m	44,467	37,771	28,389	25,924	27,560
Net assets	£m	3,984	5,374	4,136	3,493	2,121
Total parent company shareholders' equity	£m	3,970	5,356	4,125	3,482	2,111
Dividends per ordinary share: paid during the year	Pence	33.94	29.5	26.8	25.4	20.4
Dividends per ordinary share: approved or proposed during the year	Pence	35.64	33.0	28.7	26.1	23.7
Dividends per ordinary share: paid during the year	US\$	0.523	0.593	0.513	0.455	0.381
Dividends per ordinary share: approved or proposed during the year	US\$	0.549	0.663	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 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. Comparatives for 2008 have been restated for the finalization of the fair value exercise on the acquisition of KeySpan Corporation. See “Note 28 Acquisitions” on pages 158 and 159 of the Company’s Annual Report and Accounts 2008/09 contained in Exhibit 15.1.

The selected financial data for continuing operations excludes businesses discontinued during the periods presented, principally our Ravenswood generation station, disposed of in August 2008, 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.

Dividends

The information set forth under the headings “Financial Calendar” and “Dividends” on page 198 of the Company’s Annual Report and Accounts 2008/09 contained in Exhibit 15.1 is incorporated herein by reference.

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 12 June 2009.

	<u>High</u>	<u>Low</u>
June 2009*	1.6515*	1.5947*
May 2009	1.6160	1.4881
April 2009	1.4990	1.4402
March 2009	1.4730	1.3757
February 2009	1.4936	1.3989
January 2009	1.5254	1.3658
December 2008	1.5457	1.4395
		<u>Average**</u>
2008/09		1.54
2007/08		2.01
2006/07		1.91
2005/06		1.78
2004/05		1.85

* For the period to 12 June 2009.

** 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.

Risk factors

The information set forth under the heading “Risk factors” on pages 97 to 99 of the Company’s Annual Report and Accounts 2008/09 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 National Grid USA, Attn: General Counsel, 40 Sylvan Road, Waltham, MA 02451.

The information set forth under the headings "Operating and Financial Review" on pages 18 to 89, "Note 37 Subsidiary undertakings, joint ventures and associates" on page 179, and "Definitions and glossary of terms" on pages 194 to 196 of the Company's Annual Report and Accounts 2008/09 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 4,700 miles (approx 7,600 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 690 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 own the freehold of our control centre in Berkshire. We also have major offices in Leeds and Warwick. The Company sold and leased back our Warwick offices 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. The Company leases the Leeds office from a subsidiary of National Grid.

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.

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 in Syracuse, Albany, Buffalo and Hicksville, New York. We lease approximately 335,000 square feet of office space in the MetroTech Building in Brooklyn, New York, pursuant to a lease that expires on 28 February 2025. We recently negotiated to reduce the amount of leased space at MetroTech by approximately 81,000 square feet. We also lease approximately 312,000 square feet of office space in the Reservoir Woods Office Park in Waltham, Massachusetts, pursuant to a twenty year, five month lease that commenced on 15 May 2009. The Reservoir Woods space is in the final stages of construction, with full occupancy expected in mid-2009. 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 hold necessary property rights pursuant to municipal consents, easements, or long-term leases and licenses. 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 sub-transmission 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 72,500 circuit miles (approx. 116,700 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, 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, or 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 18 to 89, “Research and development” on page 100, and “Adoption of new accounting standards” on pages 124 and 125 of the Company’s Annual Report and Accounts 2008/09 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 16 and 17, “Directors’ Remuneration Report” on pages 102 to 112, “Note 5 Pensions and other post-retirement benefits” on pages 136 and 137, “Note 31 Actuarial information on pensions and other post-retirement benefits” on pages 162 to 164, “Corporate Governance” on pages 90 to 99, “Employees” on page 101, “Operating Costs 3(b) Number of Employees” on page 133, and “Note 25 Share capital” on pages 153 and 154 of the Company’s Annual Report and Accounts 2008/09 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 12 June 2009, we had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

	<u>Number of Ordinary Shares</u>	<u>% of Outstanding Share Capital*</u>
Legal and General Investment Management Ltd.	132,568,916	5.46
Crescent Holding GmbH**	106,724,490	4.39
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.

** On 3 June the Company received a notification advising of this holding as a result of changes to UK law with effect from 1 June 2009 (in respect of an acquisition of instruments with similar economic effect to qualifying financial instruments). This notification stated the initial disclosure threshold as having been passed on 1 June 2009, in respect of total return equity swaps (expiration date 20 July 2009) over voting ordinary shares.

No further notifications had been received. As at 12 June 2009, 149,016,032 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 14.81% of National Grid’s ordinary shares, including American Depositary Shares (“ADSs”), are held beneficially by persons in the US, and there are 3,550 US holders on the ordinary share register and approximately 18,863 registered holders of ADSs.

The information set forth under the heading “Note 30 Related party transactions” on page 161 of the Company’s Annual Report and Accounts 2008/09 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 116 to 123, “Adoption of new accounting standards” on pages 124 and 125, “Consolidated balance sheet” on page 127, “Consolidated income statement” on page 126, “Consolidated statement of recognised income and expense” on page 128, “Consolidated cash flow statement” on page 129, “Notes to the consolidated financial statements — analysis of items in the primary statements” on pages 130 to 157, “Notes to the consolidated financial statements — supplementary information” on pages 158 to 186, “Legal and related matters” on page 23, and “Shareholder returns” on page 30 of the Company’s Annual Report and Accounts 2008/09 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 intraday market prices for our ordinary shares and ADSs for the periods indicated.

	Ordinary Share (Pence)		ADS (\$)	
	High	Low	High	Low
2008/09	754.00	515.00	74.89	36.64
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
2008/09 Q4.....	717.00	515.00	53.57	36.64
Q3	748.50	531.50	65.42	43.40
Q2	737.00	639.60	69.74	60.58
Q1	754.00	638.50	74.89	63.74
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
June 2009*	610.00	533.50	50.25	43.92
May 2009	617.00	548.00	49.52	41.58
April 2009	568.00	511.00	42.16	38.25
March 2009	622.00	515.00	42.91	36.64
February 2009.....	668.00	609.50	49.87	43.37
January 2009.....	717.00	615.00	53.57	43.00
December 2008.....	695.00	590.00	51.96	43.40

* For the period to 12 June 2009.

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.

At the Annual General Meeting on 28 July 2008, the Company adopted new Articles of Association, primarily to take account of changes in English company law brought about by the Companies Act. The new Articles of Association are filed herewith as Exhibit 1.1.

General

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
- 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 matter and may not vote in respect of that matter, subject to certain limited exceptions. As permitted under the Companies Act, the Articles provide that the non-conflicted Directors of the Company may authorise a conflict or potential conflict for a particular matter. In doing so, the non-conflicted Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success.

The compensation awarded to the Executive Directors is determined by the Remuneration Committee, which consists entirely of independent 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 show of hands or poll, shareholders may cast votes either personally or by proxy and a proxy need not be a shareholder. Under the Articles all resolutions at the Annual General Meeting 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.

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. Any other General Meeting must be convened upon advance written notice of 14 clear days. 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 (e.g. 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 fulfill the obligations imposed by those provisions of the Companies Act described above is subject to criminal penalties.

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

This section discusses certain US federal income tax and UK tax consequences of the ownership of ADSs and ordinary shares by certain beneficial holders thereof. This discussion applies to you only if you qualify for benefits under the income tax convention between the US and the UK (the “Tax Convention”) and are a resident of the US for the purposes of the Tax Convention and are not resident or ordinarily resident in the UK for UK tax purposes at any material time (a “US Holder”).

You generally will be entitled to benefits under the Tax Convention if you are:

- the beneficial owner of the ADSs or ordinary shares, as applicable, and of any dividends that you receive;
- an individual resident or citizen of the US, a US corporation, or a US partnership, estate, or trust (but only to the extent the income of the partnership, estate, or trust is subject to US taxation in the hands of a US resident person); and
- not also a resident of the UK for UK tax purposes.

If a US Holder holds ADSs or ordinary shares in connection with the conduct of business or the performance of personal services in the UK or otherwise in connection with a branch, agency or permanent establishment in the UK, then you will not be entitled to benefits under the Treaty. Special rules, including a limitation of benefits provision, apply in limited circumstances to ADSs or ordinary shares owned by an investment or holding company. This section does not discuss the treatment of holders described in the preceding two sentences.

This section does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor. National Grid has assumed that you are familiar with the tax rules applicable to investments in securities generally and with any special rules to which you may be subject. In particular, the discussion deals only with investors that will beneficially hold ADSs or ordinary shares as capital assets and does

not address the tax treatment of investors that are subject to special rules, such as banks, insurance companies, dealers in securities or currencies, partnerships or other entities classified as partnerships for US federal income tax purposes, persons that control (directly or indirectly) 10 percent or more of our voting stock, persons that elect mark-to-market treatment, persons that hold ADSs or ordinary shares as a position in a straddle, conversion transaction, synthetic security, or other integrated financial transaction, and persons whose functional currency is not the US dollar.

The statements regarding US and UK tax laws and administrative practices set forth below are based on laws, treaties, judicial decisions and regulatory interpretations in effect on the date of this prospectus. These laws and practices are subject to change without notice, possibly with retrospective effect. In addition, the US statements set forth below are based 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 ADSs have been issued dated as of 21 November 1995 and amended and restated as of 1 August 2005 and any related agreement will be performed in accordance with its terms. Beneficial owners of ADSs who are residents or citizens of the US will be treated as the owners of the underlying ordinary shares for the purposes of the US Internal Revenue Code.

A US Holder should consult its own adviser as to the tax consequences of the purchase, ownership and disposition of ADSs or ordinary shares in light of its particular circumstances, including the effect of any state, local or other national laws.

Taxation of Dividends

Under the Tax Convention the UK 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 UK 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 Tax Convention. The 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 Tax Convention, a US Holder must otherwise satisfy the requirements of the limitations on benefits article of the 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 US 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 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 taxable year ending March 31, 2009. In addition, based on its unaudited 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 taxable year ending March 31, 2010 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.

Taxation of Capital Gains

US Holders will not be liable for UK taxation on any capital gain realized on the disposal of ADSs or ordinary shares.

Sales or other taxable dispositions of ADSs or ordinary shares by a US Holder generally will give rise to US source capital gain or loss equal to the difference between the US dollar value of the amount realized on the disposition and the US Holder's US dollar basis in the shares or ADSs. Any such capital gain or loss generally will be long-term capital gain or loss, subject to taxation at reduced rates for non-corporate taxpayers, if the ordinary shares or ADSs were held for more than one year. The deductibility of capital losses is subject to limitations.

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

Transfers of ordinary shares — SDRT at the rate of 0.5% of the amount of value of the consideration will generally be payable on any agreement to transfer ordinary shares that is not completed by the execution of a duly stamped instrument of 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 the date on which the agreement is made, 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. 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. A charge to stamp duty or SDRT may arise on the issue or transfer of ordinary shares to the Depositary or The Bank of New York as agent of the Depositary (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

Dividend payments made to holders and proceeds paid from the sale, exchange, redemption or disposal of ADSs or ordinary shares may be subject to information reporting to the IRS. Such payments may be subject to backup withholding taxes unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number on a properly completed IRS Form W-9 and certifies that no loss of exemption from backup withholding has occurred. Holders that are not US persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-US status in connection with payments received within the US or through a US-related financial intermediary.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's US federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

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 Exchange Act, as amended. In accordance with these requirements, we file reports and other information with the Securities and Exchange Commission (“SEC”). 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 80, “Commodity contracts” on pages 83 and 84, “Note 32 Supplementary information on derivative financial instruments” on page 165, “Note 33 Financial risk” on pages 166 to 170, and “Note 34 Commodity risk” on pages 171 and 172 of the Company’s Annual Report and Accounts 2008/09 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 2009. There are inherent limitations to the effectiveness of any 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 Exchange Act 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 the Exchange Act. 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 the Company's 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 2009.

PricewaterhouseCoopers LLP, which has audited our consolidated financial statements for the fiscal year ended 31 March 2009, 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 on page 17 of the Company's Annual Report and Accounts 2008/09 contained in Exhibit 15.1. 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 2009.

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 2009.

	Year Ended March 31, 2009	Year Ended March 31, 2008 ¹
	(£m)	
Audit fees	9.7	8.9
Audit related fees	0.3	0.4
Tax fees	0.9	1.2
All other fees	0.6	0.7
Total	£11.5	£11.2

Subject to the Company's Articles of Association and the 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 2008/09, all of the above services were pre-approved by the Audit Committee.

- 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 2009 and the review of interim financial statements for the six months ended 30 September 2008 were £9.7 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 2008 and the review of interim financial statements for the six months ended 30 September 2007, were £8.9 million. Comparatives for 2008 have been restated to present items on a basis consistent with the current year classification.
- 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 £0.3 million in fiscal 2008/09 and £0.4 million in fiscal 2007/08. Included within the fees in fiscal 2008/09 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 £0.9 million in fiscal 2008/09 and £1.2 million in fiscal 2007/08.
- ⁴ Aggregate fees billed by PricewaterhouseCoopers LLP for all other services in fiscal 2008/09 were £0.6 million. 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. Aggregate fees billed by PricewaterhouseCoopers LLP for all other services in fiscal 2007/08 were £0.7 million.

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

Not applicable.

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 2008/09

Periods	(a). Total Number of Shares Purchased	(b). Average Price Paid per Share	(c). Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d). Maximum Number of Shares (Rounded) that May Yet Be Purchased Under the Plans or Programs
1 June to 30 June 2008 (actual purchases from 2 to 30 June)	13,590,000	£6.86	254,795,799	113 million
1 July to 31 July 2008 (actual purchases from 1 to 31 July)	19,872,000	£6.64	274,667,799	93 million
1 August to 31 August 2008 (actual purchases from 1 to 29 August) . .	15,634,878	£6.95	290,302,677	234 million
1 September to 31 September 2008 (actual purchases from 1 to 24 September)	17,689,619	£7.12	307,992,296	216 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), and again at the Company's 2008 AGM, held in July 2008, to purchase 10% of the then issued capital shares (up to 250 million shares). The Board will seek shareholder approval to renew this authority at the next AGM in July 2009. 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). The ordinary share buyback commenced on 20 November 2006 and continued pursuant to the Board's general authority as approved by the shareholders. Given the current financial environment the Company believes it is now sensible to suspend the share buy-back programme and as such is no longer planning to return stranded asset

cash flows in 2009/10 via share repurchases. On 3 April 2007 the Company announced the sale of its UK Wireless business and the return of £1.8 billion to shareholders via an extension of the existing share buy-back programme, which was completed in September 2008.

Item 16F. *Change in Registrant's Certifying Accountant*

Not applicable.

Item 16G. *Corporate Governance*

The information set forth under the heading "Corporate governance practices: difference from New York Stock Exchange (NYSE) listing standards" on page 96 of the Company's Annual Report and Accounts 2008/09 contained in Exhibit 15.1 is incorporated herein by reference.

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 116 to 123, "Adoption of new accounting standards" on page 124 and 125, "Consolidated income statement" on page 126, "Consolidated balance sheet" on page 127, "Consolidated cash flow statement" on page 129, "Consolidated statement of recognised income and expense" on page 128, "Notes to the consolidated financial statements-analysis of items in the primary statements" on pages 130 to 157, and "Notes to the consolidated financial statements — supplementary information" on pages 158 to 186 of the Company's Annual Report and Accounts 2008/09 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 and, 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 2009 and 2008 and the results of their operations and cash flows for each of the three years in the period ended 31 March 2009, 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 2009, 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. 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 statement 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 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.

PricewaterhouseCoopers LLP
London United Kingdom
13 May 2009

Item 19. Exhibits

Pursuant to the rules and regulations of the SEC, 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 hereof.

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 SEC, 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.

	<u>Description</u>	
1.1	Articles of Association of National Grid plc adopted by Special Resolution passed on 28 July 2008.	Filed herewith
2(a)	Amended and restated Deposit Agreement dated as of 1 August 2005 among National Grid, plc and The Bank of New York. (Exhibit 2 (a) to National Grid plc Form 20-F dated 17 June 2008 File No. 1-14958)	Incorporated By Reference
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. (Exhibit 2 (b).4.2 to National Grid plc Form 20-F dated 17 June 2008 File No. 1-14958)	Incorporated by reference
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. (Exhibit 2 (b).5.1 to National Grid plc Form 20-F dated 17 June 2008 File No. 1-14958)	Incorporated by reference

<u>Description</u>		
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. (Exhibit 2 (b).5.2 to National Grid plc Form 20-F dated 17 June 2008 File No. 1-14958)	Incorporated by reference
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. (Exhibit 2 (b).6.1 to National Grid plc Form 20-F dated 17 June 2008 File No. 1-14958)	Incorporated by reference
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. (Exhibit 2 (b).6.2 to National Grid plc Form 20-F dated 17 June 2008 File No. 1-14958)	Incorporated by reference
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. (Exhibit 2 (b).7.1 to National Grid plc Form 20-F dated 17 June 2008 File No. 1-14958)	Incorporated by reference
2(b).7.2	Supplementary Prospectus issued by National Grid Gas plc and National Grid Gas Finance (No 1) plc on 20 October 2008 relating to €10,000,000,000 issuable under the Euro Medium Term Note Programme.	Filed herewith
2(b).8.1	Prospectus issued by National Grid plc and National Grid Electricity Transmission plc on 30 July 2008 relating to €15,000,000,000 issuable under the Euro Medium Term Note Programme.	Filed herewith
2(b).8.2	Supplementary Prospectus issued by National Grid plc and National Grid Electricity Transmission plc on 28 November 2008 relating to €15,000,000,000 issuable under the Euro Medium Term Note Programme.	Filed herewith
2(b).9.1	Prospectus issued by National Grid USA on 1 December 2008 relating to €4,000,000,000 issuable under the Euro Medium Term Note Programme.	Filed herewith
2(b).10.1	Prospectus issued by National Grid Gas plc on 24 February 2009 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

	<u>Description</u>	
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 Winsor 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).8.1	Fixed Term Employment Agreement among National Grid plc, National Grid USA and Robert B. Catell dated 26 October 2007. (Exhibit 4 (b).8 to National Grid plc Form 20-F dated 17 June 2008 File No. 1-14958)	Incorporated by reference
4(c).8.2	Letter of Appointment — Robert B. Catell.	Filed herewith
4(c).9	Employment Agreement among National Grid plc, National Grid USA and Thomas King dated 11 July 2007. (Exhibit 4 (c).9 to National Grid plc Form 20-F dated 17 June 2008 File No. 1-14958)	Incorporated by reference
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	Letter of Appointment — Philip Aiken (Exhibit 4 (c).11 to National Grid plc Form 20-F dated 17 June 2008 File No. 1-14958)	Incorporated by reference
4(c).12.1	Letter of Appointment — John Allan (Exhibit 4.10 to National Grid Transco Form 20-F dated 15 June 2005 File No. 1-14958)	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
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 Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
4(c).14	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

	<u>Description</u>	
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 2008/09, in extracted form	Filed herewith
15.2	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm to National Grid plc	Filed herewith

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
16 June 2009

The Companies Act 1985
Public company limited by shares
Articles of Association
of
National Grid plc
Adopted by special resolution on 28 July 2008
(Incorporated on 11 July 2000)

Introduction

- 1 Table A and other standard regulations do not apply**
- 1.1** The regulations in Table A of the Companies (Tables A to F) Regulations 1985, and any other articles or regulations which may apply to companies under the **Statutes**, do not apply to **us**, unless expressly included in these **Articles**.
- 2 The meaning of the Articles**
- 2.1** The following table gives the meaning of certain words and phrases as they are used in these **Articles**. However, the meaning given in the table does not apply if it is inconsistent with the context in which a word or phrase appears. After the **Articles** there is a glossary which explains various words and expressions. The glossary also explains some of the words in the **Memorandum**. But the glossary is not part of the **Memorandum** or **Articles**, and it does not affect their meaning. The words which are explained in the table below, or in specific **Articles**, are printed in **bold** and those which are explained in the Glossary are printed in *italics*.

Words	Definitions
accounting reference date	This is 31 March, the date on which our financial year ends.
alternate director	A person appointed by a Director to act in their place.
Annual General Meeting	The annual meeting of our shareholders which we hold to comply with these Articles and the law .
Articles	Our Articles of Association, which set out our company's rules, and any changes made to them.
Auditors	Our auditors, an independent firm of accountants which examines our records and financial statements.
Board	Our Board of Directors , or those Directors attending a Directors' meeting that has been properly convened (arranged) and which has a <i>quorum</i> .

Words

business day

class meeting

clear days

committee

Companies Act

Company Communications Provisions

corporate representative

CREST Regulations

Director

electronic form

existing shares (of any kind)

General Meeting or meeting

in writing

Interested Directors

law

London Stock Exchange

Memorandum

NG

Definitions

A day which is not a Saturday, Sunday or a public holiday in England.

A meeting of the holders of a relevant class of **shares**.

This period of a notice is the number of days between, but not including, the day when the notice is given or deemed (considered) to be given and the day for which it is given or on which it is to take effect.

A committee of the **Board**, appointed with powers delegated in line with Article 89.

The Companies Act 2006.

Sections 1143 to 1148, Section 1168 and Schedules 4 and 5 of the **Companies Act**.

A person or persons, authorised by a *company* which is a **shareholder**, to act as the corporate representative or corporate representatives at a **General Meeting** or **class meeting** at which the *company* is entitled to attend.

The Uncertificated Securities Regulations 2001.

A Director of **NG**.

Includes any *notice*, document or information sent or supplied *electronically* or through any other medium (including sending by email, posting on a *website*, sending by fax or by sending a disk by post).

Shares which are in *issue* at the relevant time.

A meeting of **our shareholders**, which is an **Annual General Meeting** or any other General Meeting, as set out in Article 32.

Written by hand or produced by any substitute for writing including anything in **electronic form**.

Directors who have or could have a direct or indirect interest in a matter which conflicts, or could conflict, with **our** interests.

The **Companies Acts**, and all other laws and regulations applying to **NG** (including the **UKLA's** rules) or **our shareholders** as the case may be.

The London Stock Exchange plc.

The Memorandum of Association of **NG**.

National Grid plc.

Words	Definitions
operator	CRESTCO Limited or any other operator of a <i>relevant system</i> under the CREST Regulations .
paid up share or other security	Includes a share or other security which is treated (credited) as paid up.
pay	Includes any kind of reward or payment for services.
Procedural Resolution	A resolution at a General Meeting which in the chairman's opinion is of a procedural nature (such as a resolution on the choice of a chairman of the General Meeting , a resolution to <i>adjourn</i> the General Meeting or a resolution to correct an obvious error in a Substantive Resolution).
Register	Our register of shareholders .
registered office	Our registered office.
seal	Our Common Seal, or any official seal we keep under Section 50 of the Companies Act (called a <i>securities seal</i>).
shareholder	A holder of our shares .
shareholders' meeting	Includes both a General Meeting and a class meeting of NG .
shares	Our ordinary shares or any other class of our shares which are created.
Statutes	The Companies Acts , the CREST Regulations and every other law currently in force concerning companies and affecting us .
Substantive Resolution	Any resolution at a General Meeting , other than a Procedural Resolution .
UK Listing Authority or UKLA	The Financial Services Authority acting in its capacity as the competent authority for the purposes of the Financial Services and Markets Act 2000.
United Kingdom	Great Britain and Northern Ireland.
we, us, our	National Grid plc.
2.2	References to a <i>debenture</i> include <i>debenture stock</i> and references to a <i>debenture</i> holder include a <i>debenture stockholder</i> .
2.3	Where the Articles refer to a person who is <i>automatically entitled to a share by law</i> , this includes a person who is entitled to the share as a result of the death, or bankruptcy, of a shareholder .
2.4	Words which refer to a single number also refer to plural numbers, and the other way around.

- 2.5 References to a person or people include companies, *unincorporated associations* and so on.
- 2.6 Any headings in these **Articles** are only included for convenience. They do not affect the meaning of the **Articles**.
- 2.7 When an *Act*, or a section of an *Act*, is referred to, this includes any amendment to the *Act* or section (before or after the adoption of these **Articles**), as well as where it is included in a later *Act*.
- 2.8 When an *Act* or the **Articles** are referred to, the version which is current at the time will apply.
- 2.9 Where the **Articles** give any power or authority to anybody, this power or authority can be used on any number of occasions, unless the way in which power or authority is used does not allow this meaning.
- 2.10 References to the **Companies Acts** has the meaning given to it by Section 2 of the **Companies Act** but will only apply to provisions which are in force at the relevant date.
- 2.11 Any word which is defined in the **Companies Acts** or the **CREST Regulations** means the same in the **Articles**, unless the **Articles** define it differently, or the way in which the word is used is inconsistent with the definition given in the **Companies Acts** or the **CREST Regulations**
- 2.12 Where the **Articles** say that something can be done by passing an *ordinary resolution*, this can also be done by passing a *special resolution*.
- 2.13 Where the **Articles** refer to any document being made effective, this means being signed, sealed or *executed* in some other legally valid way.
- 2.14 Where the **Articles** refer to months or years, these are calendar months or years.
- 2.15 **Articles** which apply to **shares** can also apply to *stock*. References in those **Articles** to **share** or **shareholder** include *stock* or stockholder.
- 2.16 Where the **Articles** refer to **shares** in certificated form, this means that *ownership* of the **shares** can be transferred using a written transfer document (rather than in line with the **CREST Regulations**) and that a share *certificate* is usually *issued* to the owner.
- 2.17 Where the **Articles** refer to **shares** in uncertificated form, this means that *ownership* of the **shares** can be transferred in line with the **CREST Regulations** without using a written transfer document and that no share *certificate* is *issued* to the owner.
- 2.18 References to officers include **Directors** and the *Company Secretary*, but not the **Auditors**.
- 2.19 Where the **Articles** refer to an address, this will include any number or address (including, in the case of any *proxy* appointment permitted under Article 55.3, an identification number of a participant in the *relevant* system) used for sending or receiving notices, documents or information *electronically* or through a *website*.
- 2.20 Except where the context requires otherwise, any reference to *issued* shares of any class (whether of **NG** or of any other *company*) will not include any shares of that class held as *treasury shares*.

- 2.21 References to the *system's rules* will include the rules, regulations, procedures, facilities and requirements of the *relevant system* concerned.

Share capital

3 The form of our share capital

- 3.1 **Our** share capital at the date when these **Articles** are amended is made up of 2,704,102,425 ordinary shares of 11¹⁷/₄₃ pence each.

Changing capital

4 The power to increase capital

- 4.1 The **shareholders** can increase **our** share capital by passing an *ordinary resolution*. The resolution must fix the:
- (a) amount of the increase;
 - (b) *nominal value* of the new **shares**; and
 - (c) currency or currencies of the **shares**.

5 Applying the Articles to new shares

- 5.1 The provisions in these **Articles** about *allotment*, transfer, *automatic entitlement by law* and all other things apply to new **shares** under Article 4 in the same way as if they were part of **our** existing share capital.

6 The power to change capital

- 6.1 The **shareholders** can pass *ordinary resolutions* to do any of the following:
- (a) *consolidate, subdivide or consolidate* and then divide, all or any of **our** share capital into new **shares** of a larger or smaller *nominal value* than the **existing shares**;
 - (b) cancel any **shares** which have not been taken, or agreed to be taken, by any person at the date of the resolution, and reduce the amount of **our** share capital by the amount of the cancelled **shares**; and
 - (c) divide some or all of **our** share capital into **shares** which are of a smaller *nominal value* than is fixed in the **Memorandum**. This is *subject to* any restrictions under the **law**. The resolution can provide that, as between the holders of the divided **shares**, different *rights* and restrictions which **NG** can apply to new **shares** can apply to all or any of the different divided **shares**.

7 Fractions of shares

- 7.1 If any **shares** are *consolidated* or divided, the **Directors** have the power to deal with any fractions of **shares** which result. The **Directors** can sell any **shares** representing fractions as they think fit and distribute the net proceeds of sale among **shareholders** in proportion to their fractional entitlements in line with the **law**, their rights and interests. The **Directors**

can sell to anyone (including **us**, if the **law** allows this) and can authorise any person to transfer those **shares** to the buyer or in line with the buyer's instructions. The buyer does not need to check how **we** used the money and their *ownership* of the **shares** will not be affected if the sale was irregular or invalid in any way.

7.2 So far as the **law** allows, when **shares** are *consolidated* or divided, the **Directors** can treat a **shareholder's shares** which are held in certificated form and in uncertificated form as separate shareholdings.

7.3 The **Directors** can also arrange for any **shares** which result from a *consolidation* or division and which represent rights to fractions of **shares** to be entered in the **Register** as **shares** in certificated form where this makes it easier to sell them.

8 The power to reduce capital

8.1 The **shareholders** can pass a *special resolution* to:

- (a) reduce **our** share capital in any way; or
- (b) reduce, in any way, any *capital redemption reserve*, *share premium account*, or other reserve which cannot be distributed.

This is *subject to* any restrictions under the **Statutes**.

9 Buying back shares

9.1 **We** can buy back, or agree to buy back in the future, any **shares** of any class (including *redeemable shares*), if the **law** allows this. **We** can hold such repurchased **shares** as *treasury shares* in line with the **Companies Act**. However, if **we** have **existing shares** which are admitted to the official list maintained by the **UK Listing Authority** and which can be converted into other **shares** which are *equity shares*, then **we** can only buy back *equity shares* of that class if:

- (a) either the terms of *issue* of the convertible **shares** permit **us** to buy back the *equity shares*; or
- (b) the buy-back or agreement to buy back has been approved by a *special resolution* passed by the holders of the convertible **shares** at a separate **class meeting**.

9.2 **We** have the right to:

- (a) sell any *treasury shares*;
- (b) transfer any *treasury shares* for the purposes of, or to benefit, an employees' share scheme;
- (c) receive an *allotment* of **shares** as *fully paid* bonus **shares** in respect of any *treasury shares*; or
- (d) receive any amount payable on *redemption* of any *redeemable treasury shares*.

We cannot *exercise* any other right in respect of *treasury shares* **we** hold, including any right to attend or vote at meetings, to participate in any offer **we** make to **shareholders** or to receive any distribution (including in a *winding up*).

Shares

10 The special rights of new shares

- 10.1** If **we** *issue* new **shares**, the new **shares** can have *rights* or restrictions attached to them. The *rights* can take priority over the *rights* of **existing shares**, or **existing shares** can take priority over the rights of the new **shares**, or the new **shares** and the **existing shares** can *rank* equally. These *rights* and restrictions can apply to sharing in **our** profits or *assets*. Other *rights* and restrictions can also apply, for example on the right to vote. The powers conferred by this Article 10.1 are *subject to* the provisions of Article 10.4.
- 10.2** The *rights* and restrictions referred to in Article 10.1 can be decided by an *ordinary resolution* passed by the **shareholders**. The **Directors** can also take these decisions if they do not conflict with any resolution passed by the **shareholders**.
- 10.3** If the **law** allows, the *rights* of any new **shares** can include *rights* for the holder or **us** (or both the holder and **us**) to have them *redeemed*.
- 10.4** The ability to attach particular *rights* and restrictions to new **shares** can be restricted by *special rights* previously given to holders of any **existing shares**.

11 The Directors' power to deal with shares

- 11.1** The **Directors** can decide how to deal with any **shares** which have not been *issued*. The **Directors** can:
- (a) *allot* them on any terms, which can include the right to transfer the *allotment* to another person before any person has been entered on the **Register**. This is known as the right to *renounce* the *allotment* (see also Article 13.1);
 - (b) grant options to give people a choice to acquire **shares** in the future; or
 - (c) dispose of the **shares** in any other way.
- This Article 11.1 is *subject to* the provisions of Article 11.3.
- 11.2** The **Directors** are free to decide who they deal with, when they deal with the **shares**, and the terms on which they deal.
- 11.3** The **Directors** must comply with:
- (a) the **law** relating to authority, *pre-emption rights* and other matters; and
 - (b) any resolution of a **General Meeting** which is passed under the **law**.

12 Power to pay commission and brokerage

- 12.1** **We** can use all the powers given by the **law** to pay commission or *brokerage* to any person who:
- (a) applies, or agrees to apply, for any new **shares**; or
 - (b) gets anybody else to apply, or agree to apply, for any new **shares**.
- 12.2** The rate per cent or amount of the commission paid, or agreed to be paid, must be disclosed as required by the **law**. The commission can be paid in either cash or by the

allotment of fully paid shares, any combination of the two or in any other way allowed by the **law**.

13 Renouncing allotted but unissued shares

- 13.1** Where a **share** has been *allotted* to a person but that person has not yet been entered on the **Register**, the **Directors** can recognise a transfer (called a **renunciation**) by that person of their right to the **share** in favour of some other person. The ability to *renounce allotments* only applies if the terms on which the **share** is *allotted* are consistent with **renunciation**. The **Directors** can impose terms and conditions regulating **renunciation** rights.

14 No trusts or similar interests recognised

- 14.1** **We** will only be affected by, or recognise, a current and absolute right to whole **shares**. The fact that any **share**, or any part of a **share**, may not be owned outright by the registered owner does not concern **us**, for example if a **share** is held on any kind of *trust*.
- 14.2** The only exception to Article 14.1 is for any right:
- (a) which is expressly given by these **Articles**; or
 - (b) which **we** have a legal duty to recognise.

Uncertificated shares

15 Uncertificated shares

- 15.1** **We** can *issue shares*, and other *securities*, which do not have *certificates*. **We** can also allow **existing shares**, and other *securities*, to be held without *certificates*. Evidence of *ownership* of these **shares** and *securities* does not involve a *certificate*. **We** can also allow any **shares**, or other *securities*, to be transferred without using a transfer form. All this applies so far as the **law** allows.
- 15.2** These **shares** and other *securities* can, for example, be transferred by using a *relevant system*, as defined in the **CREST Regulations**. **Shares** transferred in this way are called uncertificated **shares**.
- 15.3** Immediately before any **shares** become **uncertificated shares**, the **Articles** will only apply to those **shares** so far as they are consistent with:
- (a) holding those **shares** as uncertificated **shares**;
 - (b) transferring *ownership* of those **shares** by using a *relevant system*; and
 - (c) any of the provisions of the **CREST Regulations**.
- 15.4** The **Directors** can also lay down regulations which:
- (a) govern the *issue*, holding and transfer, and where appropriate, the mechanics of conversion and *redemption*, of these **shares** and *securities*;
 - (b) govern the mechanics for payments involving a *relevant system*; and

- (c) make any other provisions which they consider are necessary to ensure that these **Articles** are consistent with the **CREST Regulations**, and with any rules or guidance of an **operator** of a *relevant system*.

These regulations will, if they say so, apply instead of the other provisions in the **Articles** relating to *certificates*, and the transfer, conversion and *redemption* of **shares** and other *securities*, and any other provisions which are not consistent with the **CREST Regulations**. If the **Directors** do make any regulations under this Article 15.4, Article 15.3 will still apply to the **Articles**, read with those regulations.

Share certificates

16 Certificates

- 16.1** Except as otherwise provided in these **Articles**, when a **shareholder** is first registered as the holder of any class of **shares** in certificated form, they are entitled, free of charge, to a separate share *certificate* for each class of **shares** they hold in certificated form.
- 16.2** **We** must also satisfy any requirements of the **CREST Regulations** when issuing share *certificates*. Where the **law** allows, **we** do not need to issue share *certificates*.
- 16.3** If a **shareholder** receives more **shares** in certificated form of any class, they are entitled, without charge, to another *certificate* for the extra **shares**.
- 16.4** If a **shareholder** transfers part of their **shares** covered by a *certificate*, they are entitled, free of charge, to a new *certificate* for the balance if the balance is also held in certificated form. **We** will cancel the old *certificate*.
- 16.5** **We** do not have to issue more than one *certificate* for any **share** in certificated form, even if that **share** is held jointly.
- 16.6** When **we** deliver a *certificate* to one joint **shareholder** holding **shares** in certificated form, **we** treat this as delivery to all of the joint **shareholders**.
- 16.7** **We** can deliver a *certificate* to a broker or *agent* who is acting for a person who is buying the **shares** in certificated form, or who is having the **shares** transferred to them in certificated form.
- 16.8** The **Directors** can decide how share *certificates* are made effective. For example, they can be:
- (a) signed by one or more **Directors**;
 - (b) sealed with the **Seal** (or, in the case of **shares** on a branch register, an official seal for use in the relevant territory); or
 - (c) printed, in any way, with a copy of the **Seal** or with a copy of the signature of one or more **Directors**. The copy can be made or produced mechanically, *electronically* or in any other way the **Directors** approve as long as it complies with the **law**.
- 16.9** A share *certificate* must state the number and class of **shares** to which it relates, their *nominal value* and the amount paid up on those **shares**. It cannot be for **shares** of more than one class.
- 16.10** The time limit for **us** to provide a share *certificate* in certificated form is:

- (a) one month after the *allotment* of a new **share** (or any longer period provided by its terms of *issue*); or
- (b) five **business days** after a transfer of **shares** is presented for registration.

16.11 Share *certificates* will also be prepared and sent earlier where the **UK Listing Authority** requires it.

17 Replacement share certificates

- 17.1** If a **shareholder** has two or more share *certificates* for **shares** of the same class which are in certificated form, they can return the *certificates* to **us**, ask **us** to cancel these and replace them with a single new *certificate*. **We** must comply with this request, without making a charge.
- 17.2** A **shareholder** can ask **us** to cancel and replace a single share *certificate* with two or more *certificates*, for the same total number of **shares**. **We** can comply with this request and the **Directors** can ask the **shareholder** to pay a reasonable sum to **us** for doing so.
- 17.3** A **shareholder** can ask **us** for a new *certificate* if the original is:
- (a) damaged or defaced; or
 - (b) said to be lost, stolen, or destroyed.
- 17.4** If a *certificate* has been damaged or defaced, **we** can ask for the *certificate* to be returned to **us** before issuing a replacement. If a *certificate* is said to be lost, stolen or destroyed, **we** can ask for satisfactory evidence, and an *indemnity*, before issuing a replacement.
- 17.5** The **Directors** can require the **shareholder** to pay **our** exceptional out-of-pocket expenses for issuing any share certificates under Article 17.3.
- 17.6** Any one joint **shareholder** can request replacement *certificates* under this Article 17 and **we** can treat an application for a replacement *certificate* made by one joint **shareholder** as being made on behalf of all the **shareholders** concerned.

Changing share rights

18 Changing the special rights of shares

- 18.1** Whenever **our** share capital is split into different classes of **share**, any *special rights* attached to any of these classes can be varied or cancelled:
- (a) in such a way as provided by those rights; or
 - (b) if approved by a *special resolution*;
- as long as:
- (a) the **law** allows this; and
 - (b) the **Articles** or rights attached to any class of **share** do not say otherwise.

The *special resolution* must be passed at a separate meeting of the holders of the relevant class of **shares**. This is called a **class meeting** (the provisions governing a **class meeting** are set out in Article 34). Alternatively, the holders of at least three-quarters of the **existing shares** of the class (by *nominal value*) can give their consent **in writing**.

18.2 The *special rights* of a class of **shares** can be varied or cancelled:

- (a) while **we** are a going concern;
- (b) while **we** are being *wound up*; or
- (c) if **we** are considering being *wound up*.

18.3 This Article 18 also applies to the variation or cancellation of *special rights* of **shares** forming part of a class. Each part of the class which is being treated differently is viewed as a separate class under this Article 18.

19 More about the special rights of shares

19.1 The *special rights* of **existing shares** are not regarded as varied, breached or cancelled if:

- (a) new **shares** are created, or *issued*, which *rank* equally with or subsequent to any other **existing shares** in sharing in **our** profits or *assets*; or
- (b) **we** *redeem* or buy back **our** own **shares**.

But this does not apply if the terms of the **existing shares** expressly say otherwise.

Transferring shares

20 Transfer forms

20.1 Unless the **Articles** or terms *of issue* of any **shares** say otherwise, any **shareholder** can transfer some or all of their **shares** to another person. Every transfer of **shares** in certificated form must be **in writing**, and either in the usual standard form, or in any other form approved by the **Directors**.

20.2 Transfers of uncertificated **shares** are to be carried out using a *relevant system* and must comply with the **CREST Regulations**.

21 Transferring shares in certificated form

21.1 The transfer form for **shares** in certificated form must be delivered to the office where the **Register** is kept (or any other place the **Directors** may decide). The transfer form must have with it:

- (a) the share *certificate* for the **shares** to be transferred; and
- (b) any other evidence which the **Directors** ask for to prove that the person wanting to make the transfer is entitled to do so.

21.2 A share transfer form must be signed, or made effective in some other way, by the person making the transfer. They do not need to use a seal to make the transfer effective.

21.3 The person making a transfer will be treated as continuing to be the **shareholder** until the name of the person the **share** is being transferred to is put on the **Register** for that **share**.

21.4 If **we** register a transfer, or if the **Directors** have any grounds for suspecting fraud, **we** can keep the transfer form. Otherwise, if the **Directors** refuse to register a transfer, the transfer form will be returned, when notice of refusal is given, to the person lodging it.

- 21.5** A transfer form cannot be used to transfer more than one class of **shares**. Each class of **shares** needs a separate form.
- 21.6** **We** do not charge a fee for transferring **shares** or registering changes relating to the *ownership* of **shares**.
- 21.7** Transfers cannot be in favour of more than four joint holders.
- 21.8** A transfer form must be properly stamped (for payment of stamp duty) where this is required.

22 Refusing to register certain transfers

- 22.1** The **Directors** can refuse to register a transfer of any **shares**:
- (a) if the relevant conditions in Article 21 are not satisfied;
 - (b) if the transfer is in favour of a minor, a bankrupt, or a person of *unsound mind*; or
 - (c) where the **Board** is obliged or entitled to refuse to do so as a result of any failure to comply with a notice under Section 793 of the **Companies Act** (see Article 53).
- 22.2** The **Directors** do not have to give any reasons for refusing to register a transfer of any **shares**, but if any of those **shares** are admitted to the official list maintained by the **UK Listing Authority**, the **Directors** cannot refuse to register a transfer if this would stop dealings in the **shares** from taking place on an open and proper basis.
- 22.3** If the **Directors** decide not to register a transfer of a **share**, they must notify the person the **shares** were to be transferred to, in line with Article 21.4. They must do this no later than two months after **we** receive the transfer form (in the case of a **share** in certificated form) or the instruction from the **operator** of the *relevant system* (in the case of a **share** in uncertificated form).

23 Closing the Register

- 23.1** The **Directors** can decide to suspend the registration of transfers by closing the **Register**. This can be for part of a day, a day, or more than a day. Suspension periods can vary between different classes of **shares**. But the **Register** cannot be closed for more than 30 days a year. In the case of **shares** in uncertificated form, the **Register** must not be closed without the consent of the **operator** of a *relevant system*.

24 Overseas branch registers

- 24.1** **We** can use all legal powers to keep an overseas branch register. The **Directors** can make and change any regulations relating to this register, as long as the **law** allows this.

25 More provisions on uncertificated shares

- 25.1** *Subject to the law and the CREST Regulations*, and apart from any class of **share** which is wholly in uncertificated form, the **Directors** can decide that any class of **shares** can be held in uncertificated form and that title to such **shares** can be transferred by means of a *relevant system*, or that **shares** of any class should stop being held and transferred as such.

- 25.2** The provisions of these **Articles** do not apply to **shares** of any class which are in uncertificated form if these **Articles** are inconsistent with:
- (a) holding **shares** of that class in uncertificated form;
 - (b) transferring title to **shares** of that class by means of a *relevant system*; or
 - (c) any provision of the **CREST Regulations**.

People automatically entitled to shares by law

26 If a shareholder dies

- 26.1** If a sole **shareholder** dies (or a **shareholder** who is the last survivor of joint **shareholders** dies), their legal *personal representatives* will be the only people who **we** will recognise as being entitled to their **shares**.
- 26.2** If a **shareholder** who is a joint **shareholder** dies, the remaining joint **shareholder** or **shareholders** will be the only people who **we** will recognise as being entitled to their **shares**.
- 26.3** But this Article does not discharge the estate of any **shareholder** from any liability.

27 Registering personal representatives

- 27.1** A person who becomes *automatically entitled to a share by law* can either be registered as the **shareholder**, or can select some other person to have the **share** transferred to. The person who is *automatically entitled by law* must provide any evidence of his entitlement the **Directors** require.

28 A person who wants to be registered must give notice

- 28.1** If a person who is *automatically entitled to shares by law* wants to be registered as a **shareholder**, and subject (where relevant) to the *system's rules*, they must deliver or send a notice to **us** saying that they have made this decision. They must sign this notice, and it must be in the form, and accompanied by any other documents, which the **Directors** require. This notice will be treated as a transfer form. All of the provisions of these **Articles** about registering transfers of **shares** apply to it except that the **shares** will only be treated as being presented for registration under Article 16.10 when **we** receive the notice in the form, and accompanied by any other documents, required by the **Directors**. The **Directors** have the same power to refuse to register the automatically-entitled person as they would have had in deciding whether to register a transfer by the person who was previously entitled to the **shares**.

29 Transfers by a person who is automatically entitled to a share by law

- 29.1** If a person who is *automatically entitled to a share by law* wants the **share** to be transferred to another person, they must do the following:
- (a) for a **share** in certificated form, sign a transfer form to the person they have selected; and
 - (b) for a **share** in uncertificated form, transfer the **share** using a *relevant system*.

29.2 The **Directors** have the same power to refuse to register the person selected as they would have had in deciding whether to register a transfer by the person who was previously entitled to the **shares**.

30 The rights of people automatically entitled to shares by law

30.1 A person who is *automatically entitled to a share by law* is entitled to any dividends or other money relating to the **share**, even though they are not registered as the holder of that **share**. But the **Directors** can withhold the dividend and other money until a person has been properly registered as the **shareholder** as laid down in the **Articles**. They can also withhold the dividend if the person who was previously entitled to the **share** could have had their dividend withheld.

30.2 Unless and until they are registered as the **shareholder**, the person *automatically entitled to a share by law* is not entitled to:

- (a) receive *notices* of meetings;
- (b) attend or vote at meetings; or
- (c) (*subject to Article 30.1*) any of the other rights and benefits of being a **shareholder**.

Shareholders who cannot be traced

31 Shareholders who cannot be traced

31.1 **We** can sell any **shares** at the best price **we** can reasonably obtain if:

- (a) during the period of 12 years before the earliest of the advertisements referred to in Article 31.1 (b), at least three dividends have been payable on those **shares** and none has been claimed, and no payments sent by **us** in line with these **Articles** has been cashed;
- (b) after this 12-year period, **we** announce that **we** intend to sell the **shares** by placing an advertisement in a national newspaper; and
- (c) during this 12-year period, and for three months after the last advertisement appears, **we** do not hear from the **shareholder** or any person who is *automatically entitled to the shares by law*.

31.2 To sell any **shares** in this way, **we** can appoint any person to transfer the **shares**. This transfer will be just as effective as if it had been signed or made effective in some other way by the registered holder of the **shares**, or by a person who is *automatically entitled to the shares by law*. The *ownership* of the person the **shares** are transferred to will not be affected, even if the sale is irregular or invalid in any way. Nor does the new **shareholder** need to take any steps to see how any money they may be paying for the **shares** is used.

31.3 The net sale proceeds belong to **us** until claimed under this Article 31, but **we** must pay these to the **shareholder** who could not be traced before **we** sold the **shares**, or to the person who is *automatically entitled to their shares by law*, if that **shareholder**, or that other person, asks for it.

31.4 **We** must record the name of that **shareholder**, or the person who was *automatically entitled to the shares by law*, as a creditor for this money in **our** accounts. The money is not held on *trust*, and **we** do not have to pay interest on the money. **We** can keep any

money which **we** have earned on the net sale proceeds. **We** can use the money for **our** business, or **we** can invest the money in any way that the **Directors** decide. But the money cannot be invested in **our shares**, or in the shares of any of **our holding companies**.

- 31.5** In the case of **uncertificated shares** held by **shareholders** who cannot be traced, restrictions under the **CREST Regulations** will apply.

General Meetings

32 The Annual General Meeting

- 32.1** Unless the **law** says otherwise, **we** will hold an **Annual General Meeting** each year in addition to any other **General Meetings** which **we** hold in the year. The *notice* calling the meeting must say that the meeting is the **Annual General Meeting**. We must hold an **Annual General Meeting** within six months of **our accounting reference date** (31 March). The **Directors** will decide when and where to hold the **Annual General Meeting**.

33 Notice of General Meetings

- 33.1** *Subject to Article 33.2*, **we** must give at least 21 **clear days' notice in writing** for every **Annual General Meeting**. For every other **General Meeting**, other than a **General Meeting** convened in line with Article 33.2, **we** must give at least 14 **clear days' notice in writing**.
- 33.2** **We** can convene a **General Meeting** by shorter *notice* than that specified in Article 33.1, and it will be considered to be properly convened, if:
- (a) in the case of an **Annual General Meeting**, all **shareholders**, entitled to attend and vote, agree; or
 - (b) in the case of any other **General Meeting**, a majority of the **shareholders** entitled to attend and vote, and who together hold not less than 95 per cent in *nominal value* of the **shares** giving that right, agree.
- 33.3** Any *notice of General Meeting* must:
- (a) say where the **meeting** is to be held;
 - (b) give the date and time of the **meeting**;
 - (c) give the general nature of the business of the **meeting**;
 - (d) say if any resolution will be proposed as a *special resolution*;
 - (e) say that a **shareholder** who can attend, speak and vote can appoint one or more *proxies* (who need not be **shareholders**) to vote for him or her;
 - (f) state the address where appointments of *proxy* are to be delivered; and
 - (g) state whether the meeting is an **Annual General Meeting** or any other **General Meeting**.
- 33.4** **We** must send *notices* of meetings to the **shareholders**, except in cases where the **Articles** or the rights attached to **shares** state that the holders are not entitled to receive them from **us**. **We** must also give *notice* to the **Auditors** and **Directors**. The day **we** serve

the *notice*, or it is treated as served, and the day of the meeting do not count towards the period of *notice*.

33.5 In relation to any class of **shares**, **we** can decide that only people who are entered on the **Register** at the close of business on a particular day are entitled to receive such a *notice*. **We** will choose that day and it will fall not more than 21 days before **we** send the *notice*.

33.6 If **we** cannot call a **General Meeting** by sending *notices* through the post, because the postal service is suspended or restricted in the **United Kingdom**, the **Directors** can call the **meeting** by publishing a *notice* in at least one **United Kingdom** national newspaper. *Notice* published in this way will be treated as being properly served on **shareholders** who are entitled to receive it. **We** can still:

- (a) make the notice available on **our website** from the date it appears in the national newspaper until the **meeting** or any **adjourned meeting** ends;
- (b) serve the notice *electronically*; and
- (c) if it becomes possible to use the postal service again more than seven days before the meeting, **we** must send confirmation of the *notice* through the post to those **shareholders** who did not receive the *notice electronically*.

33.7 Unless the **Companies Act** does not require it, when **we** receive a *requisition in writing* from the number of **shareholders** specified in the **Companies Act** and in line with Articles 33.8 and 33.9, **we** must send to **shareholders**:

- (a) entitled to receive *notice* of the next **Annual General Meeting**, *notice* of any resolution which can properly be proposed and is intended to be proposed at that **meeting**; and
- (b) entitled to receive *notice* of any **General Meeting**, a statement of not more than one thousand words about the matter referred to in any proposed resolution or the business to be dealt with at that **meeting**.

We will give *notice* of any resolution and circulate any appropriate statement, to **our shareholders** who are entitled to have *notice* of the **General Meeting** sent to them.

33.8 If **we** receive the *requisition* three months before the next **Annual General Meeting**, and if the statement is in a form acceptable to the **Directors**, **we** will send out *notices* and statements without cost to the **shareholders** *requisitioning* the **meeting**. Otherwise, **we** will ask the *requisitionists* to deposit or pay a reasonable sum to meet **our** expenses to circulate the *requisition*.

33.9 The **shareholders** should notify **us** of any *requisition in writing*.

33.10 No proceedings at any **General Meeting** will be invalidated if **we** accidentally fail to give *notice* of the **meeting** or to send an instrument of *proxy* to any **shareholder**.

34 Class meetings

34.1 All the **Articles** relating to **General Meetings** or **meetings** apply, with any necessary changes, to a **class meeting**, but with the following adjustments.

- (a) At least two people who hold (or who act as *proxies* for) at least one-third of the total *nominal value* of the **existing shares** of the class are a *quorum*. However, if

this *quorum* is not present at an *adjourned class meeting*, one person who holds **shares** of the class, or his *proxy*, is a *quorum*.

(b) On a *poll*, the holders of **shares** will have one vote for every **share** of the class they hold.

This is *subject to* any *special rights* or restrictions which are attached to any class of **shares** by the **Articles**, or when rights are attached to **shares** in some other way under the **Articles**.

35 Moving a General Meeting at short notice

35.1 If the **Directors** consider that it is impractical, undesirable or unreasonable, to hold a **General Meeting** at the place, time or on the date stated in the *notice* calling the **meeting**, they can change any or all of these things. If the **Directors** do this, an announcement of the date, time and place of the rearranged **meeting** will, if practical, be published in at least one **United Kingdom** national newspaper. *Notice* of the business of the **meeting** does not need to be given again. The **Directors** must take reasonable steps to ensure that any **shareholder** trying to attend the **meeting** at the original time and place is informed of the new arrangements. If a **meeting** is rearranged in this way, *proxy forms* can be delivered, in the way required by Article 54, until 48 hours before the rearranged **meeting**. The **Directors** can also move or postpone the rearranged **meeting**, or both, under this Article 35.

Proceedings at General Meetings

36 The chairman of a General Meeting

36.1 The chairman of the **Board** will be the chairman at every **General Meeting**, if they are willing and able to take the chair. If the chairman notifies the **Directors** that they will not attend the **General Meeting** then the **Directors** will, in advance of the **General Meeting**, appoint a **Director** to chair the **meeting**.

36.2 *Subject to* Article 36.1, if **we** do not have a chairman, or if the chairman is not willing and able to chair the **meeting**, after waiting five minutes from the time that a **meeting** is due to start, the **Directors** who are present will choose one of themselves to act as chairman. If there is only one **Director** present, they will be chairman, if they agree.

36.3 If there is no **Director** willing and able to be chairman, or if no **Director** is present within 15 minutes of the time fixed for the **meeting**, then the **shareholders** who are personally present at the **meeting** and entitled to vote will pass an *ordinary resolution* to decide which one of them is to be chairman. A *proxy* cannot be appointed as the chairman.

36.4 Any resolution (including any amending resolution) proposed by the chairman of the **meeting** does not need to be seconded.

36.5 To avoid any doubt, nothing in the **Articles** restricts or excludes any of the powers or rights of a chairman of a **meeting** which are given by the general **law**.

37 Security and other arrangements at General Meetings

37.1 The chairman of a **meeting** can take any action they consider appropriate for:

- (a) the safety of people attending a **General Meeting** (including searching anyone attending or any other precautions);
 - (b) proper and orderly conduct at a **General Meeting**; or
 - (c) the **meeting** to reflect the wishes of the majority.
- 37.2** The chairman of the **meeting** can refuse entry to anyone attending a **General Meeting** who refuses a security search or will not otherwise comply with any security arrangements or restrictions.
- 37.3** If anyone has gained entry to a **General Meeting** and refuses to comply with any security arrangements or restrictions, or disrupts the proper and orderly conduct of the **General Meeting**, the chairman can at any time, without the consent of the **General Meeting**, order this person to leave or be removed from the **General Meeting**.
- 37.4** The chairman of the **meeting** can invite any person to attend and speak at the **General Meeting** who they consider has the knowledge or experience of **our** business to assist in the deliberations of the **meeting**.
- 37.5** The chairman's decision on points of order, matters of procedure or matters arising incidentally out of the business of a **General Meeting** will be final, as will their decision, acting in good faith, on whether a point or matter is of this nature.
- 38 Overflow meeting rooms**
- 38.1** The **Directors** can arrange for any people who cannot be seated in the main **meeting** room, where the chairman will be, to attend and take part in a **General Meeting** in an overflow room or rooms. Any overflow room will have appropriate links with the main room as required by the **law** and will enable audio-visual communication between the **meeting** rooms throughout the **meeting**. **We** will give details of any arrangements under this Article 38 in the *notice* of the **meeting**, but if **we** fail to do this, it will not invalidate the **meeting**. The **Directors** can decide how to divide people between the main room and an overflow room. If an overflow room is used, the **meeting** will be treated as being held, and taking place, in the main room and the **meeting** will consist of all people who are attending in both the main room and the overflow room.
- 39 The quorum needed for General Meetings**
- 39.1** Before a **General Meeting** starts to do business, there must be a *quorum* present. If there is not, the **meeting** cannot carry out any business other than appointing a chairman. Unless the **Articles** say otherwise, a *quorum* for all purposes is two people who are entitled to vote.
- 40 The procedure if there is no quorum**
- 40.1** This Article applies if a *quorum* is not present within five minutes of the time fixed for a **General Meeting** to start or within any longer period of up to one hour which the chairman can decide on or, if during a meeting, a *quorum* is no longer present.
- 40.2** If the **meeting** was called by **shareholders**, it is dissolved. Any other **meeting** is *adjourned* to another day, time and place stated in the *notice* of **meeting**. If the *notice* does not contain these details, the **meeting** is *adjourned* to a day, time and place decided by the chairman, not less than 10 days and not more than 28 days later.

- 40.3** We will give at least seven **clear days'** notice of any *adjourned meeting* where the **meeting** was *adjourned* due to not being *quorate*, and the *notice* will specify that if two **shareholders** are present (whatever the number of **shares** held by them) they will be a *quorum*.
- 40.4** If at the *adjourned meeting* a *quorum* (two **shareholders**) is not present within five minutes of the time fixed for it, the **meeting** is dissolved.

41 Adjourning General Meetings

- 41.1** The chairman of a **General Meeting** can *adjourn* the **meeting**, before or after it has started, and whether or not a *quorum* is present, if the chairman considers that:
- (a) there is not enough room for the number of **shareholders** who want to attend the **meeting**;
 - (b) the behaviour of the people present prevents, or is likely to prevent, the business of the **meeting** being carried out in an orderly way; or
 - (c) an *adjournment* is necessary for any other reason so that the business of the **meeting** can be properly carried out.

The chairman does not need the consent of the **meeting** to *adjourn* it for any of these reasons. This includes an indefinite *adjournment*. The *adjournment* will be to another time, which can be later on the same day or on a new date, and can be to another place. The chairman will decide on these matters.

- 41.2** The chairman of a **General Meeting** can also *adjourn* a **meeting** which has a *quorum* present, if this is agreed by the **meeting**. This can be to a time, date and place proposed by the chairman. It includes an indefinite *adjournment*. The chairman must *adjourn* the **meeting** if the **meeting** directs the chairman to. In these circumstances the **meeting** will decide how long the *adjournment* will be, and where it will *adjourn* to. If a **meeting** is *adjourned* indefinitely, the **Directors** will subsequently fix the time, date and place of the *adjourned meeting*.
- 41.3** **General Meetings** can be *adjourned* more than once. But if a **meeting** at which a *quorum* is present is *adjourned* for more than 30 days, or indefinitely, **we** must give at least seven **clear days'** notice for the *adjourned meeting* in the same way as was required for the original **meeting**. If a **meeting** is *adjourned* for less than 30 days, **we** do not need to give **notice** about the *adjourned meeting*, or about the business to be considered there. Sufficient **notice** is given if **we** publish an advertisement in at least one national daily newspaper in the **United Kingdom** seven **clear days** before the *adjourned meeting*.
- 41.4** An *adjourned General Meeting* can only deal with business that could have been dealt with at the original **meeting** before it was *adjourned*.

42 Amending resolutions

- 42.1** In the case of a resolution duly proposed as a *special resolution*, no amendment to that resolution (other than an amendment to correct an obvious error) can be considered or voted on.

- 42.2** In the case of a resolution duly proposed as an *ordinary resolution*, no amendment to that resolution (other than an amendment to correct an obvious error) can be considered or voted on unless:
- (a) *notice* of the terms of the amendment and of the intention to move the amendment have been:
 - (i) lodged in writing at the **registered office**; or
 - (ii) received *electronically*, with the *notice* of **meeting**, at the address specified for receiving *notices* in *electronic form*,

at least two clear **business days** before the time appointed for holding the **meeting** or *adjourned meeting* at which the resolution is to be proposed; and
 - (b) the chairman of the **meeting** decides in good faith that it can be considered and voted on.
- 42.3** If the chairman, acting in good faith, rules an amendment to a resolution out of order, any error in that ruling will not affect the validity of a vote on the original resolution.

43 Proxies and Directors speaking at General Meetings

- 43.1** A *proxy* can speak at a **General Meeting**.
- 43.2** A **Director** who is not a **shareholder** can still attend and speak at a **meeting**.

Voting procedures

44 All votes decided on a poll

- 44.1** **Substantive Resolutions** at a **General Meeting** will be decided on a *poll* (whether or not one is demanded) and any **Procedural Resolution** will be decided on a *show of hands* unless a *poll* is (before or on the declaration of the result of the *show of hands*) demanded.
- 44.2** A *poll* can be demanded by:
- (a) the chairman of the **meeting**;
 - (b) at least five **shareholders** at the **meeting** who are entitled to vote (including *proxies* of **shareholders** entitled to vote);
 - (c) one or more **shareholders** at the **meeting** who are entitled to vote and who have, between them, at least 10 per cent of the total votes of all **shareholders** who have the right to vote at the **meeting** (including *proxies* for **shareholders** entitled to vote); or
 - (d) one or more **shareholders** who have **shares** which allow them to vote at the **meeting** (including *proxies* of **shareholders** entitled to vote), where the total amount which has been *paid up* on these **shares** is at least 10 per cent of the total sum *paid up* on all **shares** which give the right to vote at the **meeting**.
- 44.3** A *proxy form* gives the *proxy* the authority to demand a *poll*, or to join others in demanding one. A demand for a *poll* made by a *proxy* for a **shareholder** is treated in the same way as a demand by the **shareholder** himself.

- 44.4** A demand for a *poll* can be withdrawn before the earlier of the time at which the *poll* is taken and the close of the **meeting** if the chairman agrees to this. If a *poll* is demanded, and this demand is then withdrawn, any declaration by the chairman of the result of a vote on that resolution by a *show of hands*, which was made before the *poll* was demanded, will stand. If a demand is withdrawn, any other **shareholder** entitled to demand a *poll* may do so.
- 45 How a poll is taken**
- 45.1** If a *poll* is taken or demanded in line with the **Articles**, the chairman of the **General Meeting** decides where, when and how the *poll* will be carried out. The result is treated as the decision of the **meeting** where the *poll* was taken or demanded, even if the *poll* is carried out after the **meeting**.
- 45.2** The chairman can:
- (a) decide that a ballot, voting papers, tickets or electronic means, or any such combination, will be used;
 - (b) appoint scrutineers (who need not be **shareholders**);
 - (c) *adjourn* the **meeting** to a day, time and place which they decide on for the result of the *poll* to be declared; or
 - (d) decide a time and place where the result of the *poll* will be declared.
- 45.3** On a *poll*, a **shareholder** can vote either personally or by his *proxy*. A **shareholder** can appoint more than one *proxy* to attend on the same occasion. If a **shareholder** votes on a *poll*, they do not have to use all their votes or cast all their votes in the same way. Unless their appointment provides otherwise, and *subject to* the **Articles**, a *proxy* can vote or not at their discretion on any matter at the **meeting**.
- 45.4** A demand for a *poll* on a **Procedural Resolution** does not stop a **meeting** from continuing and dealing with other matters. If a demand for a *poll* has been withdrawn, the chairman may give such directions as the chairman considers necessary to ensure that the business of the **meeting** proceeds as if the demand had not been made.
- 46 Timing of a poll**
- 46.1** A *poll* can either be taken immediately at the **meeting** or within 30 days and at a place decided on by the chairman. No *notice* is required for a *poll* which is not taken immediately if the time and place it is to be taken are announced at the **General Meeting**. If the time and place the *poll* is to be taken are not announced at the **meeting**, **we** must give seven **clear days’ notice** of the time and place the *poll* is to be taken.
- 47 The chairman’s casting vote**
- 47.1** If the votes are equal, either on a *poll* or a *show of hands*, the chairman of the **General Meeting** is entitled to a further, casting vote. This is in addition to any other votes which the chairman may have as a **shareholder** or as a *proxy*.
-

48 The effect of a declaration by the chairman

48.1 Any declaration by the chairman on a point of order is conclusive. In addition, a corresponding entry in the minute book is conclusive proof of the following declarations by the chairman of the **General Meeting**:

- (a) a resolution has been passed or not passed; or
- (b) a resolution has been passed by a particular majority.

There is no need to prove the validity, number or proportion of votes recorded for or against a resolution.

Voting rights

49 The votes of shareholders

49.1 *Subject to Article 49.2*, when a **shareholder** or a duly appointed *proxy* is entitled to attend a **General Meeting** and vote, a **shareholder** or a duly appointed *proxy* has only one vote on a *show of hands*. On a *poll* a **shareholder** has one vote for every **share** which they hold. On a *poll*, a duly-appointed *proxy* or a **corporate representative** who is entitled to be present and to vote, has one vote for every share for which they have been appointed. This is *subject to* any *special rights* or restrictions which are given to any class of **shares** by, or in line with, the **Articles**.

49.2 To decide who can attend or vote at a **General Meeting** and how many votes can be cast, the *notice* of the **meeting** can give a time by which people must be entered on the **Register** in order to be entitled to attend or vote at the **meeting**. This time must be 48 hours or less before the time fixed for the **meeting**.

50 Shareholders who owe us money

50.1 Unless the **Articles** say otherwise, **shareholders** who have not paid **us** all sums relating to their **shares** which are due at the time of the **meeting** cannot attend or vote at **General Meetings** or *exercise* any other right conferred by being a **shareholder** in relation to **General Meetings**. This applies both to attending a **meeting** personally and to attending by *proxy* or **corporate representative**.

51 Votes of shareholders who are of unsound mind

51.1 This Article 51 applies where:

- (a) a **shareholder** is of *unsound mind*; and
- (b) a court which claims jurisdiction to protect people who are unable to manage their own affairs has made an order detaining a **shareholder** or appointing a person to manage their property or affairs.

51.2 The person or people appointed to act for the **shareholder** can vote for the **shareholder** and *exercise* other rights at **General Meetings**. This includes appointing a *proxy*, voting on a *show of hands* and voting on a *poll*. However, this Article 51 only applies if they deliver any evidence which the **Directors** may require of their authority to do these things to the office where the **Register** is kept (or at any other place which can be specified in line with these **Articles**) at least 48 hours before the relevant **meeting** (or *adjourned meeting*).

52 The votes of joint holders

- 52.1** Where a **share** is held by joint **shareholders** any one joint **shareholder** can vote at a **General Meeting** (either personally or by *proxy*). If more than one of the joint **shareholders** votes (either personally or by *proxy*), the only vote which will count is the vote of the person whose name is listed before the other voters on the **Register** for the **share**.

Restrictions on shareholder voting

53 Suspending shareholder rights on non-disclosure of interest

- 53.1** If any **shareholder**, or any person appearing to be interested in **shares** held by the **shareholder**, has been properly served with a notice under Section 793 of the **Companies Act** which requires information about interests in shares, and has not supplied **us** with the information required within 14 days of the date of the notice, then (unless the **Directors** decide otherwise) this Article 53 will apply. Until they provide the information, the **shareholder** will not be entitled to attend or vote personally or by *proxy* or by a **corporate representative** at a **shareholders' meeting** or to *exercise* any other right in relation to **shareholders' meetings** as holder of:
- (a) the **shares** covered by the notice (called **default shares**);
 - (b) any further **shares** which are *issued* in respect of **default shares**; and
 - (c) any other **shares** held by the **shareholder** holding the **default shares**.
- 53.2** Any person who acquires **shares** *subject to* the restrictions under Article 53.1 is limited by the same restrictions, unless:
- (a) the transfer was an **approved transfer** (see Article 53.9); or
 - (b) the transfer was by a **shareholder** who has supplied the information required by the notice under Article 53.1.
- 53.3** Where the **default shares** represent 0.25 per cent or more of the **existing shares** of a class the **Directors** can, by a notice (a **Section 793 Notice**) to the **shareholder**, direct that:
- (a) **we** retain any dividend or part of a dividend or other money which would otherwise be payable on the **default shares** (without any liability to pay interest when such money is finally paid to the **shareholder**) and the **shareholder** will not be entitled to elect to receive **shares** instead of a dividend; and
 - (b) *subject to* Article 53.4, no transfer of any of the **shares** held by the **shareholder** will be registered unless:
 - (i) the transfer is an **approved transfer** (see Article 53.9); or
 - (ii) the **shareholder** has supplied the information required and the transfer is of part only of their holding; and
 - (iii) when presented for registration, the transfer is accompanied by a *certificate*. This *certificate* must be in a form satisfactory to the **Directors** and state that, after due and careful enquiry, the **shareholder** is satisfied that none of the **shares** included in the transfer are **default shares**.

- 53.4** Any **Section 793 Notice** can treat **shares** of a **shareholder** in certificated and uncertificated form as separate shareholdings and either apply only to **shares** in certificated form or to **shares** in uncertificated form or apply differently to **shares** in certificated and uncertificated form. In the case of **shares** in uncertificated form, the **Directors** can only use their discretion to prevent a transfer if this is allowed by the **CREST Regulations**.
- 53.5** **We** must send a copy of the **Section 793 Notice** to every person who appears to be interested in the **shares** covered by the notice, but if **we** fail to do so, this does not invalidate the notice.
- 53.6** The effect stated in a **Section 793 Notice** continues until the information required has been supplied. It ceases to apply when the **Directors** decide (which they must do within one week of the default being resolved). **We** must give the **shareholder** written notice of the **Directors'** decision.
- 53.7** A **Section 793 Notice** also ceases to apply to any **shares** which are transferred by a **shareholder** in a transfer which would be permitted under Article 53.3 even where a **Section 793 Notice** restricts transfers.
- 53.8** For the purposes of this Article 53, a person is treated as appearing to be interested in any **shares** if the **shareholder** holding the **shares** has been served with a notice under Section 793 of the **Companies Act** and:
- (a) the **shareholder** has named the person as being interested; or
 - (b) (after taking into account the response of the **shareholder** to the notice and any other relevant information) **we** know or have reasonable cause to believe that the person in question is or may be interested in the **shares**.
- 53.9** For the purposes of this Article 53, a transfer of **shares** is an **approved transfer** if:
- (a) it is a transfer of **shares** to a person offering to buy them or under an acceptance of a *take-over offer* (as defined in Section 974 of the **Companies Act**); or
 - (b) the **Directors** are satisfied that the transfer is made following a sale in good faith of the whole of the *beneficial ownership* of the **shares** to a party unconnected with the **shareholder** or with any person appearing to be interested in the **shares**. This includes a sale made through the **London Stock Exchange** or any other stock exchange on which the **shares** are normally traded. For this purpose any associate (as that term is defined in Section 435 of the Insolvency Act 1986) is included among the people who are connected with the **shareholder** or any person appearing to be interested in the **shares**.
- 53.10** For the purposes of this Article 53, 'interested' has the same meaning as in Section 793 of the **Companies Act**.
- 53.11** For the purposes of this Article 53, reference to a person having failed to give **us** the information required by a **Section 793 Notice**, or being in default of supplying such information, includes:
- (a) their failure or refusal to give all or any part of it;
 - (b) giving information which they know to be *materially* false; or
 - (c) having recklessly given information which is *materially* false.

- 53.12** This Article 53 does not restrict in any way the provisions of the **Companies Act** which apply to failures to comply with notices under Section 793 of the **Companies Act**.

Proxies

54 Completing proxy forms

- 54.1** A *proxy form* can be in any form which is commonly used, or in any other form, which the **Directors** approve.
- 54.2** A *proxy form* must be **in writing**. A *proxy form* given by an individual **shareholder** must be signed by the **shareholder** appointing the *proxy*, or by an agent who has been properly appointed **in writing** or authenticated in line with Article 125. If a *proxy* is appointed by a *company*, the form should be either sealed with the *company's* seal or signed by an officer or an agent who is properly authorised to act for the *company* or authenticated in accordance with Article 125. Unless shown otherwise, the **Directors** are entitled to assume that where a *proxy form* appears to have been signed by an officer or agent of a *company*, the officer or agent was authorised to sign by the *company*, without requiring any further evidence. Signatures or authentication need not be witnessed.
- 54.3** *Subject to the law*, all *notices* convening **General Meetings** which are sent to **shareholders** entitled to vote at the **General Meeting** must be accompanied by a *proxy form* at **our** expense.
- 54.4** If **we** accidentally fail to send out a *proxy form* to a **shareholder** entitled to it (or they do not receive the *proxy form*) it will not invalidate any resolution passed or proceedings at the **General Meeting** to which the *proxy form* relates.
- 54.5** A **shareholder** can appoint more than one *proxy* to attend, vote and speak at the same **meeting** provided that each *proxy* is appointed to exercise the rights attaching to a different **share** or **shares** held by that **shareholder**. Depositing the *proxy form* does not prevent a **shareholder** from attending and voting at the **meeting** or at any *adjournment* of it.
- 54.6** A *proxy* need not be a **shareholder**.
- 54.7** *Proxies* are appointed for 12 months from the date the *proxy form* is signed and dated, but the appointment will remain valid after 12 months for the purposes of a *poll* or an *adjourned meeting*, if the *poll* was demanded or the *adjournment* moved at a **meeting** held within the 12-month period.

55 Delivering completed proxy forms

- 55.1** A completed *proxy form* must be delivered to the place stated in the *notice* of **General Meeting**, or in the *proxy form*, or, if no place is stated, to the office where the **Register** is kept. If the **Directors** decide to accept *proxies* delivered in **electronic form** or *electronically*, they must be delivered in the way that they specify. A *proxy form* must be delivered at least:
- (a) 48 hours before a **General Meeting** or an *adjourned meeting*;
 - (b) 24 hours before a *poll* is taken, if the *poll* is taken more than 48 hours after it was demanded; or

- (c) 48 hours before a **meeting** or an *adjourned meeting*, if the *poll* is taken within 48 hours of the **meeting** or an *adjourned meeting*.

In calculating the time periods in this Article 55.1, the **Directors** can decide to exclude any part of any day which is not a **business day**.

- 55.2** As far as the **law** permits, **Directors** can decide to accept *proxies* delivered in **electronic form** or delivered *electronically* (see Article 55.3), *subject to* any limitations, restrictions or conditions they decide to apply. **We** may choose not to apply Articles 55.1 and 55.2 in relation to a *proxy form* delivered in this way. If a *proxy form* is signed by an agent, the *power of attorney* or other authority granted to the agent to sign it, or a copy which has been certified, must be delivered with the *proxy form*, unless the *power of attorney* has already been registered with **us**.
- 55.3** In relation to any **shares** in uncertificated form, the **Directors** can permit a proxy to be appointed *electronically* in the form of an *uncertificated proxy instruction*. They can also permit any supplement to, or amendment or withdrawal of, any such instruction by a further *uncertificated proxy instruction*. The **Directors** can set out the method of determining when **we** should consider **we** received any such instruction. The **Directors** can treat any such instruction which appears or claims to be sent on behalf of the **shareholder** as sufficient evidence that the person sending the instruction is authorised to send it on behalf of that **shareholder**.
- 55.4** If Article 55 is not met, the *proxy* will not be able to act for the person who appointed them.
- 55.5** Where two or more *proxy forms* are delivered for use by the same **shares**, **we** will treat the one which has been delivered last as replacing and *revoking* the others which have been delivered.
- 55.6** Unless the *proxy form* says otherwise, it will be valid at an *adjourned General Meeting* as well as for the original **General Meeting** it relates to.
- 55.7** Once a *proxy form* relating to more than one **meeting** (including any *adjourned meeting*) has been delivered, it does not need to be delivered for each following **meeting** it relates to.
- 55.8** A **shareholder** can attend and vote at a **General Meeting** even if they have appointed a *proxy* to attend, vote and speak at that **meeting**. However, if they vote in person on a resolution, their appointment of a *proxy* will not be valid on that resolution.

56 Cancelling a proxy's authority

- 56.1** Any vote cast in the way a *proxy form* authorises, or any demand for a *poll* made by a *proxy*, will be valid even though:
- (a) the person who appointed the *proxy* has died or is of *unsound mind*;
 - (b) the *proxy form* has been withdrawn; or
 - (c) the authority of the person who signed the *proxy form* for the **shareholder** has been withdrawn.
- 56.2** However, this does not apply if notice of the fact has been received at the office where the **Register** is kept (or at such other place at which the *proxy* was validly deposited) before:
- (a) the **General Meeting** or *adjourned meeting* starts; or

(b) the time fixed to take a *poll* on a later day;
when the *proxy form* is used.

57 Representatives of companies

57.1 Subject to the **Statutes**, a *company* which is a **shareholder** can authorise any person or persons to act as its representative or representatives at any **General Meeting** or any **class meeting** which it is entitled to attend. Each person will be called a **corporate representative**.

58 Challenging votes

58.1 Any objection to the right of any person to vote must be made at the **General Meeting** (or *adjourned meeting*) at which the vote is cast. This also applies to any objection about the counting of any vote or the failure to count any vote. If a vote is not disallowed at a **meeting**, it is valid for all purposes. Any objection must be raised with the chairman of the **meeting** and the chairman's decision is final.

Directors

59 The number of Directors

59.1 There must be at least two **Directors** (other than **alternate directors**). But the **shareholders** can increase this minimum by passing an *ordinary resolution*. There is no maximum number of **Directors**.

60 Qualification to be a Director

60.1 A Director need not be a **shareholder**.

61 Directors' fees

61.1 In line with this Article 61.1, each of the **Directors**, other than a **Director** acting in an *executive capacity*, will be paid a fee for their services. The **Directors** or a **committee** can decide on the amount, timing and way of paying **Directors'** fees, but the total of the fees paid to all of the **Directors** (excluding amounts paid as special **pay** under Article 62, amounts paid as expenses under Article 63 and any payments under Article 64) must not exceed:

- (a) £2,000,000 a year; or
- (b) any higher sum decided on by an *ordinary resolution* at a **General Meeting**.

61.2 The fee will accrue from day to day and any **Director** holding office as a **Director** for only part of the period covered by the fee is only entitled to a pro-rata share for that part of the period.

62 Special pay

62.1 The **Directors** or any **committee** can award special **pay** to any **Director** who:

- (a) acts in an *executive capacity*;

- (b) serves on any **committee**;
- (c) performs any other services which the **Directors** consider to extend beyond the ordinary duties of a **Director**;
- (d) devotes special attention to the business of **NG**; or
- (e) goes or lives abroad on **our** behalf.

62.2 Special **pay** can take the form of salary, commission or other benefits, or can be paid in some other way (for example by issuing **shares**). This is decided on by the **Directors** or any **committee** and can be a fixed sum or percentage of profits or otherwise.

62.3 Special **pay** is additional to fees paid under Article 61.1.

63 Directors' expenses

63.1 **We** can also repay a **Director's** travelling, hotel and other expenses properly incurred:

- (a) to attend and return from **shareholders' meetings** (including any **class meetings**);
- (b) to attend and return from **Directors' meetings**;
- (c) to attend and return from meetings of **committees**; or
- (d) in other ways in connection with **our** business.

64 Directors' pensions and other benefits

64.1 The **Directors** or any **committee** can decide whether to award:

- (a) pensions;
- (b) annual payments;
- (c) gratuities; or
- (d) other allowances or benefits

to any people who are or were **Directors**, executive officers, officers, or employees of **NG** or of any *subsidiary* or former *subsidiary* of **NG**, or of any predecessor in business of **NG** and to any member of their family (including a husband or wife, or former husband or wife) or to any person who is or was dependent on them.

64.2 The **Directors** can decide to contribute (before as well as after they stop receiving a salary or occupy a position for which they receive any form of remuneration) to any scheme, trust or fund or to pay premiums to a third party for these purposes. The **Directors** can make such payments while the intended beneficiary is a **Director** of **NG** or of any of **our subsidiaries**. They can also make such payments if any intended beneficiary is related to, or depends on (or did depend on), a **Director** of **NG** or any of **our subsidiaries**.

64.3 The **Directors** or any **committee** can arrange for any of these matters to be done by **us** either alone or working with any other person.

64.4 No **Director** or former **Director** is accountable to **us** or **our shareholders** for a benefit of any kind given in line with this Article 64. Receiving a benefit of any kind given in line with this Article 64 does not prevent a person from being or becoming a **Director**.

65 Appointing Directors to various posts

- 65.1** The **Board** or any **committee** can appoint any **Director** as chairman, or as Chief Executive, or to act in any other *executive capacity* they decide on. So far as the **law** allows, they can decide on how long these appointments will be for, and on their terms. *Subject to* the terms of any of the **Directors'** contracts with **us**, they can also vary or end their appointments.
- 65.2** A **Director** appointed as an executive **Director** can, in line with Article 62, be paid special **pay** (by salary, commission, profit sharing or otherwise) in any way the **Directors** or any **committee** may decide and either in addition to, or in place of, any fee they receive as a **Director** under Article 61.
- 65.3** A **Director** will automatically stop being chairman or Chief Executive or acting in any other *executive capacity* if they are no longer a **Director**. Other executive appointments will only stop if the contract or resolution appointing the **Director** to a post says so. If a **Director's** appointment ends under this Article 65.3, this does not prejudice any claim for breach of contract against **us** which may otherwise apply.
- 65.4** The **Directors** can give a **Director** appointed to an executive post any of the powers which they jointly have as **Directors**. These powers can be given on terms and conditions decided on by the **Directors** either in parallel with, or in place of, the powers of the **Directors** acting jointly. The **Directors** can change the basis on which such powers are given or withdraw such powers from the executive.

Changing Directors

66 Retiring Directors

- 66.1** At an **Annual General Meeting**, any **Director** who was elected or last re-elected three or more calendar years before the current year will automatically retire from office.

67 Eligibility for re-election

- 67.1** A retiring **Director** is eligible for re-election.

68 Re-electing a Director who is retiring

- 68.1** A **Director** may be re-elected at the **General Meeting** at which they retire (as long as they are eligible for re-election and have not told **us** in writing that they do not want to be re-elected) if the **shareholders** pass an *ordinary resolution* to re-elect the **Director**.
- 68.2** A **Director** retiring at a **General Meeting** retires at the end of that **meeting** or (if earlier) when a resolution is passed to appoint someone in his place. Where a retiring **Director** is re-elected the **Director** continues as a **Director** without a break.

69 Electing two or more Directors

- 69.1** A single resolution for electing two or more **Directors** is void unless putting the resolution in this form has been approved by an earlier resolution taken at the **General Meeting**, with no votes cast against.

70 People who can be Directors

70.1 Only the following people can be elected as **Directors** at a **General Meeting**:

- (a) a **Director** who is retiring at the **meeting**;
- (b) a person who is recommended by the **Directors**; or
- (c) a person who has been proposed by a **shareholder** (in line with Article 70.2) who is entitled to attend and vote at the **General Meeting**.

70.2 A **shareholder** proposing a **Director** in line with Article 70.1 and Article 118.1 must deliver to the **registered office**:

- (a) a signed letter stating that they intend to propose another person for election as **Director**; and
- (b) written confirmation from the person to be proposed that they are willing to be elected.

These must be delivered at least seven days before the **General Meeting**, but not more than 42 days before the **meeting** (this period includes the date on which the *notice* is given).

71 Filling vacancies and appointing extra Directors

71.1 The **Directors** can appoint any person as an extra **Director** or to fill a *casual vacancy*. Any **Director** appointed in this way must retire at the first **Annual General Meeting** after their appointment. At this **Annual General Meeting** they can be elected by the **shareholders** as a **Director**.

71.2 *Subject to Article 70*, at a **General Meeting** the **shareholders** can also pass an *ordinary resolution* to fill a *casual vacancy* or to appoint an extra **Director**.

71.3 Extra **Directors** can only be appointed under this Article up to the limit (if any) on the total number of **Directors** under the **Articles** (or any variation of the limit approved by the **shareholders** under the **Articles**).

72 Removing and appointing Directors by an ordinary resolution

72.1 The **shareholders** can pass an *ordinary resolution* to remove a **Director**, even though their time in office has not ended. This applies whatever else is said in the **Articles**, or in any agreement between **us** and the **Director** concerned. By **law**, **we** must be given a *special notice* of the *ordinary resolution*. But if a **Director** is removed in this way, it will not affect any claim for damages for breach of any contract of service they may have.

72.2 *Subject to Article 70*, the **shareholders** can pass an *ordinary resolution* to elect a person to replace a **Director** who has been removed in this way. If a **Director** is not appointed under this Article 72.2, the vacancy can be filled under Article 71.

73 When Directors are disqualified

73.1 Any **Director** automatically ceases to be a **Director** in any of the following circumstances.

- (a) If a bankruptcy order is made against them.

- (b) If they make any arrangement or composition with their creditors or apply for an interim order under Section 253 of the Insolvency Act 1986 in connection with a voluntary arrangement under the Insolvency Act 1986.
- (c) If they become of *unsound mind*.
- (d) If they have missed **Directors'** meetings for a continuous period of six months, without permission from the **Directors**, and the **Directors** pass a resolution stating that they have ceased to be a **Director**.
- (e) If they cease to be or are banned from being a **Director by law**.
- (f) If they:
 - (i) give **us** a letter of resignation; or
 - (ii) offer to resign and the **Directors** pass a resolution accepting the offer.
- (g) If all the other **Directors** pass a resolution, or sign a notice, requiring the **Director** to resign, they will no longer be a **Director** when the notice is served on them. But if a **Director** is removed in this way, this will not affect any claim for damages for breach of any contract of service which they may have with **us**.
- (h) If they hold any executive office and this appointment is ended or expires without being renewed within 14 days, and the **Directors** decide that they should leave their office.

73.2 When a **Director** stops being a **Director** for any reason, they will also automatically stop being a member of any **committee**. Their removal from office will be without prejudice to any claim which they or **we** might bring over any contract of service between them and **us**.

Directors' meetings

74 Directors' meetings

74.1 The **Directors** can decide when to have meetings and how they will be conducted, and on the *quorum*. They can also *adjourn* their meetings.

75 Who can call Directors' meetings?

75.1 A meeting can be called by any **Director**. The *Company Secretary* must also call a meeting if a **Director** requests a meeting.

76 How Directors' meetings are called

76.1 Meetings are called by serving a *notice* on all the **Directors**. This *notice* can be given to a **Director**:

- (a) personally;
- (b) by word of mouth;
- (c) by **notice in writing** (sent to him or her at their last known address); or
- (d) in **electronic form** (sent to their last known electronic address or other address given by them to **us** for this purpose).

76.2 Any **Director** can waive the right to receive *notice* of any meeting, including one which has already taken place.

77 Quorum

77.1 If no other *quorum* is fixed, two **Directors** are a *quorum*. *Subject to these Articles, the law and the Memorandum*, a meeting at which a *quorum* is present can *exercise* all the powers, authorities and discretions of the **Directors**.

77.2 A person who holds office only as an **alternate director** will, if the person who appointed them is not present, be counted in the *quorum*.

77.3 A **Director** who ceases to be a **Director** at a **Directors'** meeting can continue to be present and act as a **Director** and be counted in the *quorum* until the end of that meeting if no other **Director** objects and a *quorum* would not otherwise be present.

78 The chairman of Directors' meetings

78.1 If the chairman of the **Board** is at a meeting, they will chair it. If the chairman notifies the **Directors** that they will not attend the **Directors'** meeting then the **Directors** will, in the advance of the **Directors'** meeting, appoint a **Director** to chair the meeting.

78.2 Subject to Article 78.1, if the chairman of the **Board** is not present, or if the chairman is not willing to act as chairman, within five minutes of the time when the meeting is due to start, the **Directors** who are present can choose which one of them will chair the meeting.

79 Voting at Directors' meetings

79.1 Matters for decision which arise at a **Directors'** meeting will be decided by a majority vote. If votes are equal, the chairman of the meeting has a second, casting vote. **Directors** can act even if there are vacancies.

79.2 The remaining **Directors** can continue to act even if one or more of them stops being a **Director**. But if the number of **Directors** falls below the minimum which applies under Articles 59 and 77 (including any variation of this minimum which is approved by an *ordinary resolution* of **shareholders**), the remaining **Director** can only either:

(a) appoint further **Directors** to make up the shortfall; or

(b) call a **General Meeting**.

79.3 If no **Directors** are willing or able to act under this Article 79, any two **shareholders** can call a **General Meeting** to appoint extra **Directors**.

80 Directors' meetings by video conference and phone

80.1 Any or all of the **Directors**, or members of a **committee**, can take part in a meeting of the **Directors** or of a **committee** by taking part in a video conference or by using a conference phone or similar equipment designed to allow everybody to take part in the **Directors'** meeting.

80.2 Taking part in this way will be counted as being present at the **Directors'** meeting. A **Directors'** meeting which takes place by way of video conference, conference phone or similar equipment will be treated as taking place where most of the participants are. If

there is no largest group, **Directors'** meetings will be treated as taking place where the chairman is.

- 80.3** A **Directors'** meeting held in the way described in Article 80.1 will be valid as long as a *quorum* is present in one single place, or in places connected by way of video conference, telephone conference or similar equipment.

81 Resolutions in writing

- 81.1** This Article 81 applies to a written resolution which is signed or confirmed *electronically* by the minimum number of **Directors** required to make a **Directors'** meeting or a meeting of a **committee quorate**. This kind of resolution is just as valid and effective as a resolution passed by those **Directors** at a meeting or **committee** meeting which is properly called and held.
- 81.2** The resolution can be passed using several copies of a document, if each document is signed by one or more **Directors**, or agreement is confirmed by each **Director electronically**. These copies can be sent *electronically*. A resolution is not adopted unless the minimum number of **Directors** to make the meeting or **committee** meeting *quorate* have signed it or confirmed their agreement *electronically*.
- 81.3** A resolution signed by an **alternate director** need not also be signed by the person who appointed them. Also, a resolution signed by the person who appointed an **alternate director** need not also be signed by the **alternate director** in that capacity.
- 81.4** A written resolution will be valid when it is signed by the last **Director**.
- 81.5** The resolution can take the form of a letter, (as long as it is **in writing**) be in **electronic form** or by any other way the **Directors** may approve.

82 The validity of Directors' actions

- 82.1** Everything which is done by:

- (a) the **Board**;
- (b) a **committee**;
- (c) a **Director**;
- (d) a person acting as a **Director**; or
- (e) a member of a **committee**;

will be valid even though it is discovered later that any **Director**, or person acting as a **Director**, was not properly appointed.

- 82.2** Article 82.1 also applies if it is discovered later that anyone was disqualified from being a **Director**, or had stopped being a **Director**, or was not entitled to vote.

- 82.3** In any of the cases set out above, anything done in favour of anyone dealing with **us** in good faith will be as valid as if there was no defect or irregularity of the kind referred to in this Article 82.

Directors' interests

The provisions of Article 83 will take effect on 1 October 2008 or on another date when Section 175 of the **Companies Act** comes into effect.

83 Authorising Directors' interests

83.1 For the purposes of Section 175 of the **Companies Act**, the **Directors** can authorise any matter which:

- (a) would or could be a breach of a **Director's** duty under that section; or
- (b) could result in a breach of a **Director's** duty under that section.

This authorisation will avoid a situation arising in which the **Director** has, or could have, a direct or indirect interest that conflicts, or could conflict, with **our** interests.

83.2 For authorisation of a matter under this Article to be effective:

- (a) the matter in question must have been proposed **in writing** for consideration at a **Board** meeting, in line with the **Board's** normal procedures or in any other way the **Directors** may decide;
- (b) any *quorum* requirement at the **Board** meeting when the matter is considered must be met without counting any **Interested Directors**; and
- (c) the matter must be agreed without the **Interested Directors** voting, or would have been agreed if the votes of the **Interested Directors** had not been counted.

83.3 Any matter authorised under this Article will include any existing or potential conflict of interest which it is reasonable to expect will arise out of the authorised matter.

83.4 Any authorisation of a matter under this Article will be *subject to* any conditions or limitations decided on by the **Board**. The **Board** can decide the conditions or limitations at the time authorisation is given, or later on, and can end them at any time. A **Director** must comply with any obligations the **Directors** impose on him or her after a matter has been authorised.

83.5 A **Director** does not have to hand over to **us** any benefit he or she receives (or a **person** connected with them receives) as a result of anything the **Board** has authorised under this Article. No contract, transaction or arrangement of the type described in this Article can be set aside because of any **Director's** interest or benefit.

84 Directors may have certain interests

84.1 *Subject to* complying with Article 84.2, a **Director** can have the following interests.

- (a) A **Director** (or a **person** connected with them) can be a director, **officer** or employee of, or have an interest in (including holding shares) any **Relevant Company**.
- (b) A **Director** (or a **person** connected with them) can have an interest in any **Relevant Company** **we** have an interest in, or be a party to a contract with that company.
- (c) A **Director** (or a **person** connected with them, or any firm the **Director** is a partner, employee or **shareholder** of) can do professional work for any **Relevant**

Company (other than as an **Auditor**) whether or not payment is made for the work.

- (d) A **Director** can have an interest if it is unreasonable to expect that it will result in a conflict of interest.
- (e) An interest, transaction or arrangement which may result in another interest which the **Director** does not know about.
- (f) A **Director** may have an interest in any matter authorised under Article 83.
- (g) Any other interest authorised by *ordinary resolution*.

No authorisation under Article 84 is required for any interests under this Article 84.

84.2 The **Director** must declare the nature and extent of any interest allowed under Article 84.1, but which does not fall within Article 84.3. The **Director** must do this at a **Board** meeting or by sending notice in writing to other **Directors** *electronically* or otherwise. If a Director has an interest in a company and is interested in any transaction or arrangement with that company or is connected with a person and is interested in a transaction with that person, the Director must declare the nature and extent of any interest and give such notice at a **Board** meeting.

84.3 A **Director** does not need to declare an interest:

- (a) falling within paragraph (d) or (e) or (f) of Article 84.1;
- (b) if the other **Directors** already know about the interest (and for this purpose the other **Directors** will be treated as knowing about the interest if it is reasonable to expect they know about it); or
- (c) if the interest concerns the terms of the **Director's** service contract (as defined in Section 227 of the **Companies Act**) that have been or are to be considered at a **Board** meeting or at a committee meeting of **Directors** appointed under these **Articles** to consider the terms.

84.4 A **Director** does not have to hand over to **us** any benefit he or she (or a **person** connected with them) receives:

- (a) from any contract or employment with, or interest in, any **Relevant Company**; or
- (b) for any payment as referred to in Article 84.1.

No contract, transaction or arrangement of the type described above can be set aside because of any **Director's** interest or benefit.

84.5 In this Article each of the following is a **Relevant Company**:

- (a) **NG**;
- (b) a *subsidiary* of **NG**;
- (c) any **holding company** of **NG** or a *subsidiary undertaking* of any such *holding company*;
- (d) any **company** promoted by **NG**; or
- (e) any **company** in which **NG** is interested.

85 Restrictions on quorum and voting

- 85.1** Unless this Article says otherwise, and regardless of whether the interest is one which is authorised under Article 83 or allowed under Article 84, a **Director** cannot vote (and if he or she does, their vote will not be counted) on a resolution about a contract in which the **Director** (or a **person** connected with them) is interested.
- 85.2** A **Director** cannot be counted in the *quorum* for a **Board** meeting in relation to any resolution on which the **Director** is not entitled to vote.
- 85.3** If the **law** allows, a **Director** can (unless the **Director** has some other interest as well as an interest allowed by this Article) vote and be counted in the *quorum* on a resolution concerning a contract:
- (a) in which the **Director** has an interest which the **Director** does not know about;
 - (b) in which the **Director** has an interest which it is unreasonable to expect will result in a conflict of interest;
 - (c) in which the **Director** has an interest only because the **Director** holds **our shares**, *debentures* or other *securities*, or by reason of any other interest in or through **us**;
 - (d) which involves giving any security, guarantee or *indemnity* to the **Director** or any other **person** for:
 - (i) money lent or obligations incurred by the **Director**, or by any other person;
 - (ii) at our request, or for **our** benefit or the benefit of any of **our subsidiaries**; or
 - (iii) a debt or other obligation which is owed by **us** or any of **our subsidiaries** to that other person if the **Director** has taken responsibility for all or any part of that debt or obligation by giving a guarantee, security or *indemnity*;
 - (e) where **we** or any of **our subsidiaries** are offering any shares, **debentures** or other *securities* for *subscription* or purchase:
 - (i) to which the **Director** is or may be entitled as a holder of **our securities**; or
 - (ii) where the **Director** will be involved in the *underwriting* or *sub-underwriting*;
 - (f) relating to any other *company* in which the *Director* has an interest, directly or indirectly (including holding a position in that *company*) or is a **shareholder**, creditor, employee or is otherwise involved in that *company*. These rights do not apply if the **Director** owns one per cent or more of that *company* or of the voting rights in that *company*;
 - (g) relating to an arrangement for the benefit of **our** employees or former employees or any of **our subsidiaries** which only gives the **Directors** the same benefits that are generally given to the employees or former employees the arrangement relates to;
 - (h) relating to **us** buying or renewing insurance for any *liability* for the benefit of **Directors** and others;
 - (i) which gives **Directors** *indemnities*;
 - (j) relating to funding expenditure by any **Director** or **Directors**:

- (i) on defending criminal, civil or regulatory proceedings or actions against the **Director** or the **Directors**;
- (ii) in connection with an application to the court for relief; or
- (iii) on defending the **Director** or the **Directors** in any regulatory investigations;
- (k) which enables any **Director** or **Directors** to avoid incurring expenditure as described in paragraph (j); and
- (l) in which the **Director's** interest, or the interest of **Directors** generally, has been authorised by an *ordinary resolution*.

85.4 This Article 85 applies if the **Directors** are considering proposals to appoint two or more **Directors** to positions with **us** or any *company we* are interested in. It also applies if the **Directors** are considering setting or changing the terms of the appointment. These proposals can be split up to deal with each proposed **Director** separately. If this is done, each proposed **Director** can vote and be included in the *quorum* for each resolution, except the one concerning them.

85.5 If any question comes up at a **meeting** about whether a **Director** has a *material* interest or whether they can vote or be counted in the *quorum*, and the **Director** does not agree to abstain from voting on the issue or not be counted in the *quorum*, the question will be referred to the chairman of the **meeting**. The chairman's ruling about the **Director** is conclusive, unless the nature or extent of the **Director's** interests has not been fairly disclosed to the **Board**. If the chairman is the **Director** in question, the question will be decided by a resolution of the **Board** (the chairman will be counted in the *quorum* but will not vote on the matter) and the resolution will be final unless the nature or extent of the chairman's interest (so far as it is known to them) has not been fairly disclosed to the **Board**.

86 Confidential information

86.1 *Subject* to Article 83, if a **Director** receives information for which he or she owes a duty of confidentiality to a **person** other than **us**, and they did not receive the information because of their position as a **Director**, they will not be required to:

- (a) disclose the confidential information to the **Board**, or to any of **Directors**, *officers* or employees; or
- (b) use or apply the confidential information in any other way in connection with their duties as a **Director**.

86.2 A duty of confidentiality may arise when a **Director** has, or could have, a direct or indirect interest that conflicts, or may conflict, with **our** interests. This Article 86 will apply only if the conflict arises out of a matter which has been authorised under Article 83 or falls within Article 84.

86.3 This Article does not affect any equitable principle (rules of fairness) or rule of **law** which may excuse or release the **Director** from disclosing information, in circumstances where disclosure may otherwise be required under this Article.

87 Directors' interests – general

87.1 For the purposes of Articles 83 to 87:

- (a) an interest of a **person** who is connected with a **Director** will be treated as an interest of the **Director**; and
- (b) Section 252 of the **Companies Act** will determine whether a **person** is connected with a **Director**.

87.2 Where a **Director** has an interest which it is reasonable to expect will result in a conflict of interest, the **Director** will, if asked to do so by the **Board**, take any additional steps that are necessary or desirable to manage the conflict of interest. These steps can include complying with any procedures laid down by the **Board** to manage conflicts of interest generally, or carrying out any specific procedures approved by the **Board** for managing the situation or matter in question, including (without limitation) the **Director**:

- (a) being absent from any **Board** meetings where the relevant situation or matter is to be considered; and
- (b) not being given access to documents or information made available to the **Board** generally in relation to such a situation, or arranging for the documents or information to be reviewed by a professional adviser to determine whether it is appropriate for him or her to have access to such documents or information.

87.3 By passing an *ordinary resolution*, the **shareholders** can ratify any contract not properly authorised because it breached any of the provisions in Articles 83 to 87.

Minutes

88 Minutes

88.1 The **Directors** must make sure that minutes are made in the appropriate books:

- (a) recording the appointment of officers made by the **Directors**;
- (b) recording the proceedings of **shareholder meetings** and meetings of the **Directors** and **committees**; and
- (c) recording in each case the names of the **Directors** present.

88.2 *Subject to the law*, the minutes will be a sufficient record of the meeting if signed by the chairman.

Directors' committees

89 Delegating powers to committees

89.1 The **Directors** can delegate any of their powers, or discretions, to **committees** of one or more **Directors**. This includes powers or discretions relating to **Directors' pay** or giving benefits to **Directors**. If the **Directors** have delegated any power or discretion to a **committee**, any references in these **Articles** to using that power or discretion include its use by the **committee**. Any **committee** must comply with any regulations laid down by the **Directors**. These regulations can require or allow people who are not **Directors** to be co-opted onto the **committee**, and can give voting rights to co-opted members. But:

- (a) there must be more **Directors** on a **committee** than co-opted members; and

- (b) a resolution of the **committee** is only effective if a majority of the members of the **committee** present at the time of the resolution were **Directors**.

89.2 Unless the **Directors** decide not to allow this, a **committee** can sub-delegate powers and discretions to sub-committees. References in these **Articles** to **committees** include sub-committees permitted under this Article 89.

90 Committee procedure

90.1 If a **committee** includes two or more **Directors**, the **Articles** which regulate **Directors**' meetings and their procedure will also apply to **committee** meetings (if they can apply to **committee** meetings), unless these are inconsistent with any regulations for the **committee** which have been laid down under Article 89.1.

Directors' powers

91 General powers of Directors

91.1 The **Directors** manage **our** business and affairs. *Subject to the Statutes*, these **Articles**, and any regulation made by *special resolution* which affects their powers, the **Directors** will exercise all powers other than those **we** are required to exercise in a **General Meeting**. No regulation made by *special resolution* will invalidate any act previously carried out by the **Directors** which would have been valid if the regulation had not been made. The general powers granted to the **Directors** by this Article 91.1 will not be limited or restricted by any special authority or power given to the Directors by any of the other provisions in these **Articles**.

92 The power to appoint attorneys and agents

92.1 The **Directors** can appoint anyone (including the members of a group which changes over time) as **our attorneys** or agents by granting a *power of attorney* or by authorising them in some other way. The *attorneys* or agents can either be appointed directly by the **Directors**, or the **Directors** can give someone else the power to appoint *attorneys* or agents. The **Directors** can decide on the purposes, powers, authorities and discretions of *attorneys* or agents. But they cannot give an *attorney* or agent any power, authority or discretion which the **Directors** do not have under these **Articles**.

92.2 The **Directors** can decide how long a *power of attorney* or authority will last for, and they can attach any conditions to it. The *power of attorney* or authority can also include any provisions which the **Directors** decide on for the protection and convenience of anybody dealing with the *attorney* or agent. The *power of attorney* can also allow the *attorney* to grant any or all of their power, authority or discretion to any other person.

92.3 For the purposes of this Article 92 but *subject to* Article 92.1, an *attorney* can be appointed by:

- (i) two **Directors**; or
- (ii) a **Director** and the *Company Secretary*; or
- (iii) a **Director** in the presence of a witness who confirms the signature of the **Director**.

An agent can be appointed by a **Director** or the *Company Secretary*.

93 Local boards

93.1 The **Directors** can establish any local boards or agencies for managing any of **our** affairs, either in the **United Kingdom** or elsewhere.

93.2 The **Directors** can:

- (a) appoint members of these local boards, or any managers or agents;
- (b) fix their remuneration, and
- (c) delegate to any local board, manager or agent any of the **Directors'** powers, authorities and discretions, including the power to sub-delegate.

93.3 The **Directors** can authorise the members of any local boards to fill any vacancies and to act despite any vacancies.

93.4 Any appointments or delegations can be made under any terms that the **Directors** think fit. The **Directors** can remove any person appointed in this way, and end or vary any such delegation. No person dealing in good faith with the local board or agency will be affected if they have not received notice of any termination or variation of the appointment or delegation.

94 Using the title 'Director'

94.1 A person who is employed by, or occupies an office with **NG** may be given a title which includes the word 'Director'. This does not mean that the person is a **Director** of **NG** or that the person can act as a **Director** of **NG** or be deemed to be a **Director** of **NG** under these **Articles**.

95 Signatures on cheques

All cheques, promissory notes, drafts, bills of exchange and other *negotiable or transferable instruments*, and all receipts for money paid to **us**, can be signed, drawn, accepted, endorsed or made legally effective in any way the **Directors** decide by passing a resolution.

96 Borrowing powers

96.1 So far as the **Companies Acts** allow, the **Directors** can *exercise* all **our** powers to:

- (a) borrow money;
- (b) *issue (subject to the provisions of the Companies Acts dealing with authority to allot debentures convertible into shares) debentures and other securities*; and
- (c) give any form of:
 - (i) guarantee; and
 - (ii) security, either outright or as collateral and over all or any of **our** undertakings, property and *assets*;

for any or **our** debts, *liabilities* or obligations or those of any third party.

97 Borrowing restrictions

97.1 The **Directors** must:

- (a) limit our **Borrowings**; and
- (b) exercise all voting and other rights or powers of control **we** have over **our** subsidiary undertakings;

to make sure that the total amount of all **Borrowings** by the **Group** outstanding at any time (excluding any borrowings owed by one member of the **Group** to another) will not be more than £30,000,000,000 or any other amount approved by **shareholders** by an ordinary resolution at a **General Meeting**.

This limitation on **Borrowings** will only affect subsidiary undertakings to the extent that the **Directors** can restrict the **Borrowings** of the subsidiary undertakings by exercising the rights or powers of control which **we** have over **our** subsidiary undertakings. **We** can consent in advance to exceeding the borrowing limit by passing an ordinary resolution at a **General Meeting**.

97.2 In this Article:

- (a) **Group** means **NG**, its subsidiaries and subsidiary undertakings, other than those not consolidated in **NG's** group accounts in line with Section 402 of the **Companies Act**;
- (b) **minority proportion** means the proportion of the issued equity share capital of a partly-owned subsidiary which is not, for the time being, beneficially owned within the **Group**; and
- (c) **borrowings** means the aggregate amount (combined total) of all liabilities and obligations of the **Group** which, in line with the accounting bases and principles of the **Group**, are treated as borrowings in the latest **audited consolidated balance sheet** (see Article 97.2(d)) of the **Group** and will include the following:
 - (i) money borrowed from outside the **Group** by a partly-owned *subsidiary* (less a proportion equal to the **minority proportion**); and
 - (ii) the proportion of money (equal to the **minority proportion**) borrowed by a member of the **Group** from a partly-owned *subsidiary* of the **Group**.

Borrowings do not include:

- (i) money borrowed by a member of the **Group** to repay (with or without a premium), within six months of being borrowed, all or part of outstanding borrowings owing by another member of the **Group**;
- (ii) for six months from the date on which a company becomes a *subsidiary undertaking* of the **Group**, an amount equal to money borrowed by that *company*, and which is outstanding at the date when it becomes a member of the **Group**;
- (iii) for six months from the date on which a *company* is acquired by a member of the **Group**, an amount secured on an asset of that company, and which is outstanding at the date of acquisition; and

- (iv) money beneficially owned by a member of the **Group** which is deposited with a person who is not a member of the **Group** and which must be repaid on, or within three months of, a demand (less, in the case of a partly-owned *subsidiary* of the Group, a proportion equal to the **minority proportion**).

If the amount of **Borrowings** is being calculated in connection with a transaction involving a *company* becoming or ceasing to be a member of the **Group**, the amount is to be calculated as if the transaction had already occurred.

The aggregate of the following will be credited against the money borrowed:

- (i) cash in hand of the **Group**;
- (ii) cash deposits and the balance on each current account of the **Group** with banks in the **United Kingdom** (and elsewhere if this applies) if the remittance of the cash to the **United Kingdom** is not prohibited by any **law**, regulation, treaty or official directive;
- (iii) the amount of all short-term *assets* that might be included in 'Investments - short-term loans and deposits' in a consolidated balance sheet of the **Group**, prepared on the date of the relevant calculation in line with the principles with which the latest audited balance sheet was produced; and
- (iv) the amount of any cash or short-term *assets* which are securing the repayment of any amount borrowed by the **Group** deposited or otherwise placed with the trustee or similar entity in respect of the relevant borrowing.

Where the aggregate principal amount of **Borrowings** required to be taken into account for the purposes of this Article 97 is being calculated on any particular date, the following will apply:

- (i) Money borrowed by **NG** or any *subsidiary undertaking* expressed or calculated in a currency other than sterling will be converted into sterling using the current rate of exchange, when preparing the audited balance sheet which forms the basis of the calculation of the **Borrowings**. Or, if the calculation did not involve the relevant currency, the **Auditors** can refer to the rate of exchange, or approximate rate of exchange, they consider appropriate on the date the audited balance sheet was prepared.
 - (ii) If, under the terms of any borrowing, the amount of money needed to discharge the principal amount of the borrowing in full if it fell to be repaid (at the option of **NG** or by reason of default) is less than the amount that would otherwise be taken into account for such borrowing, for the purpose of this Article 97, the amount of the borrowing to be taken into account will be the lesser amount.
- (d) **Audited consolidated balance sheet** means the audited consolidated balance sheet of the Group prepared in line with the law for the relevant financial year.

97.3 A certificate or report given by a person chosen by the **Directors** certifying or reporting on the total amount of **Borrowings** by the **Group** outstanding at a particular time will be conclusive evidence of that amount. However, the **Directors** can rely on a 'good-faith' estimate of the total amount of **Borrowings** at any time and if, as a result, the borrowing limit stated in Article 97.1 is accidentally exceeded, an amount of borrowings equal to the

excess can be disregarded until six months after the date on which the **Directors** became aware that such a situation had or may have arisen.

- 97.4** No lender or other person dealing with the **Group** needs to see or enquire whether the borrowing limit imposed by Article 97.1 is observed. No debt incurred or security given in excess of this borrowing limit will be invalid or ineffective unless the lender or the recipient of the security had express notice at the time when the debt was incurred or security given, that the limit had been or would be exceeded as a result.

Alternate directors

98 Alternate directors

- 98.1** Any **Director** can appoint any person (including another **Director**) to act in their place (this person is called an **alternate director**). These appointments need the approval of the other **Directors**, unless the proposed **alternate director** is another **Director**. A **Director** appoints an **alternate director** by delivering a signed appointment (or in any other way approved by the **Directors**) to **us**. An **alternate director** need not be a **shareholder**.
- 98.2** The appointment of an **alternate director** ends if the **Director** appointing them ceases to be a **Director**, unless that **Director** retires at a **General Meeting** at which the **Director** is re-elected under Article 68. A **Director** can also remove their **alternate director** by delivering a signed notice (or in any other way approved by the **Directors**) to **us**. An **alternate director** can also be removed as an **alternate director** by a resolution of the **Directors**.
- 98.3** An **alternate director** is entitled to receive *notices* of **Directors'** meetings once they have given **us** an address, electronic address or fax number where **we** can serve *notices*. They are entitled to attend and vote as a **Director** at any meeting where the **Director** appointing them is not present and generally to perform all the functions of the **Director** appointing them as an **alternate director**. If the **alternate director** is a **Director** or attends any meeting as an alternate for more than one **Director**, they will have one vote for each **Director** they act as an alternate for, as well as their own vote as a **Director**. However, they may not be counted more than once for the purposes of the *quorum*. If the person who appointed them is temporarily unable to act through ill health or disability, the signature of the **alternate director** to any resolution in writing of the **Directors** is as effective as the signature of the person who appointed them.
- 98.4** If the **Directors** decide to allow this, Article 98.3 also applies to any meeting of a **committee** that the person who appointed them is a member of.
- 98.5** An **alternate director** will alone be responsible to **us** for their own actions and mistakes. Except as said in this Article 98, an **alternate director**:
- (a) does not have power to act as a **Director**;
 - (b) is not considered to be a **Director** for the purposes of the **Articles**;
 - (c) is not considered to be the agent of the person who appointed them; and
 - (d) cannot appoint an **alternate director**.
- 98.6** If the **law** allows, an **alternate director** is entitled to:
- (a) contract;

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- (b) benefit from contracts or arrangements or transactions;
 - (c) be repaid expenses; and
 - (d) be *indemnified* to the same extent as if the **alternate director** were a **Director**.

However, the **alternate director** is not entitled to receive any **pay** from **us**, except for any **pay** **we** would otherwise **pay** to the person who appointed them but which they had told **us**, **in writing**, to **pay** to their alternate or unless **we** decide otherwise by *ordinary resolution*.

The Company Secretary

99 The Company Secretary

- 99.1** The *Company Secretary* is appointed by the **Directors**. The **Directors** decide on the terms and period of their appointment as long as the **law** allows this. The **Board** can also remove the *Company Secretary*, but this does not affect any claim for damages against **us** for breach of any contract of employment they may have. The **Directors** may appoint two or more people to be joint *Company Secretaries*.

The Seal

100 The Seal

- 100.1** The **Directors** are responsible for arranging for the **Seal** and any *securities seal* to be kept safely. The **Seal** and any *securities seal* can only be used with the authority of the **Board** or a duly-authorised **committee** of the **Board**. The *securities seal* can be used only for sealing *securities* **we** issue in certificated form and sealing documents **we** issue to create or certify *securities*.
- 100.2** *Subject to* the provisions of these **Articles** and unless the **Board** or a duly authorised **committee** of the **Board** decide otherwise, every document which is sealed using the **Seal** must be signed personally by:
- (a) one Director and the Company Secretary;
 - (b) two Directors; or
 - (c) a Director in the presence of a witness who confirms the signature of the **Director**.
- 100.3** A **committee** duly authorised by the **Board** for the purposes of this Article 100 can consist entirely or partly of people other than **Directors**. Other than the provisions of Articles 88.1(a) and (b), Articles 88 and 81 will apply to this **committee**.
- 100.4** Where a signature is required to witness the **Seal**, the **Directors** can decide that the witness need not sign the document personally but that their signature can be printed on it mechanically, *electronically* or in any other way the **Directors** approve.
- 100.5** *Securities* and documents which have the *securities seal* stamped on them do not need to be signed unless the **Directors** or the **law** require this.
- 100.6** The **Directors** can use all the powers given by **law** relating to official seals to be used abroad.

100.7 **Our** *certificates* for *debentures* or other *securities* may be printed in any way and may be sealed or signed for (or both) in any way allowed by these **Articles**.

100.8 As long as it is allowed by **law**, any document **we** agree to that is signed by:

- (a) one **Director** and the *Company Secretary*;
- (b) two **Directors**; or
- (c) a **Director** in the presence of a witness who confirms the signature of the **Director**,
- (d) will be as effective as if the **Seal** had been used. However, a document intended as a deed must not be signed in this way without the authority of the **Directors** or of a **committee** authorised by the **Directors** to give such authority.

Authenticating documents

101 Establishing that documents are genuine

101.1 Any **Director**, or the *Company Secretary*, has power to authenticate any of the following, and to certify copies or extracts from them as true copies or extracts:

- (a) any documents relating to **our** constitution;
- (b) any resolutions passed by the **shareholders**, or by the **Directors** or by a **committee**; and
- (c) any books, documents, records or accounts which relate to **our** business.

101.2 When any books, documents, records and accounts are not kept at the **registered office**, **our** officer who holds them is treated as a person who has been authorised by the **Directors** to authenticate any of them, and to provide certified copies or extracts from them.

101.3 This Article 101.3 applies to a document which appears to be a copy of a resolution or an extract from the minutes of any meeting, and which is certified as a copy or extract as described in Article 101.1 or 101.2. This document is conclusive evidence for anyone who deals with **us** on the strength of the document that:

- (a) the resolution has been properly passed; or
- (b) the extract is a true and accurate record of the proceedings of a valid meeting.

Reserves

102 Setting up reserves

102.1 The **Directors** can set aside any of **our** profits and hold them in a *reserve* or use these sums for any legal purpose. Sums held in a *reserve* can either be used in **our** business or be invested. The **Directors** can divide the *reserve* into separate funds for special purposes and alter the funds the *reserve* is divided into. The **Directors** can also carry forward any profits without holding them in a *reserve*. The **Directors** must comply with the legal restrictions which relate to *reserve funds*.

Dividends

103 Final dividends

103.1 By **law**, the **Directors** can recommend the amount of any *final dividend*. The **shareholders** can then *declare final dividends* by passing an *ordinary resolution*. No dividend can exceed the amount recommended by the **Directors**.

104 Fixed and interim dividends

104.1 By **law**, if the **Directors** consider that **our** profits justify dividend payments, they can:

- (a) pay the fixed dividends on any class of **shares** carrying a fixed dividend on the dates set down for paying these dividends; and
- (b) pay *interim dividends* on **shares** of any class of the amounts, and on the dates and for the periods they decide.

But no *interim dividend* will be paid on **shares** which carry deferred or non-preferred rights if, at the time of payment, any preferential *dividend* is in *arrears* (on any one of them).

104.2 If the **Directors** act in good faith, they are not liable to any **shareholders** who suffer a loss because the **Directors** have paid a lawful dividend under this Article 104 on other **shares** which *rank* equally with or behind their **shares**.

105 Dividends not in cash

105.1 If the **Directors** recommend this, the **shareholders** can pass an *ordinary resolution* to direct all or part of a dividend to be paid by distributing specific *assets* (and in particular **paid-up shares** or *debentures* of any other *company*). The **Directors** must act on this resolution. Where any difficulty arises on distributing or valuing the *assets*, the **Directors** can settle it as they decide. In particular, they can:

- (a) issue fractional *certificates* (or ignore fractions);
- (b) fix the value of *assets* for distribution purposes;
- (c) *subject to the law* and, in the case of **shares** held in uncertificated form, the *system's rules*, authorise and instruct any person to sell and transfer any fractions;
- (d) pay cash of a similar value to adjust the rights of people entitled to the dividend; and
- (e) transfer any *assets* to *trustees* for people entitled to the dividend.

106 Deducting amounts owing from dividends and other money

106.1 If a **shareholder** owes any money relating to **shares**, the **Directors** can deduct any of this money from:

- (a) any dividend on any **shares** held by the **shareholder**; or
- (b) any other money payable by **us** to the **shareholder** in connection with the **shares**.

Money deducted in this way can be used to pay amounts owed to **us** in connection with the **shares**.

107 Payments to shareholders

107.1 Any dividend or other money payable in cash (whether in sterling or foreign currency) relating to a **share** can be paid:

- (a) by cheque or warrant or any other similar financial instrument made payable to the **shareholder** who is entitled to it and sent direct to their registered address. In the case of joint **shareholders**, the cash will be sent to the **shareholder** who is first named in the **Register** and sent direct to their registered address. The cash can also be sent to someone else named in a written instruction from the **shareholder** (or from all joint **shareholders**);
- (b) in the case of **shares** in uncertificated form, by the use of a *relevant system* (if authorised by the **shareholder**);
- (c) by inter-bank transfer or other electronic means to an account named in a written instruction from the person receiving the payment; or
- (d) in some other way agreed between the **shareholder** (or all joint **shareholders**) and **us**.

107.2 For joint **shareholders**, or people jointly and *automatically entitled to shares by law*, **we** can rely on a receipt for a dividend or other money paid on **shares** from any one of the joint **shareholders**.

107.3 Cheques and warrants are sent, and payment in any other way is made, at the risk of the people who are entitled to the money. **We** are treated as having paid a dividend if such a cheque or warrant is cleared or if a payment using a *relevant system* or bank transfer or other electronic means is made in line with **our** instructions. **We** will not be responsible for a payment which is lost or delayed. If any cheque or warrant has been, or is alleged to have been, lost, stolen or destroyed, the **Directors** may, if the person entitled to the money asks, issue a replacement cheque or warrant if this person provides evidence that the payment cannot be cleared and **our** out-of-pocket expenses are paid.

107.4 Unless the rights attached to any **shares**, or the **terms** of any **shares** or the **Articles** say otherwise, a dividend, or any other money payable in respect of a **share**, can be paid in whatever currency the **Directors** decide, using an appropriate exchange rate selected by the **Directors** for any currency conversions. The **Directors** can also agree how and when the amount to be paid in the other currency will be calculated and paid, and for **us** or any other person to pay any costs involved.

107.5 No dividend or other sum payable by **us** on or for **our shares** carries a right to interest from **us** unless the rights of the **shares** provide otherwise.

107.6 If the person entitled to the dividend is one of **our** employees or one of **our subsidiaries**, the cheque may be sent to that person through **our** internal post system or that of **our subsidiary**.

108 Record dates for payments and other matters

108.1 Any dividend or distribution can be paid to the **shareholders** shown on the **Register** at the close of business on a particular day. The date must be stated in the resolution passed for payment of the dividend or providing for the distribution. The payment will be based on the number of **shares** registered on that day. This Article 108 applies whether what is being

done is the result of a resolution of the **Directors** or a resolution passed at a **General Meeting**. The date stated for payment can be before any relevant resolution was passed. This Article 108 does not affect the rights between past and present **shareholders** to payments or other benefits.

109 Dividends which are not claimed

109.1 The **Directors** can invest a dividend or use it in some other way for **our** benefit if it has not been claimed for one year after the passing of either:

- (a) the resolution at a **General Meeting** declaring that dividend; or
- (b) the resolution of the **Directors** providing for payment of that dividend;

(whichever is later).

If the **Directors** decide to pay unclaimed dividends into a separate account, **we** will not be a *trustee* of the money and will not be liable to pay any interest on it. Any dividend which has not been claimed for 12 years after the date on which it was *declared* or became due for payment will be *forfeited* and belong to **us**.

109.2 **We** can stop paying dividends or other monies payable by cheque or other payment order if the cheques or other payment orders for two dividends or other monies payable in a row are sent back or not cashed. This also applies if, following one such occasion, reasonable enquiries have failed to establish any new postal or delivery address for the **shareholder** or appropriate details for making payment in any other way. **We** can start paying dividends in this way again if the **shareholder** or a person *automatically entitled to the shares by law* claims those dividends.

110 Waiving dividends

110.1 **We** can waive (not pay out) all or any dividend by acting on a document signed by the **shareholder** (or the person *automatically entitled to the shares by law*) and delivered to **us**. The document need not be in the form of a deed.

Capitalising reserves

111 Capitalising reserves

111.1 Taking account of any *special rights* attaching to any class of **shares**, the **shareholders** can pass an *ordinary resolution* to allow the **Directors** to change into capital any sum:

- (a) which is part of any of **our reserves** (including *premiums* received when any **shares** were *issued*, *capital redemption reserves* or other undistributable *reserves*); or
- (b) which **we** are holding as undistributed profits.

111.2 Unless the *ordinary resolution* states otherwise, the **Directors** will use the sum which is changed into capital by setting it aside for the **shareholders** at the close of business on the day the resolution is passed (or another date stated in the resolution). The sum set aside must be used to *allot shares* and distribute them to **shareholders** (or as they may direct) as bonus **shares** in proportion to their holdings of **shares** at the time. The **shares**

can be ordinary **shares** or, if the rights of other **existing shares** allow this, **shares** of some other class.

111.3 If any difficulty arises distributing **shares** in line with this Article 111, the **Directors**, *subject to the law* and the **CREST Regulations**, can resolve it in any way they decide. For example, they can deal with entitlements to fractions of a **share** or any options involving **our** employee share schemes. They can decide:

- (a) that the benefit of **share** fractions belongs to **us**;
- (b) that **share** fractions are ignored; or
- (c) deal with fractions in some other way including by cash payment.

111.4 The **Directors** can appoint any person to sign any contract with **us** on behalf of those who are entitled to **shares** under the resolution. Such a contract is binding on all **shareholders** concerned.

Scrip dividends

112 Shareholders can be offered the right to receive scrip dividends (extra shares instead of cash dividends)

112.1 If the **law** allows, the **Directors** can, on any terms they think fit, offer **shareholders** the right to receive extra **shares**, instead of some or all of their cash dividend. The **shareholders** must have passed an *ordinary resolution* authorising the **Directors** to make this offer before the **Directors** can do this.

112.2 The *ordinary resolution* can apply to a particular dividend or dividends. Or it can apply to some or all of the dividends which can be *declared* or paid in the period up to and including the **Annual General Meeting** which is held in the fifth year after the *ordinary resolution* is passed.

112.3 The **Directors** can offer **shareholders** the right to request new **shares** instead of cash for:

- (a) the next dividend; or
- (b) all future dividends (if a share alternative is made available), until they tell **us** that they no longer want to receive new **shares** or the authority under Article 112.1 is not renewed.

The **Directors** can also allow **shareholders** to choose between these alternatives.

112.4 A **shareholder** is entitled to **shares** whose total **relevant value** is as near as possible to, but not greater than, the cash dividend they would have received. The **relevant value** of a **share** is a value calculated in the way set out in the *ordinary resolution*. If the *ordinary resolution* does not set this out, then the **relevant value** of a **share** is the average value of the **shares** for the five dealing days starting from, and including, the day when the **shares** are first quoted '*ex dividend*'. This is worked out from the average middle-market quotations for the **shares** on the **London Stock Exchange**, as published in its Daily Official List. A certificate or report from the **Auditor** stating the **relevant value** will be conclusive evidence of that amount.

112.5 The **Directors** will only apply this Article 112 if **we** have enough *unissued shares* authorised for *issue* and enough revenues which can be *capitalised* to satisfy the offer.

- 112.6** After the **Directors** have decided to apply this Article 112 to a dividend, as soon as reasonably practicable they must, notify eligible **shareholders in writing** of their right to opt for new **shares**. This notice should also say how, where and when **shareholders** must notify **us** if they want to receive new **shares**. Where new **shares** are available and **shareholders** have already opted to receive new **shares** in place of all future dividends, **we** will not notify them of a right to opt for new **shares**. Instead, **we** will remind them that they have already opted for new **shares** and tell them how to tell **us** if they want to start receiving cash dividends again.
- 112.7** The **Directors** can set a minimum number of **shares** which **shareholders** can receive under their right to choose new **shares**. No **shareholders** will receive a fraction of a **share**. The **Directors** can decide how to deal with any fractions left over. **We** can, if the **Directors** decide, have the benefit of these left over fractions.
- 112.8** The **Directors** can exclude or restrict the right to opt for new **shares**, or make any other arrangements which they decide are necessary or convenient to deal with any of the following legal or practical problems:
- (a) problems relating to laws of any territory; or
 - (b) problems relating to the requirements of any recognised regulatory body or stock exchange in any territory; or
 - (c) where special formalities would otherwise apply in connection with the offer of new **shares**.
- 112.9** So far as a **shareholder** opts to receive new **shares**, no dividend on the **shares** for which they have opted to receive new **shares** (called the **elected shares**) will be *declared* or payable. Instead, new **shares** will be *allotted* on the basis set out earlier in this Article 112. To do this the **Directors** will convert into capital the sum equal to the total *nominal amount* of the new **shares** to be *allotted*. They will use this sum to *pay up in full* the appropriate number of new **shares**. These will then be *allotted* and distributed to the holders of the **elected shares** as set out above. The sum to be converted into capital can be taken from any amount in any *reserve* or fund (including the *share premium account*, any *capital redemption reserve* and the income statement). Article 111 applies to this process, so far as it is consistent with this Article 112.
- 112.10** Unless the **Directors** decide otherwise or the **CREST Regulations** or the rules of a *relevant system* require otherwise, any new **shares** which a **shareholder** has chosen to receive instead of some or all of their cash dividend will be:
- (a) **shares** in uncertificated form if the corresponding **elected shares** were **uncertificated shares** on the record date for that dividend; and
 - (b) **shares** in certificated form if the corresponding **elected shares** were **shares** in certificated form on the record date for that dividend.
- 112.11** The new **shares** *rank* equally in all respects with the **existing shares** on the record date for the dividend. But, they are not entitled to share in the dividend from which they arose.
- 112.12** The **Directors** can decide that new **shares** will not be available in place of any cash dividend. They can decide this at any time before new **shares** are *allotted* in place of a cash dividend, whether before or after **shareholders** have opted to receive new **shares**.

Accounts

113 Accounting and other records

The **Directors** will make sure that proper accounting records that comply with the **law** are kept to record and explain **our** transactions.

114 The location and inspection of records

114.1 The accounting records will be kept:

- (a) at the **registered office**; or
- (b) at any other place which the **law** allows, and the **Directors** decide on.

114.2 **Our** officers always have the right to inspect the accounting records.

114.3 Anyone else (including a **shareholder**) does not have any right to inspect any of **our** accounting books or papers unless:

- (a) the **law** or a proper court order or an *ordinary resolution* passed by **us** gives them that right; or
- (b) the **Directors** authorise them to do so.

115 Sending copies of accounts and other documents

115.1 This Article 115 applies to every balance sheet and income statement to be laid before the **shareholders** at a **General Meeting** with any other document which the **law** requires to be attached to these, including the **Directors'** and **Auditor's** reports.

115.2 **We** must send copies of the documents mentioned in Article 115.1 to the **Auditors**, **shareholders** and *debenture* holders and all other people the **Articles**, or the **law**, say **we** must send them to. **We** must do this at least 21 **clear days** before the relevant **General Meeting**. But **we** do not need to send these documents to:

- (a) **shareholders** who **we** send summary financial statements to by **law**;
- (b) more than one joint holder of **shares** or *debentures*; or
- (c) any person **we** do not have a current address for.

115.3 **Shareholders** or *debenture* holders who are not sent copies can receive a copy free of charge by applying to **us** at the **registered office**.

Auditors

116 Acts of Auditors

116.1 The **Directors** must appoint **Auditors** for **us**. So far as the **law** allows, the actions of a person acting as an auditor are valid in favour of someone dealing with **us** in good faith, even if there was some defect in the person's appointment or the person was at any time not qualified to act as an auditor.

117 Auditors at General Meetings

- 117.1 An **Auditor** can attend any **General Meeting** and should receive all *notices* of and other communications relating to any **General Meeting** which any **shareholder** is entitled to receive. They can speak at **General Meetings** on any business which is relevant to them as **Auditor**.

Communicating with shareholders

118 Serving and delivering notices and other documents

- 118.1 *Subject to* and in line with the **Companies Acts** and these Articles, **we** can send or supply all types of *notices*, documents or information to **shareholders** *electronically* or by making the *notices*, documents or information available on a *website* (or **we** can do both).
- 118.2 *Subject to* and in line with Articles 118, 119, 121 and 122, the **Company Communications Provisions** in the **Companies Act** govern how **we** send or receive *notices*, documents or information.

119 Notices to joint holders

- 119.1 We will consider anything which needs to be agreed by joint **shareholders** as agreed when the first joint **shareholder** who is listed on the **Register** has agreed. We treat a *notice* given to the first shareholder in this way as given to all of the joint **shareholders**.
- 119.2 When a *notice* or document is given to joint **shareholders**, it will be given to the first joint **shareholder** who is listed on the **Register**.
- 119.3 The provisions of this Article 119 relating to joint **shareholders** will take priority over the **Company Communications Provisions**.

120 Notices for shareholders with foreign addresses

- 120.1 This Article 120 applies to **shareholders** (including joint shareholders) whose address on the **Register** is outside the **United Kingdom**. *Subject to* the **Statutes**, they can give **us** a **United Kingdom** address where **we** can serve *notices* or documents can be served on them. If they do give us a United Kingdom address, they are entitled to have *notices* or documents served on them at that address. Otherwise, they are not entitled to receive any *notices* and documents from **us** except *electronically*, subject to all the laws that apply.
- 120.2 For **shareholders** registered on a branch register, *notices* or documents can be posted in the **United Kingdom** or in the country where the branch register is kept.

121 When notices are served or considered to be served

- 121.1 If a *notice* or any other kind of document (including a share certificate) is sent:
- (a) through the post (or internal post for a **shareholder** who is one of **our** employees or an employee of one of **our subsidiaries**); or
 - (b) in **electronic** form but not *electronically*;
- it is treated as being properly served or delivered within 24 hours if **we** used first-class post or 48 hours if **we** used second-class post (or on the day advised by the post office).

We can prove that a *notice* or other document was served by post (or internal post) by showing that:

- (c) the letter containing the *notice* or document was properly addressed; and
- (d) it was put into the postal system with postage pre-paid (where this applies) or given to a delivery agent.

121.2 **We** will treat any *notice* or document which **we** sent or supplied *electronically* as being properly sent 24 hours after it was transmitted. Proving delivery of the *notice*, document or information will be adequate to show it was properly addressed.

121.3 **We** will treat any *notice* or document which we send or supply through a *website* as being properly served when the material is first made available on the *website* or, if later, when the person **we** sent the *notice* or document to received (or is treated as having received) *notice* that the material was available on the *website*.

121.4 If **we** serve, deliver personally or leave a *notice* or any other kind of document at the address for the **shareholder** on the **Register**, **we** treat it as being served or delivered on the day and at the time it was left.

121.5 If a **shareholder** is present at any **shareholders' meeting** either in person or by *proxy* or, in the case of a corporate **shareholder**, by a duly authorised **corporate representative**, it will be considered that they received *notice* of the **meeting** and of the reason why it was called.

121.6 The provisions of this Article 121 relating to any *notices* or document **we** treat as having been delivered shall take precedence over the **Company Communications Provisions**.

122 Serving notices and documents on shareholders who have died, are bankrupt or are of unsound mind

122.1 This Article 122 applies if a **shareholder** has died, has become of *unsound mind* or become bankrupt or is in liquidation, but is still registered as a **shareholder**. It applies whether they are registered as a sole or joint **shareholder**. A person who is *automatically entitled to such shares by law*, and who proves this to the reasonable satisfaction of the **Directors**, can give an address for service of *notices* and documents. If this is done, *notices* and documents must be sent to that address. Otherwise, if any notice or other document is served on the **shareholder** named on the **Register**, or sent to them in line with the **Articles**, this will be valid despite their death, *unsound mind*, bankruptcy or liquidation. This applies even if **we** knew about these things. If *notices* or documents are served or sent in line with this Article 122.1, there is no need to send them to, or serve them in any other way, on any other people who may be involved.

122.2 The provisions of this Article relating to a **shareholder** who has died, has become of *unsound mind* or become bankrupt or is in liquidation shall take precedence over the **Company Communications Provisions**.

123 If documents are accidentally not sent

123.1 If any *notice* or other document relating to any meeting or other proceeding is accidentally not sent, or is not received, the meeting or other proceeding will not be invalid as a result.

124 When entitlement to notices stops

- 124.1** This Article 124 applies if, on two consecutive occasions, *notices* or other communications have been sent by post to a **shareholder** at their registered address (or, in the case of a **shareholder** whose registered address is not in the **United Kingdom**, any address given to **us** for serving *notices*) but have been returned undelivered. The **shareholder** will not be entitled to receive any more *notices* or other communication until they have given **us** a new registered address (or, in the case of a **shareholder** whose registered address is not within the **United Kingdom**, a new address for serving of *notices*). For the purposes of this Article 124.1, references to a communication include references to any cheque or other method of payment; but nothing in this Article 124.1 will entitle **us** to stop sending any cheque or other method of payment for any dividend, unless **we** are also entitled to do so under Article 109.2.

125 Signing or authenticating of documents sent electronically

- 125.1** If, under these **Articles**, a *notice*, information or document needs to be signed or authenticated by a **shareholder** or other person, **we** will consider any *notice* or document in **electronic form** is sufficiently authenticated if **we** can confirm the identity of the sender or **we** have no reason to doubt the identity of the sender, or in any other way approved by the **Directors**. **We** may specify ways for validating a *notice*, information or a document, and **we** will regard any *notice*, information or document not validated in the way **we** specify as not having been received by **us**.

126 Statutory requirements for notices

- 126.1** Nothing in Articles 118 to 125 will affect any legal requirement for serving any offer, *notice*, information or other document in any particular way.

Winding up

127 Directors' power to petition

- 127.1** The **Directors** have power in **our** name and on **our** behalf to present a petition to the court for **NG** to be *wound up*.

128 Distributing assets in kind

- 128.1** If **we** are *wound up* (whether by voluntary liquidation, under supervision of the Court, or by the Court) the liquidator can, with the authority of a *special resolution* passed by the **shareholders** and any other sanction required by the **law**, divide the whole or any part of **our assets** among **our shareholders**. This applies whether the *assets* consist of property of one kind or different kinds. For this purpose, the liquidator can set whatever value they consider fair on any property and decide how to divide it between **shareholders** or different groups of **shareholders**. The liquidator can also, with the authority of a *special resolution* passed by the **shareholders** and any other sanction required by **legislation**, transfer any part of the *assets* to *trustees* on trusts for the benefit of **shareholders** as the liquidator decides. The liquidation of **NG** can then be closed and **our company** dissolved. However, under this Article 128, no past or present **shareholder** can be forced to accept any **shares** or other property which carries a *liability*.

Destroying documents

129 Destroying documents

129.1 We can destroy:

- (a) all transfer forms for **shares**, and documents sent to support a transfer, and any other documents which were the basis for making an entry on the **Register**, six years after the date of registration;
- (e) all dividend payment instructions and notifications of a change of address or name, two years after the date these were registered; and
- (f) all cancelled share *certificates*, one year after the date they were cancelled.

129.2 If **we** destroy a document in line with Article 129.1, it is conclusively treated as having been a valid and effective document in line with **our** records relating to the document. Any action **we** took in dealing with the document in line with **our** terms before it was destroyed is conclusively treated as properly taken.

129.3 This Article 129 only applies to documents which are destroyed in good faith and if **we** are not on notice of any claim to which the document may be relevant.

129.4 For documents relating to **shares** in uncertificated form, **we** must also comply with any rules (as defined in the **CREST Regulations**) which limit **our** ability to destroy these documents.

129.5 **We** can destroy a document earlier than the dates mentioned in Article 129.1 if **we** make a permanent record (whether *electronically*, by microfilm, by digital imaging or by any other means) of that document before **we** destroy it.

129.6 This Article 129 does not make **us** liable:

- (a) if **we** destroy a document earlier than referred to in Article 129.1; or
- (g) if **we** would not be liable if this Article 129 did not exist.

129.7 This Article 129 applies whether **we** destroy a document or dispose of it in some other way.

Indemnity and insurance

130 Indemnity and insurance

130.1 *Subject to the law*, **we** will indemnify all **our Directors** and officers out of **our** own funds against the following:

- (a) Any liability incurred by or attaching to them in connection with any negligence, default, breach of duty or breach of trust by them in relation to **NG** other than:
 - (i) any liability to **us** or any *associated company*; and
 - (ii) any liability of the kind referred to in the **Companies Act**.
- (b) Any other liability incurred by or attaching to them:
 - (i) in actually or seemingly carrying out their duties;
 - (ii) in using or seemingly using their powers; and

- (iii) in any other activity connected to their duties, powers or office.

Where a **Director** or officer is indemnified against any liability in line with this Article 130, the *indemnity* will cover all costs, charges, losses, expenses and *liabilities* incurred by them.

130.2 As well as the cover provided under Article 130.1 above, the **Directors** will have power to purchase and maintain insurance for or for the benefit of:

- (a) any person who is or was at any time a **Director** or officer of any *relevant company*; or
- (h) any person who is or was at any time a trustee of any pension fund or employees' share scheme in which employees of any *relevant company* are interested.

This includes insurance against any liability incurred by or attaching to them through any act or omission:

- (i) in actually or seemingly carrying out their duties;
- (ii) in using or seemingly using their powers; and
- (iii) in any other activity connected to their duties, powers or offices;

in relation to:

- (a) any *relevant company*;
- (i) any pension fund; or
- (j) any employees' share scheme;

and all costs, charges, losses, expenses and *liabilities* incurred by them in relation to any act or omission.

130.3 *Subject to the law, we* will:

- (a) provide a **Director** or **officer** with funds to meet expenditure they have incurred or may incur in defending any criminal or civil proceedings or in connection with any application under the provisions mentioned in Section 205 (5) of the **Companies Act**;
- (b) provide a **Director** or **officer** with funds to meet expenditure they have incurred or may incur in defending an investigation by a regulatory authority or against action proposed by a regulatory authority in connection with any alleged negligence, default, breach of duty or breach of trust by him or her in relation to **us**; and
- (k) do anything to enable a **Director** or officer to avoid incurring such expenditure, but any funds **we** provide or other things **we** do will be in line with Section 205(5) of the **Companies Act**.

The ADR Depositary

Some of our shares are held in the form of American Depositary Receipts (**ADRs**). These are receipts, administered by American banks, for shares in non-American companies. The American bank's role includes collecting and distributing dividends to ADR Holders.

131 ADR definitions

131.1 In Articles 131 to 140:

ADR Depositary	A bank (custodian), approved by the Board , who holds Depositary Shares under arrangements where they issue ADRs to an ADR Holder .
ADR Holder	means someone who owns our ADRs .
ADRs	American depositary receipts which are issued by the ADR Depositary and represent Depositary Shares .
Appointed Number	means the number of Depositary Shares which an Appointed Proxy holds.
Appointed Proxy	means an ADR Holder who is appointed as <i>proxy</i> by the ADR Depositary .
Depositary Shares	Our shares held by a custodian.
Proxy Register	The register of names and addresses of all the Appointed Proxies .

132 The ADR Depositary can appoint proxies

- 132.1** The **ADR Depositary** can appoint more than one person to be its *proxy*. As long as the appointment is in line with the requirements in Article 132.2, the appointment can be made in any way and on any terms which the **ADR Depositary** thinks fit. Each person appointed in this way is called an **Appointed Proxy**.
- 132.2** The appointment must set out the number of **shares** allocated to each **Appointed Proxy**. This number is called the **Appointed Number**. When added together, the **Appointed Numbers** of all **Appointed Proxies** appointed by the **ADR Depositary** must not be more than the number of **Depositary Shares** (as calculated in Article 132.3).
- 132.3** The **Depositary Shares** which can be held by the **ADR Depositary** consist of the total of the number of **shares** registered in the name of the **ADR Depositary**.

133 The ADR Depositary must keep a Proxy Register

- 133.1** The **ADR Depositary** must keep a register of the names and addresses of all the **Appointed Proxies**. This is called the **Proxy Register**. The **Proxy Register** will also set out the **ADRs** held by each **Appointed Proxy**. The **Appointed Number** of **shares** can be calculated by multiplying the number of **ADRs** held by an **Appointed Proxy** by the number of **shares** which any one **ADR** currently represents.
- 133.2** The **ADR Depositary** must let anyone the **Directors** nominate inspect the **Proxy Register** during usual business hours on a **business day**. The **ADR Depositary** must also provide, as soon as possible, any information contained in the **Proxy Register** if **we** or **our** agents ask for it.

134 Appointed Proxies can only attend General Meetings if properly appointed

- 134.1** An **Appointed Proxy** may only attend a **General Meeting** if they provide **us** with written evidence of their appointment by the **ADR Depositary** for that **General Meeting**. This must be in a form agreed between the **Directors** and the **ADR Depositary**.

135 Rights of Appointed Proxies

- 135.1** *Subject to the **Companies Act** and these **Articles**, and as long as the **Depositary Shares** are sufficient to include an **Appointed Proxy's Appointed Number**:*

- (a) at a **General Meeting** which an **Appointed Proxy** is entitled to attend, they are entitled to the same rights and have the same obligations in relation to their **Appointed Number of shares** as if the **ADR Depositary** was the registered holder of the **shares** and they had been validly appointed in line with Articles 54 to 58 by the **ADR Depositary** as its *proxy* in relation to those **shares**; and
- (l) an **Appointed Proxy** can appoint another person to be their *proxy* for their **Appointed Number of shares**, as long as the appointment is made and deposited in line with Articles 54 to 58 and, if it is, the provisions of these **Articles** will apply to this appointment as though the **Appointed Proxy** was the registered holder of such **shares** and the appointment was made by them in that capacity.

136 Sending information to an Appointed Proxy

- 136.1** **We** can send to an **Appointed Proxy**, at their address in the **Proxy Register**, all the same documents **we** send to shareholders.

137 Paying dividends to an Appointed Proxy

- 137.1** **We** can pay to an **Appointed Proxy**, at their address in the **Proxy Register**, all dividends or other monies relating to the **Appointed Proxy's Appointed Number of shares** instead of paying this amount to the **ADR Depositary**. If **we** do this, **we** will not have any obligation to make this payment to the **ADR Depositary** as well.

138 The Proxy Register can be fixed at a certain date

- 138.1** To determine who is entitled as **Appointed Proxies** to:

- (a) *exercise* the rights conferred by Article 135;
- (m) receive documents sent in line with Article 136; and
- (n) be paid dividends in line with to Article 137,

and the **Appointed Number of shares** for which a person is to be treated as having been appointed as an **Appointed Proxy**, the **ADR Depositary** can determine that the **Appointed Proxies** are the people entered in the **Proxy Register** at the close of business on a date (a '**Record Date**') determined by the **ADR Depositary** in consultation with **us**.

- 138.2** When a **Record Date** is decided for a particular purpose:

- (a) the **Appointed Number of shares** held by an **Appointed Proxy** will be treated as the number appearing against their name in the **Proxy Register** at the close of business on the **Record Date**;

- (o) this can be shown by multiplying the number of **ADRs** which each **Appointed Proxy** holds by the number of **shares** which any one **ADR** currently represents; and
- (p) changes to entries in the **Proxy Register** after the close of business on the **Record Date** will be ignored in determining if a person is entitled for the purpose concerned.

139 The nature of an Appointed Proxy's interest

- 139.1** Except as required by the **Companies Act**, **we** will not recognise any **Appointed Proxy** as holding any interest in **shares** held in any trust.
- 139.2** Except for recognising the rights set out in Article 135, **we** are entitled to treat any person entered in the **Proxy Register** as an **Appointed Proxy** for certain **shares** as the only person (other than the **ADR Depositary**) who has any interest in such **shares**.

140 Validity of the appointment of Appointed Proxies

- 140.1** If any question arises at a **General Meeting** about the validity of any appointments to vote (or *exercise* any other right) in respect of any **shares** (for example, because the total number of **shares** recorded against appointments in the **Proxy Register** is more than the number of **Depositary Shares**), the chairman of the **General Meeting** will decide who can vote (which can include refusing to recognise a particular appointment or appointments as valid) and the chairman's decision will, if made in good faith, be final and binding.
- 140.2** If a question of the type described in Article 140.1 arises in any circumstances other than at or in relation to a **General Meeting**, the question will be decided by the **Directors**. Their decision (which can include refusing to recognise a particular appointment or appointments as valid) will also, if made in good faith, be final and binding.

Glossary

About the glossary

This glossary is to help readers understand **our Articles**. Words are explained as they are used in the **Articles**, they might mean different things in other documents. The glossary is not legally part of the **Articles** and it does not affect their meaning. The definitions are intended to be a general guide, they are not precise.

Act An Act of Parliament, including the **Companies Act**, any statute, statutory instrument, order, rule, regulation or directive.

adjourn When a meeting breaks up, to be continued at a later time or day, at the same or a different place.

allot When new shares are allotted, they are set aside for the person they are intended for. This will normally be after the person has agreed to pay for a new share, or has become entitled to a new share for any other reason. As soon as a share is allotted, that person gets the right to have their name put on the register of shareholders. When they have been registered, the share has also been *issued*.

asset Anything which is of any value to its owner.

attorney An attorney is a person who has been appointed to act for another person. The person is appointed by a formal document, called a *power of attorney*.

associated company The meaning of associated company is given in Section 256 of the **Companies Act**. The term could relate to one of the *company's* subsidiaries, its *holding company* or a subsidiary of its *holding company*.

automatically entitled to a share by law In some situations, a person will be entitled to have shares which are registered in somebody else's name registered in their own name. Or they may want the shares to be transferred to another person. When a **shareholder** dies, or the sole survivor of joint **shareholders** dies, their **personal representatives** have the right to have the **shares** transferred. If a **shareholder** is made bankrupt, their trustee in bankruptcy has this right.

beneficial interest (or ownership) If a trustee holds shares for someone, or for their benefit, that person has a beneficial interest in those shares.

brokerage Commission which is paid to a broker by a *company issuing* shares, where the broker's clients have applied for shares.

capitalise To convert some or all of the *reserves* of a *company* into capital (such as shares).

capital redemption reserve A reserve of funds which a *company* can set up to maintain its capital base when shares are *redeemed* or bought back.

casual vacancy A vacancy amongst the **Directors** which occurs because of the death, resignation or disqualification of a **Director**, or because an elected **Director** does not accept their appointment, or for any other reason except the retirement of a **Director** in line with the **Articles**.

certificate A certificate includes a share certificate (which is not a valid document of title), a loan capital certificate or certificates for **our** other *securities* (other than letters of allotment, scrip certificates or similar documents).

Common Seal A seal used to stamp **our** documents as evidence that **we** have *executed* them.

company Includes any corporate body.

Company Secretary A person appointed in line with Section 271 of the **Companies Act** and who has the necessary knowledge and experience to carry out the functions of the secretary of the *company* and who satisfies the requirements of Section 273 of the **Companies Act** or, if applicable, a deputy or assistant *Company Secretary*.

consolidate When shares are consolidated, they are combined with other shares, for example every three shares with a *nominal value* of £1 might be consolidated into one new share with a *nominal value* of £3.

debenture A typical debenture is a document recording long-term borrowing by a *company*. The loan usually has to be repaid at a fixed date in the future, and carries a fixed rate of interest.

declare When a dividend is declared, it becomes due to be paid on the date specified in the Resolution.

dividend arrears This includes any dividends on shares with *cumulative rights* which could not be paid, but which have been carried forward.

dividend warrant A dividend warrant is a cheque for a dividend.

electronically Any document or information sent or supplied in **electronic form**, as further defined in Section 1168 of the **Companies Act**.

equity securities Securities that can be converted to *equity shares* as further defined in Section 94 of the Companies Act 1985.

equity shares Shares in **our** capital which are regarded as equity share capital under Section 774 of the Companies Act 1985.

ex dividend When a share goes 'ex dividend', a person who buys it will not be entitled to the dividend which has been *declared* shortly before they bought it. However, the seller is entitled to this dividend, even though it will be paid after they have sold their share.

executed A document is executed when it is signed or sealed or made valid in some other way.

executive capacity A role which carries the power of a person responsible for an activity or business.

exercise When a power is exercised, it is put to use.

final dividend The dividend, which is approved by the **shareholders** and paid following the end of the financial year.

fully paid shares When all of the money due to us for a share has been paid, a share is called a fully paid (or **paid up**) share.

holding company A *company* which controls another *company* (for example, by owning a majority of its shares) is called the holding *company* of that other *company*. The other *company* is the *subsidiary* of the holding *company*.

indemnity If a person gives another person an indemnity, they promise to make good any losses or damage which the other might suffer. The person who gives the indemnity is said to **indemnify** the person they give it to.

in issue See **issue**.

instruments Formal legal documents.

interim dividend A dividend, authorised by the **Directors**, and paid part way through the financial year.

issue When a share has been issued, everything necessary has been done to make the shareholder the owner of the share. In particular, the shareholder's name has been put on the register of shareholders. Existing shares which have been issued are *in issue*.

liabilities Debts and other obligations.

jointly and severally liable When more than one person is jointly and severally liable it means that any one of them can be sued, or they can all be sued together.

material The **Board** will determine on a case-by-case basis whether a matter or contract is material, considering its value and significance to **our** business and the interests of any **Director**.

negotiable instrument A document such as a cheque, which can be freely transferred from one person to another.

nominal amount or value The value of the **share** in **our** accounts. For example, the nominal value of 11 $\frac{17}{43}$ p ordinary shares is 11 $\frac{17}{43}$ p. This value is shown on the share *certificate*. **We** can issue new **shares** for a price which is at a *premium* to the nominal value. Shares can be bought and sold on the stock market for more, or less, than the nominal value. The nominal value is sometimes also called the 'par value'. The nominal value is not connected to the quoted share price of **NG**.

notice A formal announcement about a future meeting or event.

non equity securities *Securities* which are not **equity securities**.

ordinary resolution A resolution which needs a simple majority. That is, at least 50 per cent of those voting to be in favour.

personal representatives A person who is entitled to deal with the property ('the estate') of a person who has died. If the person who has died left a valid will, the will appoints 'executors' who are personal representatives. If the person died without leaving a valid will, the courts will appoint one or more 'administrators' to be the personal representatives.

poll A vote. On a poll vote, the number of votes a **shareholder** has depends on the number of **shares** they own. A **shareholder** has one vote for each **share** they own. A poll vote is different from a *show of hands* vote, where each person who is entitled to vote has just one vote, however many **shares** the person owns.

power of attorney A formal document which legally appoints one or more people to act on behalf of another person.

pre-emption rights The right of **shareholders**, given by the **Companies Act**, to be offered a proportion of certain classes of newly *issued shares* and other securities before they are offered to anyone else. This offer must be made on terms which are at least as favourable as the terms offered to anyone else.

premium If **we** *issue* a new **share** for more than its *nominal value* (for example, because the market value is more than the *nominal value*), the amount above the *nominal value* is the premium.

proxy A proxy is a person who is appointed by a **shareholder** to attend and speak at a **meeting** and vote for that **shareholder**. A proxy is appointed by using a *proxy form*. A proxy does not have to be a **shareholder**.

proxy form A form which a **shareholder** uses to appoint a *proxy* to attend and speak at a **meeting** and vote for them. The proxy form must be delivered to **us** before the **meeting** it relates to.

quorum The minimum number who must be present before a meeting can start. When this number is reached, the meeting is said to be 'quorate'.

rank and ranking When either capital or income is distributed to **shareholders**, it is paid out according to the rank (or ranking) of the **shares**. For example, a **share** which ranks before (or above) another **share** when **our** income is distributed is entitled to have its dividends paid first, before any dividends are paid on **shares** which rank below (or after) it. If there is not enough income to pay dividends on all **shares**, the available income must be used first to pay dividends on **shares** which rank first, and then to **shares** which rank below. The same applies for repayments of capital. Capital must be paid first to **shares** which rank first in sharing in **our** capital, and then to **shares** which rank below.

redeem and redemption When a share is redeemed, it comes back to **us** in return for a sum of money (the 'redemption price') which was fixed before the share was *issued*. This process is called redemption. A share which can be redeemed is called a 'redeemable' share.

relevant company This refers to:

- **us**;
- any of **our** holding companies; and
- any *company* (incorporated or not) in which **we** or any of **our** holding *companies* have or have had a direct or indirect interest, or which is associated in any way with us or any of **our** subsidiaries.

relevant securities Any shares of a *company*, except shares held as a result of share schemes for employees (such as profit-sharing schemes) and some shares held by the founders of the *company*. Also included are any securities which can be converted into shares of this type, or which allow their holders to *subscribe* for shares of this type.

relevant system This is a term used in the **CREST Regulations** for a paperless share-dealing computer system which allows shares without share *certificates* to be transferred without using transfer forms.

renouncing or renunciation Where a share has been *allotted*, but nobody has been entered on the share register for the share, it can be *renounced* to another person. This transfers the right to have the share registered to another person.

requisition a meeting A formal process which **shareholders** can use to call a **meeting** of **shareholders**. Generally speaking the **shareholders** who want to call a **meeting** must hold at least 10 per cent of the *issued shares*.

reserve fund or reserves A fund which has been set aside in the accounts of a *company*. Profits which are not paid out to **shareholders** as dividends, or used up in some other way, are held in a reserve fund by the *company*.

rights or rights of any share The rights attached to the **share** when it is issued, or afterwards (for example, the right to vote at a **meeting** or the rights to receive a dividend).

securities All shares, bonds and other investment instruments issued by a *company* which entitle the holder to a share in the profits or *assets* of that *company*, to receive a cash payment from a *company* or to subscribe for such a security.

securities seal A seal used to stamp **our** securities as evidence that **we** have issued them. **Our** security seal is like **our** *Common Seal* but with the addition of the word 'securities'.

share premium account If **we** issue a new **share** for more than its *nominal value* (because the market value is more than the *nominal value*), the amount above the *nominal value* is the premium, and the total of these premiums is held in a *reserve fund* (which cannot be used to pay dividends) called the share premium account.

show of hands A vote where each person who is entitled to vote has just one vote, however many shares that person holds.

special notice This term is defined in Section 312 of the **Companies Act**. Broadly, if *special notice* of a resolution is required, the resolution is not valid unless **we** have been told about the intention to propose it at least 28 days before the **shareholders' meeting** at which it is proposed (although in certain circumstances the **meeting** can be on a date less than 28 days from the date of the notice).

special resolution A decision which needs the votes of at least 75 per cent of those voting to be in favour. **Shareholders** must be given at least 14 **clear days'** notice of any special resolution.

special rights These are the rights of a particular class of shares, as distinct from rights which apply to all shares generally. Typical examples of special rights are where the shares *rank* their rights to sharing in income and *assets* and voting rights.

statutory declaration A formal way of declaring something in writing. Particular words and formalities must be used - these are laid down by the Statutory Declarations Act of 1835.

stock Shares which have been converted into a single **security** with a different unit value. For example a shareholding of one hundred £1 shares might be converted into £100 worth of stock.

subdividing shares When shares are subdivided they are split into shares which have a smaller *nominal amount*. For example, a £1 share might be subdivided into two 50p shares.

subject to Means that something else has priority, or prevails, or must be taken into account. When a statement is subject to another statement the first statement must be read in the light of the other statement, which will prevail if there is any conflict.

subscribe for shares To agree to take new shares in a *company* (usually for a cash payment).

subsidiary A *company* which is controlled by another *company* (for example, because the other *company* owns a majority of its shares) is called a subsidiary of that *company* as defined in Section 1159 of the **Companies Act**.

subsidiary undertaking This is a term defined the **Companies Act**. It is a wider definition than *subsidiary*. Generally speaking it is a *company* which is controlled by another *company* because the other *company*:

- (a) has a majority of the votes in the *company* either alone, or acting with others;
- (b) is a **shareholder** who can appoint or remove a majority of the directors; or

(c) can *exercise* dominant influence over the *company* because of anything in the *company's* memorandum or articles, or because of a certain kind of contract.

system's rules The rules of the *relevant system*.

take-over offer An offer made by one *company* to the shareholders of another *company* to buy enough shares to give it control over the other *company*.

treasury shares Shares which are held by a *company* as treasury shares in line with sections 162A-C of the Companies Act 1985.

trustees People who hold property of any kind for the benefit of one or more other people under an arrangement which the **law** treats as a 'trust'. The people whose property is held by the trustees are called the *beneficial owners*.

UK GAAP UK generally accepted accounting principles.

uncertificated proxy instruction A properly authenticated instruction sent by means of a *relevant system*, in line with the *system's rules*, to a person acting on **our** behalf, on terms decided by the **Directors**.

unincorporated associations Associations, partnerships, societies and other bodies which the **law** does not treat as a separate legal person from their members.

unsound mind Not being able to make an informed decision due to lack of awareness and understanding of the nature of a document or situation.

website A collection of web pages on the World Wide Web which contain files belonging to **us**.

wind up The formal process to put an end to a *company*. When a company is wound up its *assets* are distributed. The assets go first to creditors who have supplied property and services, and then to **shareholders**. **Shares** which rank first in sharing in **our** assets will receive any funds which are left over before any **shares** which rank after (or below) them.

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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 26 February 2008 (the “**Prospectus**”), which comprises a base prospectus for each of 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.

Terms and Conditions of the Instruments

For the purposes of Instruments issued pursuant to the Programme on or after the date of this Supplement, save for any Instruments issued on or after the date of this Supplement which are to be consolidated and form a single series with any Series of Instruments issued before such date, Condition 4 of the Terms and Conditions of the Instruments in the Prospectus shall be deleted and replaced with the following:

4 Indexation

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

Where the RPI (as defined below) is specified as the Index or Index Figure (each as defined below) in the relevant Final Terms, the following Conditions 4.1 to 4.6 will apply:

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

4.5 Cessation of or Fundamental Changes to the Index

- (i) If (1) the Trustee and the Issuer [and the Guarantor]* have 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 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]* 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.

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 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).

Where HICP (as defined below) is specified as the Index or Index Level (each as defined below) in the relevant Final Terms, the following Conditions 4.7 to 4.10 will apply:

4.7 Definitions

"Base Index Level" means the base index level as specified in the relevant Final Terms;

"Index" or **"Index Level"** means (subject as provided in Condition 4.9) the Non-revised Index of Consumer Prices excluding tobacco or relevant Successor Index (as defined in Condition 4.9 (i)), measuring the rate of inflation in the European Monetary Union excluding tobacco, expressed as an index and published by Eurostat (the **"HICP"**). The first publication or announcement of a level of such index for a calculation month (as defined in Condition 4.9 (i)) shall be final and conclusive and later revisions to the level for such calculation month will not be used in any calculations. Any reference to the Index Level which is specified in these Conditions as applicable to any day (**"d"**) in any month (**"m"**) shall, subject as provided in Condition 4.9, be calculated as follows:

$$I_d = HICP_{m-3} + \frac{nbd}{qm} \times (HICP_{m-2} - HICP_{m-3})$$

where:

I_d is the Index Level for the day d

HICP_{m-2} is HICP for month m-2

HICP_{m-3} is HICP for month m-3

nbd is the actual number of days from and excluding the first day of month m to but including day d; and

q_m is the actual number of days in month m,

provided that if Condition 4.9 applies, the Index Level shall be the Substitute Index Level determined in accordance with such Condition.

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

"Index Business Day" means a day on which the TARGET System is operating;

"Index Determination Date" means in respect of any date for which the Index Level is required to be determined, the fifth Index Business Day prior to such date;

"Index Ratio" applicable to any date means the Index Level applicable to the relevant Index Determination Date divided by the Base Index Level and rounded to the nearest fifth decimal place, 0.000005 being rounded upwards;

“Related Instrument” means an inflation-linked bond selected by the Calculation Agent that is a debt obligation of one of the governments (but not any government agency) of France, Italy, Germany or Spain and which pays a coupon or redemption amount which is calculated by reference to the level of inflation in the European Monetary Union with a maturity date which falls on (a) the same day as the Maturity Date, (b) the next longest maturity date after the Maturity Date if there is no such bond maturing on the Maturity Date, or (c) the next shortest maturity before the Maturity Date if no bond defined in (a) or (b) is selected by the Calculation Agent. The Calculation Agent will select the Related Instrument from such of those inflation-linked bonds issued on or before the relevant Issue Date and, if there is more than one such inflation-linked bond maturing on the same date, the Related Instrument shall be selected by the Calculation Agent from such of those bonds. If the Related Instrument is redeemed the Calculation Agent will select a new Related Instrument on the same basis, but selected from all eligible bonds in issue at the time the originally selected Related Instrument is redeemed (including any bond for which the redeemed originally selected Related Instrument is exchanged).

4.8 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 applicable to the date on which such payment falls to be made and rounded in accordance with Condition 3.2.4(e).

4.9 Changes in Circumstances Affecting the Index

(i) Delay in publication of Index

(a) If the Index Level relating to any month (the **“calculation month”**) which is required to be taken into account for the purposes of the determination of the Index Level for any date (the **“Relevant Level”**) has not been published or announced by the day that is five Business Days before the date on which such payment is due (the **“Affected Payment Date”**), the Calculation Agent shall determine a Substitute Index Level (as defined below) (in place of such Relevant Level) by using the following methodology:

- (1) if applicable, the Calculation Agent will take the same action to determine the Substitute Index Level for the Affected Payment Date as that taken by the calculation agent (or any other party performing the function of a calculation agent (whatever such party’s title)) pursuant to the terms and conditions of the Related Instrument;
- (2) if (1) above does not result in a Substitute Index Level for the Affected Payment Date for any reason, then the Calculation Agent shall determine the Substitute Index Level as follows:

$$\text{Substitute Index Level} = \text{Base Level} \times (\text{Latest Level} / \text{Reference Level})$$

Where:

“Base Level” means the level of the Index (excluding any flash estimates) published or announced by Eurostat (or any successor entity which publishes such index) in respect of the month which is 12 calendar months prior to the month for which the Substitute Index Level is being determined;

“Latest Level” means the latest level of the Index (excluding any flash estimates) published or announced by Eurostat (or any successor entity which publishes such index) prior to the month in respect of which the Substitute Index Level is being calculated; and

“Reference Level” means the level of the Index (excluding any flash estimates) published or announced by Eurostat (or any successor entity which publishes such index) in respect of the month that is 12 calendar months prior to the month referred to in “Latest Level” above.

- (b) If a Relevant Level is published or announced at any time after the day that is five Business Days prior to the next Interest Payment Date, such Relevant Level will not be used in any calculations. The Substitute Index Level so determined pursuant to this Condition 4.9(i) will be the definitive level for that calculation month.
- (ii) Cessation of publication: If the Index Level has not been published or announced for two consecutive months or Eurostat announces that it will no longer continue to publish or announce the Index then the Calculation Agent shall determine a successor index in lieu of any previously applicable Index (the **“Successor Index”**) by using the following methodology:
 - (a) if at any time (other than after an Early Termination Event (as defined below) has been designated by the Calculation Agent pursuant to paragraph (e) below) a successor index has been designated by the calculation agent (or any other party performing the function of a calculation agent (whatever such party’s title)) pursuant to the terms and conditions of the Related Instrument, such successor index shall be designated the **“Successor Index”** for the purposes of all subsequent Interest Payment Dates, notwithstanding that any other Successor Index may previously have been determined under paragraphs (b), (c) or (d) below; or
 - (b) if a Successor Index has not been determined under paragraph (a) above (and there has been no designation of an Early Termination Event pursuant to paragraph (e) below), and a notice has been given or an announcement has been made by Eurostat (or any successor entity which publishes such index) specifying that the Index will be superseded by a replacement index specified by Eurostat (or any such successor), and the Calculation Agent determines that such replacement index is calculated using the same or substantially similar formula or method of calculation as used in the calculation of the previously applicable Index, such replacement index shall be the Index from the date that such replacement index comes into effect; or
 - (c) if a Successor Index has not been determined under paragraphs (a) or (b) above (and there has been no designation of an Early Termination Event pursuant to paragraph (e) below), the Calculation Agent shall ask five leading independent dealers to state what the replacement index for the Index should be. If between four and five responses are received, and of those four or five responses, three or more leading independent dealers state the same index, this index will be deemed the **“Successor Index”**. If three responses are received, and two or more leading independent dealers state the same index, this index will be deemed the **“Successor Index”**. If fewer than three responses are received, the Calculation Agent will proceed to paragraph (d) below;
 - (d) if no Successor Index has been determined under paragraphs (a), (b) or (c) above on or before the fifth Index Business Day prior to the next Affected Payment Date the Calculation Agent will determine an appropriate alternative index for such Affected Payment Date, and such index will be deemed the **“Successor Index”**;
 - (e) if the Calculation Agent determines that there is no appropriate alternative index, the Issuer and the Instrumentholders shall, in conjunction with the Calculation Agent, determine an appropriate alternative index. If the Issuer and the Instrumentholders, in conjunction with the

Calculation Agent, do not reach agreement on an appropriate alternative index within a period of ten Business Days, then an Early Termination Event will be deemed to have occurred and the Issuer will redeem the Instruments pursuant to Condition 4.10.

- (iii) **Rebasing of the Index:** If the Calculation Agent determines that the Index has been or will be rebased at any time, the Index as so rebased (the “**Rebased Index**”) will be used for the purposes of determining each relevant Index Level from the date of such rebasing; provided, however, that the Calculation Agent shall make such adjustments as are made by the calculation agent (or any other party performing the function of a calculation agent (whatever such party’s title)) pursuant to the terms and conditions of the Related Instrument to the levels of the Rebased Index so that the Rebased Index levels reflect the same rate of inflation as the Index before it was rebased. Any such rebasing shall not affect any prior payments made.
- (iv) **Material Modification Prior to Interest Payment Date:** If, on or prior to the day that is five Business Days before an Interest Payment Date, Eurostat announces that it will make a material change to the Index then the Calculation Agent shall make any such adjustments to the Index consistent with adjustments made to the Related Instrument .
- (v) **Manifest Error in Publication:** If, within thirty days of publication, the Calculation Agent determines that Eurostat (or any successor entity which publishes such index) has corrected the level of the Index to remedy a manifest error in its original publication, the Calculation Agent will notify the parties of (A) that correction, (B) the amount that is payable as a result of that correction and (C) take such other action as it may deem necessary to give effect to such correction.

4.10 Redemption for Index Reasons

If an Early Termination Event as described under Condition 4.9(ii)(e) is deemed to have occurred, the Issuer will, 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 4.8).

Description of National Grid Gas plc

The section in the Prospectus under “Description of National Grid Gas plc - Recent Developments” in the second paragraph beginning with the words “On 15 January 2007 National Grid Gas accepted in principle” and ending with the words “implemented on 5 September 2007 with retrospective effect from 1 April 2007” shall be deleted and replaced with the following:

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 £0.9 billion baseline five year capital expenditure allowance and a £0.3 billion five year operating expenditure allowance. 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.

The section in the Prospectus under “Description of National Grid Gas plc - Recent Developments” in the sixth paragraph beginning with the words “National Grid Gas has also accepted Ofgem’s proposals” and ending with the words “these proposals which will apply from 1 April 2008” shall be deleted and replaced with the following:

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 4.3 per cent. post-tax real rate of return on National Grid Gas's regulatory asset value, a £0.7 billion five year capital expenditure allowance, a £1.9 billion five year operating expenditure allowance and £2.2 billion for its mains replacement expenditure over the five years. The changes to the licence applicable to National Grid Gas's retained gas distribution business reflecting these proposals were implemented with effect from 1 April 2008.

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.



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 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 Article 4.1 (14) 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 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 (each a "**permanent Global Instrument**", and together with the temporary 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

Banc of America Securities Limited

Barclays Capital

Citi

Deutsche Bank

Dresdner Kleinwort

Mitsubishi UFJ Securities International plc

National Australia Bank Limited

RBC Capital Markets

The Royal Bank of Scotland

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.

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 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. 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 (i) 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 2007 and 31 March 2008, together in each case with the audit report thereon, and (ii) the Terms and Conditions set out on pages 24 to 56 of the prospectus dated 18 August 2005 relating to the Programme, 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.

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 overview 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	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 Mellon
Other Paying Agent	KBL European Private Bankers S.A.
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 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 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 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.

Currencies

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

Denominations

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 Rate Instruments

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

Floating Rate Instruments

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

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

the International Swaps and Derivatives Association, Inc. or

- (b) by reference to LIBOR, 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.

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 (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.

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 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.

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):

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.

Status of Instruments

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

Negative Pledge

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.

Cross Acceleration

The Instruments will have the benefit of a cross

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

Events of Default

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

Early Redemption

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”.

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 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”.

Governing Law

English

Listing

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.

Ratings

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

Selling Restrictions

United States, United Kingdom, 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**”), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

Terms and Conditions

The Terms and Conditions applicable to each Series will be as agreed between the 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 or those referred to under “Documents Incorporated by Reference” as supplemented, modified or replaced by the relevant Final Terms.

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 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 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 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 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 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. These expose National Grid to costs and liabilities relating to its operations and its properties whether current, including those inherited from predecessor bodies, or formerly owned by the Group. National Grid is

also subject to laws and regulations governing health and safety matters, protecting both the public and its employees. National Grid commits significant expenditure towards complying with these laws and regulations and to meeting its obligations under negotiated settlements. If additional requirements are imposed or National Grid's ability to recover these costs changes, this could have a material impact on National Grid's businesses and its results of operations and financial position. 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, the inability to carry out critical non-network operations and damage to infrastructure 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 and National Grid's reputation. Terrorist attack, sabotage or other intentional acts may also damage National Grid's assets 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 and the delivery of anticipated cost 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, or agreed with, its regulators. In addition, from time to time, National Grid publishes cost and efficiency savings targets for its businesses. National Grid has also substantially completed reorganising its operations along lines of business. To meet these targets and standards, National Grid must continue to improve operational performance, service reliability and customer service. If National Grid does not meet these targets and standards, or does not complete implementation of this reorganisation as envisaged, it 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, including acquisitions and disposals, may be based on incorrect assumptions or conclusions.

There is no certainty that planned levels of synergy and efficiency savings from acquisitions, such as the acquisition of KeySpan Corporation ("**KeySpan**"), will be achieved. This could impact National Grid's ability to enter into other transactions. In addition, significant liabilities may be overlooked or there may be other unanticipated or unintended effects.

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 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.

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 network safely, which, in extreme circumstances, may require National Grid to disconnect consumers, which may damage its reputation.

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 has significant operations in the U.S. and is therefore subject to the risks normally associated with non-domestic operations, including the need to translate U.S. assets and liabilities, and income and expenses into Sterling, National Grid's primary reporting currency. In addition, National Grid's results of operations may be affected 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.

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, adverse changes in the global credit markets 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. Some of 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. National Grid's borrowing capacity and cost of borrowing could also be affected by adverse changes in the global credit markets. The effective rate of tax National Grid 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 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 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 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 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 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.

Customers and counterparties to National Grid's transactions may fail to perform their obligations, or arrangements it has may be terminated, which could harm its results of operations.

National Grid's operations are exposed to the risk that customers and counterparties to its transactions that owe it money or commodities will not perform their obligations, which could cause National Grid to incur additional costs. This risk is most significant where its 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 National Grid as a result of increasing commodity prices. A substantial portion of National Grid's KeySpan businesses' revenues are derived from a series of agreements with the Long Island Power Authority ("LIPA") pursuant to which National Grid manages LIPA's transmission and distribution system and supplies 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.

National Grid's operating results may fluctuate on a seasonal and quarterly basis.

National Grid's electricity and gas businesses are seasonal businesses and are subject to weather conditions. In particular, revenues from its gas distribution networks in the U.S. are weighted towards the end of its financial year, when demand for gas increases due to colder weather conditions. As a result, National Grid is subject to seasonal variations in working capital because it purchases gas supplies for storage in the first and second quarters of its financial year and must finance these purchases. Accordingly, the results of operations for this business fluctuate substantially on a seasonal basis. In addition, portions of National Grid's electricity businesses are seasonal and subject to weather and related market conditions. Sales of electricity to customers are influenced by temperature changes. Significant changes in heating or cooling 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 National Grid's results of operations for both gas and electricity businesses.

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's principal businesses are subject to regulation by the UK government and other authorities such as 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, recovery of incurred expenditure and the level of permitted revenues for NGET's businesses 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

The operation and maintenance of electricity transmission lines is potentially dangerous. NGET also uses and generates in its operations hazardous and 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. These expose NGET to costs and liabilities relating to its operations and its properties whether current, including those inherited from predecessor bodies, or formerly owned by it. NGET is also subject to laws and regulations governing health and safety matters, protecting both the public and its employees.

NGET commits significant expenditure towards complying with these laws and regulations. If additional requirements are imposed or NGET's ability to recover these costs changes, this could have a material impact on NGET's businesses and its results of operations and financial position. Any breach of these obligations, or even incidents that do not amount to a breach, could adversely affect the results of operations and NGET's reputation.

Network failure, the inability to carry out critical non-network operations and damage to infrastructure 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

damage NGET's assets 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 regulated electricity businesses will be affected by its ability to meet or exceed regulatory efficiency targets set by or agreed with Ofgem. In addition, from time to time, NGET also publishes cost and efficiency savings targets for its businesses. NGET has also substantially completed reorganising its operations along lines of business. To meet these targets, NGET must continue to improve operational performance and service reliability. If NGET does not meet these targets and standards or does not complete implementation of this reorganisation as envisaged, its business may be adversely affected and its performance, results of operations and its reputation may be harmed.

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's electricity transmission businesses are 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, which may damage its reputation.

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

NGET's results of operations may be affected because a significant proportion of its borrowings and derivative financial instruments are affected by changes in interest rates.

NGET's financial position may be adversely affected by a number of factors including restrictions in borrowing and debt arrangements, changes to credit rating, adverse changes in the global credit markets 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. Some of 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. NGET's borrowing capacity and cost of borrowing could also be affected by adverse changes in the global credit markets. The effective rate of tax that NGET 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 pension schemes could adversely affect its results of operations.

Substantially all of NGET's employees are members of a defined benefit scheme where the scheme assets are held independently of NGET's own financial resources. 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 the pension 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 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 €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 €50,000 (or its equivalent) that are not integral multiples of €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 their procedures 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.

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"** (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

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, (c) the Modified Following Business Day Convention, such date shall be postponed to the next day which is a Business Day unless it would then fall into the next calendar month, in that event such date shall be brought forward to the immediately preceding Business Day

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

3.2.3 *Rate of Interest for Floating Rate Instruments*

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

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

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

- (b) Screen Rate Determination for Floating Rate Instruments:
- (i) Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:
 - (x) the offered quotation; or
 - (y) the arithmetic mean of the offered quotations,
(expressed as a percentage rate per annum) for the Reference Rate 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).

3.2.4 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 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).

(e) 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 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.

(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; and/or
- (b) in the case of Euro, a day on which the TARGET System is operating (a **“TARGET Business Day”**); and/or

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

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

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

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

where:

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

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

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

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

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case 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 and D₁ is greater than 29, in which case D₂ will be 30;

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

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

where:

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

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

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

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

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case 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:

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

where:

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

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

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

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

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

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ 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:
 - (1) 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.

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 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:

- (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 (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.

- (ii) 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
- (ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid 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.
- (iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer 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) 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 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

5.1 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 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 Purchases

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*

- (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 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 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), 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

- 5.5.1 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 5.5.1.
- 5.5.2 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 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

5.6.1 **[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.

- (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 (BBB- 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 Event shall have occurred at the time of the Rating 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.
- 5.6.4 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

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.
- 5.6.4 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.

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 unmaturing Coupons (if any) appertaining to them, failing which an amount equal to the face value of each missing unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing 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, unmaturing 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 unmaturing 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

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

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.

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

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 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).

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 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

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

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.

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 26 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 and generation of electricity 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 and importation 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:

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

- Electricity Distribution & Generation – U.S.

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 transmission, electricity distribution and generation and gas distribution businesses. National Grid's U.S. subsidiary companies include KeySpan Corporation, The Brooklyn Union Gas Company, KeySpan Gas East Corp., 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 7,200 kilometres of overhead line, about 675 kilometres of underground cable and 337 substations at 244 sites. National Grid is the Great Britain System Operator responsible for managing the operation 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 frequency.

National Grid also owns the gas national transmission system in Great Britain. This comprises 7,400 kilometres of high pressure pipe and 26 compressor stations, connecting to eight regional distribution networks, large consumers 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 of, 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. 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 13,800 kilometres 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 13,700 kilometres of overhead lines, nearly 160 kilometres of underground cable and 501 substations. National Grid is the largest electricity transmission service provider in New England and New York by reference to the length of these high-voltage transmission lines. In addition, it

owns and operates a 224 kilometre 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, consisting of approximately 132,000 kilometres of distribution pipelines. National Grid transports gas on behalf of approximately 33 active gas shippers from the national gas transmission network through its four regional gas distribution networks to around 10.8 million consumers. National Grid also manages the national emergency number for all of Great Britain's gas distribution networks.

Gas Distribution – U.S.

National Grid's U.S. gas distribution segment comprises gas distribution networks providing services to 3.5 million consumers across the northeastern U.S., located in service territories in upstate New York, New York City, Long Island, Massachusetts, New Hampshire and Rhode Island. Its network of approximately 58,000 kilometres of gas pipelines covers an area of approximately 28,800 square kilometres.

Electricity Distribution & Generation U.S.

National Grid's electricity distribution and generation business operates in the northeastern U.S. It is reported as a single segment in National Grid's financial statements as Electricity Distribution & Generation 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 116,000 circuit kilometres in New England and New York. National Grid's electricity distribution system spans upstate New York, Massachusetts, Rhode Island and New Hampshire, which, with the system on Long Island owned by the Long Island Power Authority ("**LIPA**"), provides energy to customers that include domestic homes, small and large commercial and industrial enterprises.

National Grid owns 57 electricity generation plants on Long Island that together provide 4.1 GW of power under contract to LIPA. It also manages the fuel supplies for LIPA to fuel its plants and purchases energy, capacity and ancillary services in the open market on LIPA's behalf.

Non-regulated businesses and 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 constructed and operated in the U.K. National Grid Property 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). Britned is a joint venture between National Grid and the Dutch transmission system operator, to build and operate a 260km 1,000 MW subsea electricity link between the Netherlands and the U.K. U.S. non-regulated businesses include LNG storage, LNG road transportation, unregulated transmission pipelines, West Virginia gas fields and home energy services activities that were acquired as part of the KeySpan acquisition.

In addition to these non-regulated activities, other activities comprise the following:

- xoserve delivers transportation transactional services on behalf of the major gas network transportation companies in Great Britain, including National Grid; and
- 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 the Great Britain 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 interest in 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 are 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. One of NGG's gas distribution transporter licences authorises it to operate the four distribution networks which it owns. This licence sets out the revenue restriction applicable to each such network separately.

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 gas 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 they operate (including New York, Massachusetts, Rhode Island, Vermont and New Hampshire.) 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.

Electricity Distribution & Generation

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 (including New York, Massachusetts, Rhode Island, Vermont and New Hampshire).

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.

With respect to the wholesale generation activities of National Grid, the FERC regulates wholesale generation, including pricing. However, relevant state authorities retain authority over issues relating to siting, expansion of facilities and certain environmental matters.

Other

National Grid Metering Limited is indirectly subject to the metering 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 present price control arrangements for these businesses cover the period from 1 April 2007 to 31 March 2012. The key elements of the current price controls for gas and electricity transmission are a 4.4 per cent. post-tax real rate of return on the regulatory asset values, a £4.4 billion baseline five year capital expenditure allowance and a £1.2 billion five year operating expenditure allowance.

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 2008; 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 applied for an increased rate of return on its investment in transmission assets in New England. FERC approved this 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.

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 third 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 has made a filing to address economic planning.

In New York, the relevant rates allow for capital expenditure on National Grid's transmission network based on historic levels, which are significantly lower than required to maintain a safe and reliable network. On 21 December 2007 National Grid petitioned the New York Public Service Commission for deferred recovery of incremental investment on major capital programmes for calendar year 2008, as permitted under the relevant rate plan. National Grid anticipates that it will also petition for deferred recovery of qualifying incremental investment for calendar years 2009 to 2011.

Gas distribution

U.K. gas distribution

The price controls that applied to National Grid's UK gas distribution networks during the year ended 31 March 2008 were an extension of its previous price controls, based on an allowed rate of return at a real pre-tax rate of 6.25 per cent. on its 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 per cent. on a post-tax basis. These allowances are expected to grow the asset base by almost 25 per cent. over the next five years.

Electricity Distribution

In New York, capital expenditure in the rate plan for electricity distribution was set at historic levels, which are significantly lower than required to maintain a safe and reliable network. On 21 December 2007 National Grid petitioned the New York Public Service Commission for deferred recovery of incremental investment on major capital programmes for calendar year 2008, as permitted under its rate plan.

Other

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. National Grid has lodged an appeal with the Competition Appeal Tribunal.

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) and of the European Aeronautic Defence and Space Company, Joint Non-Executive Chairman of Mondi plc (UK) and Mondi Ltd (S. Africa). Director of D.P. World (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.
Bob Catell	Executive Director & Deputy Chairman	Co-chair of the Board of the Downtown Brooklyn Partnership and Chairman of the

Name	Title	Principal activities outside the National Grid Group
Steve Lucas	Finance Director	Long Island Association. Non-Executive Director of Compass Group PLC. Director of American European Business Association Ltd.
Mark Fairbairn	Executive Director	None
Tom King	Executive Director	Director of Edison Electric Institute, Alliance to Save Energy, Energy Association of New York State and Jobs for Massachusetts.
Nick Winser	Executive Director	None
Linda Adamany	Non-Executive Director	None
Philip Aiken	Non-Executive Director	Chairman of Robert Walters plc, Non-Executive Director of Kazakhmys plc and senior advisor to Macquarie Capital (Europe) Limited
John Allan	Non-Executive Director	CFO of Deutsche Post. Member of the Supervisory Boards of both Lufthansa AG and Deutsche Postbank. Member of the CBI Presidents' Committee, Member of the International Advisory Council of 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 plc. Member of BT plc's Equality of Access Board.
Maria Richter	Non-Executive Director	Director of Pro Mujer International, The Pantry Inc., The Vitec Group plc and the Bessemer Group Inc.
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.

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 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 directly-connected customers.

As the electricity transmission asset owner in England and Wales, NGET:

- owns and maintains assets comprising approximately 7,200 kilometres of high-voltage overhead lines, about 675 kilometres 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 Gas plc.
Stuart Humphreys	Finance Director	Director of National Grid Gas plc, National Grid Interconnectors Ltd and National Grid Grain LNG 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 Gas plc, 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;

- 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 present price control arrangements for NGET's electricity network cover 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 its regulatory asset value, a £3.5 billion baseline five year capital expenditure allowance and a £0.9 billion five year operating expenditure allowance. 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 2008 with a system operation cost target between £529 million and £544 million, such that it retains 25% (up to a cap of £15 million) of any savings below £529 million, and it loses 25% (down to a collar of £15 million) of any costs in excess of £544 million; and
- 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 NGET's Transmission Licence.

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. As at 31 March 2008, access is being sought by approximately 10 GW of renewable generation consisting of over 100 projects, each with connection agreements in Scotland. For England and Wales, connection offers have been made to an additional 7 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 included in 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 by the Issuer on the Instruments may be made without withholding or deduction for or on account of United Kingdom income tax.

In all cases falling outside the exemption described above, interest on the Instruments may fall to be paid by the Issuer under deduction of United Kingdom income tax at the basic 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 interest only collected passively, for example solely by clearing a cheque for foreign interest or arranging the clearing of such 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 the United Kingdom for United Kingdom taxation purposes. Such details provided to HM Revenue and Customs may, in certain cases, be passed by HM Revenue and Customs to the tax authorities of other jurisdictions. 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 2009.

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

* See paragraph 4.5 of HM Revenue & Customs’ Section 18 Guidance Notes.

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.

PLAN OF DISTRIBUTION

Summary of Agreement

Subject to the terms and on the conditions contained in a dealer agreement dated 30 July 2008 (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 has represented, warranted and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made

and will not make an offer of Instruments which are the subject of the offering contemplated by 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;
- (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,

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.

United Kingdom

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

- (a) in relation to any Instruments which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Instruments other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect

will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Instruments would otherwise constitute a contravention of Section 19 of the FSMA by the 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 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 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 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 30 July 2008 [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**”) contained in the Trust Deed dated [issue date of original Notes] a copy of which is set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [•]] and incorporated by reference into the Prospectus dated [date of current prospectus]. 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 [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: [National Grid plc/National Grid Electricity Transmission 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. (i) Specified Denominations: [][‡]
[]

[Note - where multiple denominations above €50,000 (or equivalent) are being used the following sample wording should be followed:

[€50,000] and integral multiples of [€1,000] in excess thereof [up to and including [€99,000]. No instruments in definitive form will be issued with a denomination above [€99,000]].]

(ii) 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 *[Specify/Issue Date/Not Applicable]*

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]*

[†] 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)

[[*specify reference rate*] +/- [•] per cent. Floating Rate]
 [Zero Coupon]
 [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*)]

[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 Redemption/Payment Basis: [*Specify details of any provision for convertibility of 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) 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. 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

[§] 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.

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. **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: []
- (iii) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/ other (*give details*)]
- (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 [Specify five]
Primary Source is
“Reference Banks”):

(x) ISDA Determination
(Condition 3.2.3(a)):

– Floating Rate Option: []

– Designated Maturity: []

– Reset Date: []

– [ISDA Definitions: [2000/2006]]
(if different from
those set out in the
Conditions)

(xi) Margin(s): [+/ -] [] per cent. per annum

(xii) Minimum Rate of [] per cent. per annum
Interest:

(xiii) Maximum Rate of [] per cent. per annum
Interest:

(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** [Applicable/Not Applicable]
Provisions (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(i) Amortisation Yield [] per cent. per annum
(Condition 5.4):

(ii) Day Count Fraction []
(Condition 3.2.5):

(iii) Any other formula/basis []
of determining amount
payable:

18. **Index-Linked Interest Instrument** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Index/Formula/other variable: [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 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: [Following Business Day Convention/Modified Following Business Day Convention/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

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): Sub-paragraph [(i)/(ii)/(iii)] of the definition of "Index" or "Index Figure" as set out in Condition 4.1 shall apply
- (xviii) Reference Gilt: [•]

19. 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 3.2.5): []

PROVISIONS RELATING TO REDEMPTION

20. Residual 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 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: []]

21. **Call 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) []

22. **Put 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) Option Exercise Date(s): []

** This does not include the tax call in Condition 5.2 or the call option contained in Condition 5.5.1

†† This does not include the National Grid or NGET Restructuring Put in Condition 5.6.

(iii) Notice period (if other than as set out in the Conditions) []

23. **NGET Restructuring Put Option:** [Applicable/Not Applicable]

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

(i) Index/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 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: []

(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 []

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 5.2) [Yes/No]
- (iii) 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]
27. New Global Note [Yes] [No]^{††}
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 attached to Definitive Instruments (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
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: [Not Applicable/*give details*]
- Amount of each instalment: []
 - Date on which each payment is to be made: []
 - Maximum Instalment Amount: []
 - Minimum Instalment Amount: []
33. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/ *give details*]
34. Consolidation provisions: [Not Applicable/ *give details*]
35. Other final terms: [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

36. (i) If syndicated, names of Managers: [Not Applicable/*give names*]
- (ii) Stabilising Manager(s) (if any): [Not Applicable/*give name*]
37. If non-syndicated, name of Dealer: [Not Applicable/*give name*]
38. 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.]

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. LISTING

- (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 regulated 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.

[(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, ESTIMATED 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 – 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.]

7. [Index-Linked Instruments only – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER 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. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation]

[(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.)]

9. 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 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

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.

Instruments not
denominated in
Euro):

Additional steps that [Not Applicable/give details]
may only be taken
following approval
by an Extraordinary
Resolution in
accordance with
Condition 11.1:

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 30 July 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 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.
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.
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 have accepted the relevant Instruments for clearance together with any further appropriate information.
9. Neither National Grid 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 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. There has been no significant change in the financial or trading position of National Grid or the National Grid Group since 31 March 2008 and no material adverse change in the prospects of National Grid since 31 March 2008.
12. Save as disclosed in the section entitled “Description of National Grid Electricity Transmission plc – Recent Developments” on page 81, there has been no significant change in the financial or trading position of NGET or the NGET Group since 31 March 2008 and no material adverse change in the prospects of NGET since 31 March 2008.
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 2008.
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 2008.
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;
 - (d) the audited consolidated accounts of National Grid for the financial years ended 31 March 2007 and 31 March 2008, 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 2007 and 31 March 2008, 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

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

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

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 Mellon
One Canada Square
London E14 5AL

PAYING AGENT

KBL European Private Bankers S.A.
43 Boulevard Royal
L-2955 Luxembourg

REGISTERED AUDITORS TO EACH OF THE ISSUERS

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH



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 30 July 2008 (the “**Prospectus**”), which comprises a base prospectus for each of National Grid Gas 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.

Terms and Conditions of the Instruments

For the purposes of Instruments issued pursuant to the Programme on or after the date of this Supplement which are to be consolidated and form a single series with any Series of Instruments issued before the date of this Supplement, the Terms and Conditions of the Instruments, as set out at pages 26 to 61 of the Prospectus, will continue to apply in full. For the purposes of any other Instruments issued pursuant to the Programme on or after the date of this Supplement, Condition 4 of the Terms and Conditions of the Instruments in the Prospectus shall be deleted and replaced with the following (and by way of explanation, Conditions 4.1 to 4.6 below remain unchanged and Conditions 4.7 to 4.10 are added):

4 Indexation

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

Where the RPI (as defined below) is specified as the Index or Index Figure (each as defined below) in the relevant Final Terms, the following Conditions 4.1 to 4.6 will apply:

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

4.5 Cessation of or Fundamental Changes to the Index

- (i) If (1) the Trustee and the Issuer have 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 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 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.
- (iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer 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) 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 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).

Where HICP (as defined below) is specified as the Index or Index Level (each as defined below) in the relevant Final Terms, the following Conditions 4.7 to 4.10 will apply:

4.7 Definitions

"Base Index Level" means the base index level as specified in the relevant Final Terms;

"Index" or **"Index Level"** means (subject as provided in Condition 4.9) the Non-revised Index of Consumer Prices excluding tobacco or relevant Successor Index (as defined in Condition 4.9 (i)), measuring the rate of inflation in the European Monetary Union excluding tobacco, expressed as an index and published by Eurostat (the **"HICP"**). The first publication or announcement of a level of such index for a calculation month (as defined in Condition 4.9 (i)) shall be final and conclusive and later revisions to the level for such calculation month will not be used in any calculations. Any reference to the Index Level which is specified in these Conditions as applicable to any day (**"d"**) in any month (**"m"**) shall, subject as provided in Condition 4.9, be calculated as follows:

$$I_d = HICP_{m-3} + \frac{nb d}{q m} \times (HICP_{m-2} - HICP_{m-3})$$

where:

I_d is the Index Level for the day d

HICP_{m-2} is HICP for month m-2

HICP_{m-3} is HICP for month m-3

nb d is the actual number of days from and excluding the first day of month m to but including day d; and

q_m is the actual number of days in month m,

provided that if Condition 4.9 applies, the Index Level shall be the Substitute Index Level determined in accordance with such Condition.

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

"Index Business Day" means a day on which the TARGET System is operating;

"Index Determination Date" means in respect of any date for which the Index Level is required to be determined, the fifth Index Business Day prior to such date;

"Index Ratio" applicable to any date means the Index Level applicable to the relevant Index Determination Date divided by the Base Index Level and rounded to the nearest fifth decimal place, 0.000005 being rounded upwards;

"Related Instrument" means an inflation-linked bond selected by the Calculation Agent that is a debt obligation of one of the governments (but not any government agency) of France, Italy,

Germany or Spain and which pays a coupon or redemption amount which is calculated by reference to the level of inflation in the European Monetary Union with a maturity date which falls on (a) the same day as the Maturity Date, (b) the next longest maturity date after the Maturity Date if there is no such bond maturing on the Maturity Date, or (c) the next shortest maturity before the Maturity Date if no bond defined in (a) or (b) is selected by the Calculation Agent. The Calculation Agent will select the Related Instrument from such of those inflation-linked bonds issued on or before the relevant Issue Date and, if there is more than one such inflation-linked bond maturing on the same date, the Related Instrument shall be selected by the Calculation Agent from such of those bonds. If the Related Instrument is redeemed the Calculation Agent will select a new Related Instrument on the same basis, but selected from all eligible bonds in issue at the time the originally selected Related Instrument is redeemed (including any bond for which the redeemed originally selected Related Instrument is exchanged).

4.8 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 applicable to the date on which such payment falls to be made and rounded in accordance with Condition 3.2.4(e).

4.9 Changes in Circumstances Affecting the Index

(i) Delay in publication of Index

- (a) If the Index Level relating to any month (the “**calculation month**”) which is required to be taken into account for the purposes of the determination of the Index Level for any date (the “**Relevant Level**”) has not been published or announced by the day that is five Business Days before the date on which such payment is due (the “**Affected Payment Date**”), the Calculation Agent shall determine a Substitute Index Level (as defined below) (in place of such Relevant Level) by using the following methodology:

- (1) if applicable, the Calculation Agent will take the same action to determine the Substitute Index Level for the Affected Payment Date as that taken by the calculation agent (or any other party performing the function of a calculation agent (whatever such party’s title)) pursuant to the terms and conditions of the Related Instrument;
- (2) if (1) above does not result in a Substitute Index Level for the Affected Payment Date for any reason, then the Calculation Agent shall determine the Substitute Index Level as follows:

$$\text{Substitute Index Level} = \text{Base Level} \times (\text{Latest Level} / \text{Reference Level})$$

Where:

“**Base Level**” means the level of the Index (excluding any flash estimates) published or announced by Eurostat (or any successor entity which publishes such index) in respect of the month which is 12 calendar months prior to the month for which the Substitute Index Level is being determined;

“**Latest Level**” means the latest level of the Index (excluding any flash estimates) published or announced by Eurostat (or any successor entity which publishes such index) prior to the month in respect of which the Substitute Index Level is being calculated; and

“Reference Level” means the level of the Index (excluding any flash estimates) published or announced by Eurostat (or any successor entity which publishes such index) in respect of the month that is 12 calendar months prior to the month referred to in “Latest Level” above.

- (b) If a Relevant Level is published or announced at any time after the day that is five Business Days prior to the next Interest Payment Date, such Relevant Level will not be used in any calculations. The Substitute Index Level so determined pursuant to this Condition 4.9(i) will be the definitive level for that calculation month.
- (ii) Cessation of publication: If the Index Level has not been published or announced for two consecutive months or Eurostat announces that it will no longer continue to publish or announce the Index then the Calculation Agent shall determine a successor index in lieu of any previously applicable Index (the **“Successor Index”**) by using the following methodology:
 - (a) if at any time (other than after an Early Termination Event (as defined below) has been designated by the Calculation Agent pursuant to paragraph (e) below) a successor index has been designated by the calculation agent (or any other party performing the function of a calculation agent (whatever such party’s title)) pursuant to the terms and conditions of the Related Instrument, such successor index shall be designated the **“Successor Index”** for the purposes of all subsequent Interest Payment Dates, notwithstanding that any other Successor Index may previously have been determined under paragraphs (b), (c) or (d) below; or
 - (b) if a Successor Index has not been determined under paragraph (a) above (and there has been no designation of an Early Termination Event pursuant to paragraph (e) below), and a notice has been given or an announcement has been made by Eurostat (or any successor entity which publishes such index) specifying that the Index will be superseded by a replacement index specified by Eurostat (or any such successor), and the Calculation Agent determines that such replacement index is calculated using the same or substantially similar formula or method of calculation as used in the calculation of the previously applicable Index, such replacement index shall be the Index from the date that such replacement index comes into effect; or
 - (c) if a Successor Index has not been determined under paragraphs (a) or (b) above (and there has been no designation of an Early Termination Event pursuant to paragraph (e) below), the Calculation Agent shall ask five leading independent dealers to state what the replacement index for the Index should be. If between four and five responses are received, and of those four or five responses, three or more leading independent dealers state the same index, this index will be deemed the **“Successor Index”**. If three responses are received, and two or more leading independent dealers state the same index, this index will be deemed the **“Successor Index”**. If fewer than three responses are received, the Calculation Agent will proceed to paragraph (d) below;
 - (d) if no Successor Index has been determined under paragraphs (a), (b) or (c) above on or before the fifth Index Business Day prior to the next Affected Payment Date the Calculation Agent will determine an appropriate alternative index for such Affected Payment Date, and such index will be deemed the **“Successor Index”**;

- (e) if the Calculation Agent determines that there is no appropriate alternative index, the Issuer and the Instrumentholders shall, in conjunction with the Calculation Agent, determine an appropriate alternative index. If the Issuer and the Instrumentholders, in conjunction with the Calculation Agent, do not reach agreement on an appropriate alternative index within a period of ten Business Days, then an Early Termination Event will be deemed to have occurred and the Issuer will redeem the Instruments pursuant to Condition 4.10.
- (iii) **Rebasing of the Index:** If the Calculation Agent determines that the Index has been or will be rebased at any time, the Index as so rebased (the “**Rebased Index**”) will be used for the purposes of determining each relevant Index Level from the date of such rebasing; provided, however, that the Calculation Agent shall make such adjustments as are made by the calculation agent (or any other party performing the function of a calculation agent (whatever such party’s title)) pursuant to the terms and conditions of the Related Instrument to the levels of the Rebased Index so that the Rebased Index levels reflect the same rate of inflation as the Index before it was rebased. Any such rebasing shall not affect any prior payments made.
- (iv) **Material Modification Prior to Interest Payment Date:** If, on or prior to the day that is five Business Days before an Interest Payment Date, Eurostat announces that it will make a material change to the Index then the Calculation Agent shall make any such adjustments to the Index consistent with adjustments made to the Related Instrument .
- (v) **Manifest Error in Publication:** If, within thirty days of publication, the Calculation Agent determines that Eurostat (or any successor entity which publishes such index) has corrected the level of the Index to remedy a manifest error in its original publication, the Calculation Agent will notify the parties of (A) that correction, (B) the amount that is payable as a result of that correction and (C) take such other action as it may deem necessary to give effect to such correction.

4.10 Redemption for Index Reasons

If an Early Termination Event as described under Condition 4.9(ii)(e) is deemed to have occurred, the Issuer will, 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 4.8).

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.



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 plc (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 the 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 listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer. The relevant Final Terms (as defined on page 7) 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**"). 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) 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 7) of Instruments will be represented by a temporary global instrument in bearer form (each a "**temporary Global Instrument**") or a permanent global instrument (each a "**permanent Global Instrument**", and together with the temporary Global 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. Beneficial interests in a temporary Global Instrument will be exchangeable for either (i) a permanent Global Instrument or (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).

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

Programme Arranger

HSBC

Programme Dealers

Commerzbank Corporates & Markets

HSBC

Deutsche Bank

Morgan Stanley

The date of this Prospectus is 1 December 2008

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 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 States**”) 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 the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Instruments in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

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

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 herein).

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

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

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.

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

This Prospectus should be read and construed in conjunction with (i) the audited consolidated annual financial statements of the Issuer for the financial years ended 31 March 2008 and 31 March 2007 together with the audit report thereon and (ii) the terms and conditions set out on pages 23 to 44 of the prospectus dated 3 December 2007 relating to the Programme, which have been previously published or are published simultaneously with this Prospectus and which have been approved by the Financial Services Authority. Such documents shall be incorporated in and form part of this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained without charge from the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/en-gb/pricesnews/marketnews.

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.

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
Size	Up to Euro 4,000,000,000 (or its equivalent in other currencies at the date of issue) aggregate nominal amount of Instruments outstanding at any one time.
Arranger	HSBC Bank plc
Dealers	Commerzbank Aktiengesellschaft Deutsche Bank AG, London Branch HSBC Bank plc Morgan Stanley & Co. International 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 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 Mellon
Other Paying Agent	KBL European Private Bankers S.A. (previously known as Kredietbank S.A. Luxembourggeoise)
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 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.

Clearing Systems

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

Initial Delivery of Instruments

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.

Currencies

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

Denominations

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 Rate Instruments

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

Floating Rate Instruments

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

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

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.

Interest Periods and Rates of

The length of the interest periods for the Instruments and the

Interest	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	<p>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.</p> <p>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).</p>
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 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.
Optional Redemption	<p>The Final Terms issued in respect of each issue of Instruments will state whether such Instruments may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the Instrumentholders, and if so the terms applicable to such redemption.</p> <p>The Issuer may elect to redeem all, but not some only, of the Instruments of any Series at their Residual Holding Redemption Amount at any time if the Residual Holding Percentage or more of the aggregate nominal amount of such Instruments originally issued shall have been redeemed or purchased and cancelled.</p>
Status of Instruments	The Instruments will constitute unsubordinated and unsecured obligations of the Issuer, all as described in “Terms and Conditions of the Instruments — Status”.
Negative Pledge	The Instruments will have the benefit of a negative pledge as described in “Terms and Conditions of the Instruments — Status and Negative Pledge”.
Cross Acceleration	The Instruments will have the benefit of a cross acceleration

provision as described in “Terms and Conditions of the Instruments — Events of Default”.

Other Events of Default

The other events of default under the Instruments are as specified below under “Terms and Conditions of the 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

English

Listing

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.

Ratings

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

Selling Restrictions

United States, United Kingdom, 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.

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.

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 future.

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

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 remediating 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 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 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.

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 be volatile.

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 and debt arrangements, changes to credit ratings or outlook and effective tax rates.

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.

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 one customer: the Long Island Power Authority ("LIPA"). 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. 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 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.

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;
- competition facing the Group's unregulated energy services businesses as well as the Group's gas distribution business; and
- 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 (as defined herein) that is of a formal, minor or technical nature or is made to correct a manifest error, (b) any other

modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Instrumentholders or (c) the substitution of another company as principal debtor under any Instruments in place of the Issuer, in the circumstances described in Condition 10.

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 EC 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 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 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 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.

Investors should note that the European Commission has announced proposals to amend the Directive in order to improve its effectiveness. The proposed amendments, **if implemented**, include an extension of the scope of the Directive so as to cover, amongst other things, (i) a wider range of income equivalent to interest, and (ii) payments made through certain types of entity (whether or not established in a Member State) for the ultimate benefit of an EU resident individual.

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.

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 an amended and restated Trust Deed (as amended or supplemented from time to time, the “**Trust Deed**”) dated 1 December 2008 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 amended and restated Agency Agreement (as amended or supplemented from time to time, the “**Agency Agreement**”) dated 1 December 2008 has been entered into in relation to the Instruments between the Issuer, the Trustee, The Bank of New York Mellon 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 1 December 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 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

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, 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.

3.2.2 *Business Day Convention*

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

3.2.3 *Rate of Interest for Floating Rate Instruments*

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

- (a) ISDA Determination for Floating Rate Instruments: Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For

the purposes of this sub-paragraph (a), **"ISDA Rate"** for an Interest Accrual Period means a rate equal to the Floating Rate which would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

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

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

(b) Screen Rate Determination for Floating Rate Instruments:

- (i) Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (x) the offered quotation; or
- (y) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate 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.

3.9 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.

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:

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

where:

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

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

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

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

“**D1**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case 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 and D₁ is greater than 29, in which case D₂ will be 30;

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

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

where:

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

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

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

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

“D1” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case 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:

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

where:

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

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

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

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

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

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 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 (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 (known as TARGET2) System which was launched on 19 November 2007 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 financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) which is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as specified in this paragraph.

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

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, (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 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 unmaturing Coupons (if any) appertaining to them, failing which an amount equal to the face value of each missing unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing 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, unmaturing 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 unmaturing 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.

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
- (g) by a holder which is or has been a “10 per cent. shareholder” of the obligor of the Instruments as defined in Section 871 (h)(3) of the United States Internal Revenue Code or any successor provisions; or
- (h) 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); or

- (i) 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:

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

- (e) **Enforcement Proceedings:** attachment is made of the whole or substantially the whole of the assets or undertakings of the Issuer and such attachment is not released or cancelled within 90 days or an encumbrancer takes possession or an administrative or other receiver or similar officer is appointed of the whole or substantially the whole of the assets or undertaking of the Issuer or an administration or similar order is made in relation to the Issuer and such taking of possession, appointment or order is not released, discharged or cancelled within 90 days; or
- (f) **Insolvency:** the Issuer ceases to carry on all or substantially all of its business or is unable to pay its debts; or
- (g) **Bankruptcy:** the Issuer is adjudged bankrupt or insolvent by a court of competent jurisdiction in the United States of America,

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

For the purposes of this Condition 8, “**Principal Subsidiary**” means KeySpan Corporation, KeySpan Energy Delivery New York, KeySpan Energy Delivery Long Island, Niagara Mohawk Power Corporation 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:

- (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.

10 Meetings of Instrumentholders, Modifications and Substitution

10.1 Meetings of Instrumentholders

The Trust Deed contains provisions for convening meetings of Instrumentholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. An Extraordinary Resolution duly passed at any such meeting shall be binding on Instrumentholders (whether or not they were present at the meeting at which such resolution was passed) 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).

10.2 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.

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.

10.4 Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Instrumentholders as a class and shall not have regard to the consequences of such exercise for individual Instrumentholders 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 any non-contractual obligations arising out of or in connection with the Instruments are governed by, and shall be construed in accordance with, English law.

16.2 Jurisdiction

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

16.3 Process Agent

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

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

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 (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).

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.

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.

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 in both the UK and the U.S. 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 dependent on dividends or distributions from its U.S. subsidiaries. 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 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 generation; and
- Non-regulated businesses.

National Grid USA’s principal public utility subsidiaries are as follows:

- KeySpan Corporation (collectively “**KeySpan**”) directly and indirectly owns public utilities consisting of:
 - The Brooklyn Union Gas Company d/b/a/ National Grid NY – New York;
 - KeySpan Gas East Corporation d/b/a National Grid – 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) provide energy-related services to customers primarily located within the northeast of the United States, with concentrations in the New York City and Boston metropolitan areas; and (iv) operate gas exploration and production activities as well as domestic pipelines and gas storage facilities.

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, 99 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**”), the New England and New York ISO. 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 provide service to approximately 571,000 customers across upstate New York through NMPC and

approximately 248,000 customers in Rhode Island through Narragansett. As a result of the 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 consists of approximately 35,000 miles of gas pipelines in New York and New England

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 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 companies, 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.

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. In addition to long term pipeline contracts, National Grid USA is capable of supplementing its winter supply portfolio on the coldest days of the year with seasonal firm transportation pipeline contracts, various long-term contracts for underground storage capacity and peaking supplies to economically meet the increased requirements of its heating customers. The 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.

Electricity Distribution and Generation

National Grid USA operates National Grid plc's United States electricity distribution and generation business. 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 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 U.S. electricity distribution and generation business, excluding KeySpan's management and operation of LIPA described below, serves approximately 3.4 million electricity customers over a network of approximately 72,000 circuit miles in New England and New York.

National Grid USA's primary business drivers are the rate plans approved by 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.

Under various legacy contractual arrangements more fully described below, certain of 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**. 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. In addition to managing the electric transmission and distribution system owned by LIPA; these subsidiaries also provide generating capacity and, to the extent required, energy conversion services for LIPA from the Issuer's 57 electric generating facilities located on Long Island; and manage fuel supplies for LIPA to fuel the Issuer's generating facilities. All of the generating capacity and, to the extent requested, energy conversion services from the Issuer's Long Island based generating plants are sold to LIPA under long-term contracts.

Sales of generating capacity and energy conversion services are made under rates approved by the Federal Energy Regulatory Commission ("**FERC**") in accordance with a 1998 Power Supply Agreement (the "**1998 PSA**") described below. 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. That 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. Those rates will expire on 31 December 2008. A Fifth Amendment to the 1998 PSA was filed on 31 October 2008, by which the parties agreed to extend the current rates for 30 days to 31 January 2008. It is anticipated that the new revised rates for the final term of the 1998 PSA (until May 2013) will be filed in early December 2008.

On 1 February 2006, KeySpan and LIPA entered into (i) the 2006 Management Services Agreement ("**2006 MSA**"), pursuant to which KeySpan will continue to operate and maintain the electric transmission and distribution system ("**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. The 2006 Option Agreement expires on 31 December 2008 with respect to all affected facilities. The Issuer and LIPA are discussing the prospect of extending the option with respect to two plants with a combined capacity of 470 megawatts.

Pursuant to the 2006 MSA, KeySpan must meet 19 performance metrics, one of which is a Customer Satisfaction metric. Failure to achieve a minimum level of performance under this metric for three consecutive years creates an event of default under the 2006 MSA. The measured results of the Customer Satisfaction performance metric were below the minimum threshold for the 2006 and 2007 contract years and it is possible that the 2008 results may be below such threshold as well. At this time, we are unable to predict what action, if any, LIPA will take under the 2006 MSA if an event of default occurs or the financial impact of any such action.

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.

Other

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 the New England ISO's Open Access Transmission Tariff, and are subject to New England ISO operational control.

In addition, the Issuer has established certain regulatory assets that provide for (i) 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; and (ii) the recovery of certain above-market costs of commodity purchase contracts that were in place at the time of restructuring and deregulation.

Non Regulated Activity

The Issuer also has an interest in certain unregulated business activities.

Specifically, subsidiaries 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, and consulting 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.

Other subsidiaries are 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. 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.

The Issuer also has 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

In August 2008, the 2,480 megawatt Ravenswood Generating Facility located in New York City was divested as required by the terms of the National Grid/KeySpan NYPSC merger order dated 17 September 2007. The facility was sold to TransCanada Corporation for a total cash consideration of U.S.\$2.9 billion.

Regulatory Environment

The securities of the Issuer's London based parent, National Grid plc, are listed on the London Stock Exchange 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.

The transmission activities of each of the Issuer's public utilities are regulated by the relevant state utility commission in the states in which the Issuer operates and by the FERC.

In relation to electricity transmission, the FERC, amongst other things, sets rates, service standards for the transmission business of the Issuer's public utilities, approves reliability standards set by the North American Electric Reliability Council (an industry self regulatory body), determines the potential levels of return on regulated transmission service, and approves wholesale electric rates and market rules. Although FERC has jurisdiction over siting of transmission lines in certain limited circumstances, the siting of transmission lines is principally regulated by the relevant state and local siting authorities, including state utility commissions. Due to the corporate structure of the Issuer's operating subsidiaries in the New England states, FERC has principal jurisdiction over the ultimate recovery of transmission rates in that region. Due to the vertically integrated nature of the Issuer's operating subsidiaries in New York, the ultimate recovery of transmission rates is principally regulated by the New York public utility commission.

The Issuer's gas distribution activities through the Issuer's various operating subsidiaries, 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.

The electricity distribution and, to a lesser extent, the generation activities through the Issuer's various KeySpan operating subsidiaries, are also regulated by the relevant state utility commissions in the states in which the Issuer operates.

As with the Issuer's gas distribution activity, the various state utility commissions, amongst other things; set distribution service standards and retail rates for end use customers; and determine the potential levels of return on distribution service. However, FERC regulates wholesale electricity sales by the Issuer including sales of generating capacity and energy conversion services to LIPA, to the extent that any such sales are made.

A more detailed description of the various rate plans in effect is set forth below.

Overview of Regulated Entities and Rate Plans

General

In New England, the Issuer has separate regulated entities that operate electric transmission and distribution businesses. Revenue for the distribution entities in each state is collected through tariffs approved by the applicable state commissions. Each of the distribution entities are currently operating under multi-year rate plans. Revenue for the Issuer's electric transmission business for the regional transmission entity in New England is collected from transmission customers through both regional and local tariffs approved by the FERC. The transmission tariffs allow for recovery of, and return on, capital expenditures as new investment enters service, bringing immediate revenue benefits.

In New York, the Issuer has one entity that operates its electric distribution and transmission businesses, NMPC. Revenue for the Issuer's electric distribution business in New York is collected from distribution customers exclusively through tariffs approved by the state commission. Revenue for the Issuer's electric transmission portion of the business is collected from two sources: all end-use distribution customers through the same tariffs that recover the distribution revenue and the balance collected from certain unaffiliated transmission customers through regional tariffs approved by the FERC. Most of the revenue, however, is from distribution customers.

The Issuer's revenue for gas distribution is collected through tariffs approved by the applicable state commissions. Two of the three gas distribution entities of the Issuer in Massachusetts are operating under multi-year rate plans, one of which expires in 2009. The plan for the largest Massachusetts company, Boston Gas, is scheduled to expire in 2013. However, the Issuer expects to file a request to reset rates for all three distribution entities in 2010. The Issuer's gas distribution entities in Rhode Island

and New Hampshire have made filings to increase distribution rates and those requests are pending before the respective state commissions.

In the past, increased deliveries of electricity and gas would result in higher revenues for distribution companies similar to those of the Issuer. Conversely, a reduction in deliveries would result in lower revenues. This is due to the fact that a significant portion of distribution rates are volumetric. The states of New York and Massachusetts, however, have adopted policies to employ revenue decoupling rate mechanisms. In addition, revenue decoupling is under consideration in Rhode Island and New Hampshire. The policy objective behind revenue decoupling is to eliminate the disincentive for utilities to aggressively pursue energy efficiency programmes, which reduces delivery revenues. While the mechanism can be structured with different features, the general principle is to allow the utility to recover a targeted revenue requirement once the revenue level is set after a rate proceeding establishes new rates or a new rate plan. To the extent revenues are below the target revenue level, the utility is allowed to implement a surcharge to recover the shortfall. Conversely, to the extent the utility over-recovers the targeted revenue level, a credit is given to customers through rates. Under the policy, decoupling is not typically implemented until rate cases are filed to set new rates or implement new rate plans.

In all of the state jurisdictions, except New Hampshire, the gas and electric distribution companies, including those principal operating subsidiaries of the Issuer, operate under the provisions of service quality plans. While the plans differ slightly from state to state, they share the common feature of imposing financial penalties if service quality performance, as defined by certain objective reliability, safety and customer service measures, do not meet minimum specified levels.

Electricity Rate Plans

New York

The Issuer's upstate New York subsidiary, NMPC, is operating under a ten year rate plan that expires after 2011. Under the plan, the Issuer is allowed to earn up to a 10.6 per cent. return on equity. Once this allowed return on equity is exceeded, varying percentages of the excess are shared with customers. For earnings sharing purposes, the return on equity is measured in accordance with US 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 are 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. These deferral items include changes in the levels of pension and post-retirement benefit expenses from levels specified in the rate plan, as well as various other items, including extraordinary storm costs, environmental remediation costs and certain rate discounts provided to customers, together with costs and revenues from changes in tax, accounting and regulatory requirements that have an annual impact exceeding U.S.\$2 million. The deferred costs are allowed to accumulate in an account. When the account exceeds U.S.\$ 100 million, the Issuer is allowed to make an adjustment to rates to recover the increment over U.S.\$100 million in rates currently. Such adjustments are allowed every two years, if applicable. At the end of the rate plan, the full balance remaining is recoverable from customers under any follow on rate plan. The first deferral reset was scheduled for 2004, but the deferral did not exceed the threshold. Thus, there was no adjustment. In the next two successive scheduled deferral resets, the Issuer received adjustments of U.S.\$300 million in 2006 and 2007 and an annual adjustment of approximately U.S.\$124 million per year for 2008 and 2009. The final reset is scheduled for 2010, if applicable.

In obtaining approval of the KeySpan transaction, the Issuer made a commitment to invest U.S.\$1.4 billion in the transmission and distribution system over five years, pursuant to a capital investment plan filed with the commission. The Issuer is also required to file annual reports, showing amounts spent each year under the plan. To the extent the Issuer does not meet its annual spending targets under the plan,

the Issuer is subject to a financial penalty equal to carrying charges at the allowed overall cost of capital on the under spent amounts, accrued as a deferred credit for the future benefit of customers.

Massachusetts

Rates for services rendered by the Issuer's Massachusetts electric distribution companies are subject to approval by the Massachusetts Department of Public Utilities ("**MDPU**"). In March 2000, the MDPU approved a long-term rate plan which became effective on 1 May 2000. During the period from 1 March 2005 to 31 December 2009, the Rate Index Period, 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. In the first three such adjustments, the Issuer's Massachusetts electric distribution companies implemented increases in distribution rates pursuant to this mechanism of 3.5 per cent., 16 per cent. and 1.9 per cent., effective from 1 March 2006, 2007 and 2008, respectively, following approval by the MDPU. In October 2008, the Issuer's electric distribution companies filed for their final rate index adjustment of 1.54 per cent. to be effective from 1 March 2009. This submission is under review by the MDPU. The rate plan also includes provisions for recovery of major storm costs and recovery of incremental costs for certain specified exogenous events and environmental remediation costs. The Issuer's Massachusetts electric distribution companies expect to file a distribution base rate case during 2009 for effect following the end of the long-term rate plan.

Rhode Island

The Issuer's electric distribution business in Rhode Island is governed by a multi-year rate plan with frozen distribution rates until 2009. The rate plan also includes provisions for recovery of major storm costs and recovery of incremental costs for certain specified exogenous events and environmental remediation costs. This plan is due to expire at the end of 2009 and the Issuer expects to file for an increase in distribution rates during the second quarter of 2009 for new rates to take effect from 1 January 2010.

New Hampshire

Rates for services rendered by the Issuer's New Hampshire electric distribution company are subject to approval by the New Hampshire Public Utilities Commission ("**NHPUC**"). In July 2007, the NHPUC approved a settlement agreement related to issues surrounding the merger of National Grid USA and KeySpan Corporation (the "**2007 Settlement**"). Among other things, the 2007 Settlement provided for a U.S.\$2,200,000 reduction in the New Hampshire electric distribution company's base distribution rates. The 2007 Settlement also contains a distribution rate plan spanning five years effective from 1 January 2008. During the rate plan period, distribution rates are frozen except for rate adjustments related to capital spending for certain reliability enhancement programmes. The rate plan also includes provisions for recovery of major storm costs and recovery of incremental costs for certain specified exogenous events. The Rate Plan also includes an earnings share mechanism based on an ROE sharing threshold of 11 per cent. Earnings above 11 per cent. ROE are shared equally between customers and the Issuer's New Hampshire electric distribution company.

Gas Rate Plans

New York

The NMPC gas distribution business in upstate New York currently has a rate request pending to increase gas rates by approximately U.S.\$72 million. This case is scheduled for evidentiary hearings in December 2008. The staff of the Department of Public Service, representing the interest of consumers, is opposing the size of the request, maintaining that the Issuer be allowed an increase of approximately U.S.\$35 million.

The two gas distribution companies located downstate, in New York City and Long Island, The Brooklyn Union Gas Company d/b/a National Grid NY ("**Brooklyn Union**") and KeySpan Gas East d/b/a National Grid ("**Gas East**"), are currently subject to five year rate plans until 1 January 2013. The rate plans arose from the companies' rate filings made in the context of the National Grid merger proceeding. Base delivery rates were increased by U.S.\$60 million for Gas East and are being maintained at current levels for Brooklyn Union. The base delivery rates are then frozen for five years. The plans are based on 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. There are various reconciliation mechanisms that permit the companies to fully or partially true up to established thresholds for such items as real property, special franchise taxes, site investigation and remediation costs. In the case of non growth-related capital, Brooklyn Union and Gas East must return unspent funds below established targets to customers, but may not recover overspending. Both companies are permitted to reconcile their actual pension and other post-employment benefit expense to the amount allowed in rates. In addition, the companies are subject to affiliate rules and various financial protections for the terms of the rate plans.

Massachusetts

Rates for services rendered by the Issuer's Massachusetts gas distribution companies, Boston Gas Company, Colonial Gas Company and Essex Gas Company are subject to approval by the MDPU. Boston Gas currently has a long term rate plan in place to 2013, unless terminated earlier. Under this plan, rates are adjusted each year with the approval of the MDPU based on a GDP-based price-cap formula. Pension and PBOP costs, as well as certain environmental remediation costs also are separately collected through a reconciling mechanism. There is also an earnings sharing mechanism. If the return on equity ("**ROE**") is greater than 14.2 per cent. customers share 25 per cent. of the excess gain. Conversely, if the ROE is lower than 6.2 per cent. customers bear 25 per cent. of the loss.

For Essex Gas Company, its multi-year rate plan recently expired in September 2008. Until a new rate case is filed, current rates remain in effect. For Colonial Gas Company, its current multi-year rate plan terminates in July 2009. In the case of Colonial Gas, the Issuer will be allowed recovery of acquisition premium and return on cash investment resulting from its merger with Eastern Enterprises, subject to a stipulated merger savings proof. The three gas distribution companies expect to file a request for a new consolidated rate plan in 2010.

Rhode Island

In April 2008, the Issuer filed a request to increase gas distribution rates by approximately U.S.\$20 million, which the Issuer later adjusted to U.S.\$18.4 million. The staff representing the consumer interests opposed the request, maintaining that the increase should be only U.S.\$8.4 million. In addition to the size of the rate relief, one of the issues before the commission is the policy question whether revenue decoupling should be adopted. Evidentiary hearings concluded at the end of October 2008 and the commission is required to issue an order on new rates no later than 1 December 2008.

New Hampshire

Rates for services rendered by the Issuer's New Hampshire gas distribution company are subject to approval by the NHPUC. The Issuer's last approved base rate increase in New Hampshire was in 1993. In July 2007, the NHPUC approved a settlement agreement related to issues surrounding the merger of National Grid USA and KeySpan Corporation (the 2007 Settlement). This Settlement includes an enhanced cast iron and bare steel main replacement programme, pursuant to which the Issuer's New Hampshire gas distribution company is allowed to track and recover incremental capital expenses above its historic baseline level for such replacements on an annual basis. In addition, on 24 February 2008, as set forth in the 2007 Settlement, the Issuer filed a request for a rate increase of approximately U.S.\$10 million. The filing included a request for a pension and PBOP reconciliation mechanism. The case is not

expected to be decided until the first quarter of 2009. In August 2008, the NHPUC approved the Issuer's request for a temporary base rate increase of U.S.\$6.6 million effective from August 2008. This temporary increase is subject to retroactive adjustment, depending upon the outcome of the rate case, for the difference between what was collected in rates based on the U.S.\$6.6 million increase and the final allowed permanent increase.

Market Developments

U.S. Electricity Transmission

In the United States, consistent with FERC's transmission pricing policy, the Issuer applied for and received an increased rate of return on the Issuer's investment in transmission assets in New England effective as of 1 February 2005. While FERC initially approved the application in October 2006, in March 2008, it decided on a rehearing to limit a portion of that return to transmission investment placed in service between the effective date and 31 December 2008. In that order, FERC invited the Issuer to seek additional incentives on a case-by-case basis under the auspices of its pricing policy. As a result, the Issuer applied for and received an additional package of incentives on its largest upcoming transmission project, the New England East-West Solution ("**NEEWS**") effective as of 18 November 2008.

The Issuer is involved in a regional planning process with the New York Independent System Operator, Inc. ("**NYISO**") to identify regional reliability and economic resource and transmission needs. Progress has been made and the NYISO is in the third year of its reliability planning process implementation. The Issuer has proposed regulated transmission solutions to reliability needs identified by the NYISO. In addition, as part of FERC's recent open access transmission tariff reform, FERC approved in October 2008 the NYISO process to address economic planning and NYISO is pursuing implementation of that economic planning process.

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.

KeySpan Department of Justice Investigation

In May 2007, KeySpan received a Civil Investigative Demand ("**CID**") from the United States Department of Justice, Antitrust Division ("**DOJ**"), requesting the production of documents and information relating to its investigation of competitive issues in the New York City electric energy capacity market prior to National Grid's acquisition of KeySpan. 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. In April 2008, KeySpan received a second CID in connection with this matter. KeySpan continues to believe that its activity in the capacity market is consistent with all applicable laws and regulations and will continue to fully co-operate with this investigation. At this time the Issuer is unable to determine what effect, if any, the outcome may have on the Issuer and/or the Group's financial position or profitability.

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	Co-Chair of the Board of the Downtown Brooklyn Partnership; Chairman of the Long Island Association; Ex Officio Director and Chairman Emeritus of The Partnership for New York City, Inc.; Vice-Chairman of the US National Petroleum Council's Natural Gas Committee and on the Board of the Business Council of New York; Keyera Energy Management Ltd.; Sovereign Bancorp Inc.; and JP Morgan/ Chase's Metropolitan Regional Advisory Board.	One MetroTech Center, Brooklyn, NY 11201, United States
,Tom King	Director of Jobs for Mass.; Alliance to Save Energy; and Edison Electric Institute	201 Jones Road, Waltham, MA 02451, United States
Linda Ryan	None	25 Research Drive, Westborough, MA 01582, United States

* The "National Grid Group" means National Grid plc and each of its subsidiary undertakings.

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

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

- (iv) in the case of Instruments with a maturity of more than 183 days, 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.
- (c) 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.
- (d) 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 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 EC 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 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 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 certain limited types of 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 certain limited types of entity established in one of those territories.

Investors should note that the European Commission has announced proposals to amend the Directive in order to improve its effectiveness. The proposed amendments, **if implemented**, include an extension of the scope of the Directive so as to cover, amongst other things, (i) a wider range of income equivalent to interest, and (ii) payments made through certain types of entity (whether or not established in a Member State) for the ultimate benefit of an EU resident individual.

PLAN OF DISTRIBUTION

Summary of Agreement

Subject to the terms and on the conditions contained in an amended and restated dealer agreement dated 1 December 2008 (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 represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Dealer Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Instruments of any identifiable Tranche, (a) as part of 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 and the Issuing and Paying Agent by such Dealer, or in the case of Instruments issued on a syndicated basis by each of such Dealers with respect to Instruments of such Tranche purchased by or through it, in which case the Issuer shall request the Issuing and Paying Agent to notify each such Dealer when all such Dealers have so certified, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Instruments during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Instruments within the United States or to, or for the account or benefit of, U.S. persons.

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 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 (Law No. 25 of 1948, as amended) (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 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 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.

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 1 December 2008 [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**”) contained in the Trust Deed dated [original date] and set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [•]] and incorporated by reference into the Prospectus dated 1 December 2008 and which are attached hereto. This document constitutes the Final Terms of the Notes 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 1 December 2008 [and the supplemental Prospectus dated [•]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. The Prospectuses [and the supplemental Prospectus] 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.]

1. Issuer: National Grid USA
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. (i) Specified Denominations: []*
(ii) 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: *[Specify/Issue Date/Not Applicable]*
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]
[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 Redemption/Payment Basis: *[Specify details of any provision for convertibility of Instruments into another interest or redemption/payment basis]*
12. Put/Call Options: *[Investor Put]
[Issuer Call]
[(further particulars specified below)]*

* Instruments which have a maturity of less than one year must have a minimum denomination of £100,000 (or its equivalent in other currencies)

13. (i) Status of the Instruments: Senior
(ii) 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. 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. 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: []
- (iii) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other *(give details)*]
- (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 *(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 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): []

PROVISIONS RELATING TO REDEMPTION

19. Residual 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 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 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 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

[†] This does not include the tax call in Condition 4.2 or the call option contained in Condition 4.5.1

- (iii) Option Exercise Date(s): []
- (iv) Notice period (if other than as set out in the Conditions) []
- 22. **Final Redemption Amount of each Instrument:** [] 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]
 - (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: []
 - (vi) Payment Date:
 - (vii) Minimum Final Redemption Amount: [] per Calculation Amount
 - (viii) Maximum Final Redemption Amount: [] per Calculation Amount
- 23. **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) [Yes/No]
 - (iii) Unmatured Coupons to become void upon early redemption (Condition 5.5) [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 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]
26. 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]
27. Applicable TEFRA exemption: [D Rules/Not Applicable]
28. Talons for future Coupons or Receipts to be attached to Definitive Instruments (and dates on which such Talons mature): [Yes/No. If yes, give details]
29. 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 to forfeit the Instruments and interest due on late payment: [Not Applicable/give details]
30. Details relating to Instalment Instruments: [Not Applicable/give details]
- Amount of each instalment: []
 - Date on which each payment is to be made: []
 - Maximum Instalment Amount: ,
 - Minimum Instalment Amount: []
31. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/ give details]
32. Consolidation provisions: [Not Applicable/ give details]
33. Other final terms: [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

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. 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 USA.]

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 Listing

- (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 Regulated 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: []]
[[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.)]

* 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.

** Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

5 [Reasons for the Offer, Estimated 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 – 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.]

7 [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.)]

8 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 [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

* Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

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]]][•]]

Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 10.1:

[Not Applicable/give details]

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 3 December 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 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 and the update of the Programme was authorised by a written consent in lieu of a special meeting of the Board of Directors of the Issuer passed on 20 November 2008.
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 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 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. There has been no significant change in the financial or trading position of the Issuer or the Group since 31 March 2008 and no material adverse change in the prospects of the Issuer since 31 March 2008.
7. PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm of 300 Madison Avenue, New York NY 10017 (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 2008 and 31 March 2007.
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, 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 2007 and 31 March 2008, 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.

REGISTERED OFFICE OF THE ISSUER

National Grid USA
25 Research Drive
Westborough
MA 01582
United States of America

THE ARRANGER

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

DEALERS

Commerzbank Aktiengesellschaft
60 Gracechurch Street
London EC3V 0HR
United Kingdom

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
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 Mellon
One Canada Square
London E14 5AL
United Kingdom

PAYING AGENT

KBL European Private Bankers S.A.
43 Boulevard Royal
L-2955 Luxembourg
Luxembourg

REGISTERED AUDITORS TO THE ISSUER

PricewaterhouseCoopers LLP
300 Madison Avenue
New York
NY 10017
United States of America


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

Under the Euro Medium Term Note Programme (the "**Programme**") described in this Prospectus (the "**Prospectus**"), each of 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**"), 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 €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 plc (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 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 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 depository on behalf of Euroclear and Clearstream, Luxembourg (the "**Common Depository**"). 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
HSBC
MIZUHO INTERNATIONAL PLC
RBC CAPITAL MARKETS
DEUTSCHE BANK
JPMORGAN CAZENOVE
MORGAN STANLEY
THE ROYAL BANK OF SCOTLAND

The date of this Prospectus is 24 February 2009

IMPORTANT NOTICES

This Prospectus comprises 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 National Grid Gas and each of its subsidiary undertakings (together, the **"National Grid Gas Group"**) and National Grid Gas Finance (No 1) 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.

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

This Prospectus has been prepared on the basis that any offer of Instruments in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **"Relevant Member State"**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Instruments. Accordingly any person making or intending to make an offer in that Relevant Member State of Instruments which are the subject of an offering contemplated in this Prospectus as completed by 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 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.

Save for the Issuers and the Guarantor, no other party has separately verified the information contained in this Prospectus. None of the Dealers, the Arranger or the Trustee makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. Neither this Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by 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 “€” and “euro” are to the currency of those member states of the European Union which are participating in European Economic and Monetary Union pursuant to the Treaty 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, to the extent permitted by applicable laws and directives, over-allot Instruments or effect transactions with a view to supporting the market price of the Instruments at a level higher than that which might otherwise prevail. However, 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 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

This Prospectus should be read and construed in conjunction with (i) the audited consolidated annual financial statements of National Grid Gas for the financial years ended 31 March 2007 and 31 March 2008, in each case together with the audit report thereon and (ii) the Terms and Conditions set out on pages 22 to 50 of the prospectus dated 26 February 2008 relating to the Programme, each of 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.

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.

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 €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 Morgan Stanley & Co. International plc Royal Bank of Canada Europe Limited 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 Mellon
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 “**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 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

Definitive Instruments will be in such denominations as may be specified in the 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).

Fixed Rate Instruments

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

Floating Rate Instruments

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

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

Index Linked Instruments	<p>such rates of exchange as may be specified in the relevant Final Terms.</p> <p>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.</p>
Interest Periods and Rates of Interest	<p>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.</p>
Redemption	<p>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.</p> <p>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).</p>
Redemption by Instalments	<p>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.</p>
Other Instruments	<p>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.</p>
Optional Redemption	<p>The Final Terms issued in respect of each issue of Instruments will state whether such Instruments may be redeemed prior to their stated maturity at the option of the relevant Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.</p> <p>The relevant Issuer may elect to redeem all, but not some only, of the Instruments of any Series at their Residual Holding Redemption Amount (as set out in the relevant Final Terms) at any time if the Residual Holding Percentage (as set out in the relevant Final Terms) or more of the aggregate nominal amount of such Instruments originally issued shall have been redeemed or purchased and cancelled.</p>

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 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.
Events of Default	The events of default under the Instruments are as specified below under “Terms and Conditions of the Instruments - Events of Default”.
Early Redemption	Except as provided in “Optional Redemption” above and subject always to any laws, regulations and directives applicable to the relevant currency in which such Instruments are denominated, Instruments will be redeemable at the option of the relevant 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 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.
Governing Law	English.
Listing	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.
Ratings	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.
Selling Restrictions	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**”), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

Terms and Conditions

The Terms and Conditions applicable to each Series will be as agreed between the 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.

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. These expose National Grid Gas to costs and liabilities relating to its operations and properties. 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 the Office of Gas and Electricity Markets ("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 has substantially completed 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, terrorist attack, sabotage, other intentional acts, upstream or cross-border supply disruptions 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 in accordance with established procedures approved by the Health and Safety Executive, which, in extreme circumstances, may require National Grid Gas to disconnect consumers which may damage its reputation.

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 on borrowing and debt arrangements, changes to credit ratings, adverse changes in the global credit markets 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. National Grid Gas's borrowing capacity and its cost of borrowing could also be affected by adverse changes in the global credit markets. 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 the National Grid plc UK Pension Scheme could adversely affect National Grid Gas's results of operations

National Grid Gas participates in a 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 Union, 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:

- (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 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.

Further information on the EU Savings Directive is contained on page 66 of this Prospectus.

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 €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 €50,000 (or its equivalent) that are not integral multiples of €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.

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 €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 24 February 2009 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 24 February 2009 has been entered into in relation to the Instruments between the Issuers, the Guarantor, the Trustee, The Bank of New York Mellon 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 24 February 2009 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:

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

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

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

(e) Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts, Rate Multipliers and Rounding

- (i) 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.
- (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 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.

(g) 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.

(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:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a **“TARGET Business Day”**); and/or
- (iii) in the case of a currency and/or one or more Business Centres as specified in the relevant Final Terms, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency or, if no currency is indicated, generally in each of the Business Centres.

“Calculation Amount” means the amount specified as such in the relevant Final Terms.

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

- (i) if “Actual/Actual” or “Actual/Actual-ISDA” is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365;
- (iii) if “Actual/360” is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 360;

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

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

where:

“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 and D₁ is greater than 29, in which case D₂ will be 30 ;

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

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

where:

“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;

- (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:

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

where:

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

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

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

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

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

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case 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:

- (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 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
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

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

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

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

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

“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.

“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 (known as TARGET 2) System which was launched on 19 November 2007 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.

Where the RPI (as defined below) is specified as the Index or Index Figure (each as defined below) in the relevant Final Terms, the following Conditions 4.1 to 4.6 will apply:

4.1 Definitions

“Base Index Figure” means (subject to Condition 4.3(ii)) 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.

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

4.5 Cessation of or Fundamental Changes to the Index

- (i) If (1) the Trustee and the Issuer [and the Guarantor]* have 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 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]* 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.

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 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).

Where HICP (as defined below) is specified as the Index or Index Level (each as defined below) in the relevant Final Terms, the following Conditions 4.7 to 4.10 will apply:

4.7 Definitions

“Base Index Level” means the base index level as specified in the relevant Final Terms;

“Index” or **“Index Level”** means (subject as provided in Condition 4.9) the Non-revised Index of Consumer Prices excluding tobacco or relevant Successor Index (as defined in Condition 4.9(i)), measuring the rate of inflation in the European Monetary Union excluding tobacco, expressed as an index and published by Eurostat (the **“HICP”**). The first publication or announcement of a level of such index for a calculation month (as defined in Condition 4.9(i)) shall be final and conclusive and later revisions to the level for such calculation month will not be used in any calculations. Any reference to the Index Level which is specified in these Conditions as applicable to any day (**“d”**) in any month (**“m”**) shall, subject as provided in Condition 4.9, be calculated as follows:

$$I_d = HICP_{m-3} + \frac{nbd}{qm} \times (HICP_{m-2} - HICP_{m-3})$$

where:

I_d is the Index Level for the day d

HICP $m-2$ is HICP for month m-2

HICP $m-3$ is HICP for month m-3

nbd is the actual number of days from and excluding the first day of month m to but including day d; and

q_m is the actual number of days in month m,

provided that if Condition 4.9 applies, the Index Level shall be the Substitute Index Level determined in accordance with such Condition.

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

“Index Business Day” means a day on which the TARGET System is operating;

“Index Determination Date” means in respect of any date for which the Index Level is required to be determined, the fifth Index Business Day prior to such date;

“Index Ratio” applicable to any date means the Index Level applicable to the relevant Index Determination Date divided by the Base Index Level and rounded to the nearest fifth decimal place, 0.000005 being rounded upwards; and

“Related Instrument” means an inflation-linked bond selected by the Calculation Agent that is a debt obligation of one of the governments (but not any government agency) of France, Italy, Germany or Spain and which pays a coupon or redemption amount which is calculated by reference to the level of inflation in the European Monetary Union with a maturity date which falls on (a) the same day as the Maturity Date, (b) the next longest maturity date after the Maturity Date if there is no such bond maturing on the Maturity Date, or (c) the next shortest maturity before the Maturity Date if no bond defined in (a) or (b) is selected by the Calculation Agent. The Calculation Agent will select the Related Instrument from such of those inflation-linked bonds issued on or before the relevant Issue Date and, if there is more than one such inflation-linked bond maturing on the same date, the Related Instrument shall be selected by the Calculation Agent from such of

those bonds. If the Related Instrument is redeemed, the Calculation Agent will select a new Related Instrument on the same basis, but selected from all eligible bonds in issue at the time the originally selected Related Instrument is redeemed (including any bond for which the redeemed originally selected Related Instrument is exchanged).

4.8 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 applicable to the date on which such payment falls to be made and rounded in accordance with Condition 3.2.4(e).

4.9 Changes in Circumstances Affecting the Index

(i) Delay in publication of Index:

(a) If the Index Level relating to any month (the “**calculation month**”) which is required to be taken into account for the purposes of the determination of the Index Level for any date (the “**Relevant Level**”) has not been published or announced by the day that is five Business Days before the date on which such payment is due (the “**Affected Payment Date**”), the Calculation Agent shall determine a Substitute Index Level (as defined below) (in place of such Relevant Level) by using the following methodology:

- (1) if applicable, the Calculation Agent will take the same action to determine the Substitute Index Level for the Affected Payment Date as that taken by the calculation agent (or any other party performing the function of a calculation agent (whatever such party’s title)) pursuant to the terms and conditions of the Related Instrument;
- (2) if (1) above does not result in a Substitute Index Level for the Affected Payment Date for any reason, then the Calculation Agent shall determine the Substitute Index Level as follows:

$$\text{Substitute Index Level} = \text{Base Level} \times (\text{Latest Level} / \text{Reference Level})$$

where:

“**Base Level**” means the level of the Index (excluding any flash estimates) published or announced by Eurostat (or any successor entity which publishes such index) in respect of the month which is 12 calendar months prior to the month for which the Substitute Index Level is being determined;

“**Latest Level**” means the latest level of the Index (excluding any flash estimates) published or announced by Eurostat (or any successor entity which publishes such index) prior to the month in respect of which the Substitute Index Level is being calculated; and

“**Reference Level**” means the level of the Index (excluding any flash estimates) published or announced by Eurostat (or any successor entity which publishes such index) in respect of the month that is 12 calendar months prior to the month referred to in “Latest Level” above.

(b) If a Relevant Level is published or announced at any time after the day that is five Business Days prior to the next Interest Payment Date, such Relevant Level will not be used in any calculations. The Substitute Index Level so determined pursuant to this Condition 4.9(i) will be the definitive level for that calculation month.

- (ii) Cessation of publication: If the Index Level has not been published or announced for two consecutive months or Eurostat announces that it will no longer continue to publish or announce the Index, then the Calculation Agent shall determine a successor index in lieu of any previously applicable Index (the “**Successor Index**”) by using the following methodology:
- (a) if at any time (other than after an Early Termination Event (as defined below) has been designated by the Calculation Agent pursuant to paragraph (e) below) a successor index has been designated by the calculation agent (or any other party performing the function of a calculation agent (whatever such party’s title)) pursuant to the terms and conditions of the Related Instrument, such successor index shall be designated the “**Successor Index**” for the purposes of all subsequent Interest Payment Dates, notwithstanding that any other Successor Index may previously have been determined under paragraphs (b), (c) or (d) below; or
 - (b) if a Successor Index has not been determined under paragraph (a) above (and there has been no designation of an Early Termination Event pursuant to paragraph (e) below), and a notice has been given or an announcement has been made by Eurostat (or any successor entity which publishes such index) specifying that the Index will be superseded by a replacement index specified by Eurostat (or any such successor), and the Calculation Agent determines that such replacement index is calculated using the same or substantially similar formula or method of calculation as used in the calculation of the previously applicable Index, such replacement index shall be the Index from the date that such replacement index comes into effect; or
 - (c) if a Successor Index has not been determined under paragraphs (a) or (b) above (and there has been no designation of an Early Termination Event pursuant to paragraph (e) below), the Calculation Agent shall ask five leading independent dealers to state what the replacement index for the Index should be. If between four and five responses are received, and of those four or five responses, three or more leading independent dealers state the same index, this index will be deemed the “**Successor Index**”. If three responses are received, and two or more leading independent dealers state the same index, this index will be deemed the “**Successor Index**”. If fewer than three responses are received, the Calculation Agent will proceed to paragraph (d) below;
 - (d) if no Successor Index has been determined under paragraphs (a), (b) or (c) above on or before the fifth Index Business Day prior to the next Affected Payment Date the Calculation Agent will determine an appropriate alternative index for such Affected Payment Date, and such index will be deemed the “**Successor Index**”;
 - (e) if the Calculation Agent determines that there is no appropriate alternative index, the Issuer and the Instrumentholders shall, in conjunction with the Calculation Agent, determine an appropriate alternative index. If the Issuer and the Instrumentholders, in conjunction with the Calculation Agent, do not reach agreement on an appropriate alternative index within a period of ten Business Days, then an Early Termination Event will be deemed to have occurred and the Issuer will redeem the Instruments pursuant to Condition 4.10.
- (iii) Rebasing of the Index: If the Calculation Agent determines that the Index has been or will be rebased at any time, the Index as so rebased (the “**Rebased Index**”) will be used for the purposes of determining each relevant Index Level from the date of such rebasing; provided, however, that the Calculation Agent shall make such adjustments as are made by the calculation agent (or any other party performing the function of a calculation agent (whatever such party’s title)) pursuant to the terms and conditions of the Related Instrument to the levels of the Rebased Index so that the Rebased Index levels reflect the same rate of

inflation as the Index before it was rebased. Any such rebasing shall not affect any prior payments made.

- (iv) **Material Modification Prior to Interest Payment Date:** If, on or prior to the day that is five Business Days before an Interest Payment Date, Eurostat announces that it will make a material change to the Index then the Calculation Agent shall make any such adjustments to the Index consistent with adjustments made to the Related Instrument .
- (v) **Manifest Error in Publication:** If, within thirty days of publication, the Calculation Agent determines that Eurostat (or any successor entity which publishes such index) has corrected the level of the Index to remedy a manifest error in its original publication, the Calculation Agent will notify the parties of (A) that correction, (B) the amount that is payable as a result of that correction and (C) take such other action as it may deem necessary to give effect to such correction.

4.10 Redemption for Index Reasons

If an Early Termination Event as described under Condition 4.9(ii)(e) is deemed to have occurred, the Issuer will, 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 4.8).

5 Redemption, Purchase and Options

5.1 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 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, as the case may be)]*), the Issuer may, at its option, on any Interest Payment Date or, if so specified in the relevant Final Terms, at any time, having given not less than 30 nor more than 45 days' notice to the Instrumentholders 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 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 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

5.5.1 Residual Holding Call Option

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

5.5.2 Call Option

If Call Option is specified in the relevant Final Terms as applicable, 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 as applicable, the Issuer shall, at the option of the holder of any such Instrument, upon the holder of such Instrument giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified 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.

5.8 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.

5.9 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 [, 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

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.

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.
- 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:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in euro), which is a TARGET Business Day.

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 or pursuant to Condition 6 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.

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 [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
- (c) **Winding-up:** a resolution is passed, or a final order of a court in the United Kingdom is made and, where possible, not discharged or stayed within a period of 90 days, that the Issuer [or the Guarantor]* be wound up or dissolved; or
- (d) **Enforcement Proceedings:** attachment is made of the whole or substantially the whole of the assets or undertaking of the Issuer [or the Guarantor]* and such attachment is not released or cancelled within 90 days or an encumbrancer takes possession or an administrative or other receiver or similar officer is appointed of the whole or substantially the whole of the assets or undertaking of the Issuer [or the Guarantor]* or an administration or similar order is made in relation to the Issuer [or the Guarantor]* and such taking of possession, appointment or order is not released, discharged or cancelled within 90 days; or
- (e) **Insolvency:** the Issuer [or the Guarantor]* ceases to carry on all or substantially all of its business or is unable to pay its debts within the meaning of Section 123(1)(e) or Section 123(2) of the Insolvency Act 1986; or
- (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:

- (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*, (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 defined in the Trust Deed) or any subsidiary/any other company][±] 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

[±] 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".

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.

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 any non-contractual obligations arising out of or in connection with them shall be governed by, and 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.

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

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

Exchange 1 Temporary Global Instruments

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

- (i) if the relevant Final Terms indicates that such Global Instrument is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "Summary of the Programme — Selling Restrictions"), in whole, but not in part, for the Definitive Instruments defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Instrument or, if so provided in the relevant Final Terms, for Definitive Instruments.

2 Permanent Global Instruments

Each permanent Global Instrument will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under "Partial Exchange of Permanent Global Instruments", in part for Definitive Instruments if the permanent Global Instrument is held on behalf of Euroclear or Clearstream, Luxembourg or any 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 (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 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 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 Instruments recorded in those records will be reduced accordingly.

8 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.

9 Trustee's Powers

In considering the interests of Instrumentholders while any Global Instrument is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Instrument and may consider such interests as if such accountholders were the holders of the Instruments represented by such Global Instrument.

10 Events of Default

Each Global Instrument provides that the Trustee, at its discretion, may, and if so requested by holders of at least one-quarter in 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.

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, a direct wholly-owned subsidiary of National Grid Gas Holdings Limited (formerly known as National Grid Gas Holdings plc) and an indirect wholly-owned subsidiary of National Grid plc, 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 four principal activities:

- (i) owning and operating the high pressure gas national transmission system (“**NTS**”) in Great Britain, comprising approximately 4,326 miles (7,400 km) 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 (131,200 km) of distribution pipeline, conveying gas on behalf of approximately 33 active gas shippers to around 10.8 million customers, 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 Limited. National Grid Metering Limited 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 Limited 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 Limited 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 %
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:

Name	Principal Occupation	Principal Activities outside National Grid Gas Group	Business Address
Mark Fairbairn	Director	Executive Director of National Grid plc and a director of National Grid Gas Holdings Limited, 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, and National Grid Grain LNG Limited.	1-3 Strand London WC2N 5EH
Stuart Humphreys	Director	Director of National Grid Electricity Transmission plc, National Grid Interconnectors Limited and NG Leasing Limited, Britned Development Ltd and National Grid Grain LNG Limited.	National Grid House Warwick Technology Park Gallows Hill Warwick CV34 6DA
Malcolm Cooper	Director	Director of National Grid Gas Holdings Limited, National Grid Electricity Transmission plc, British Transco Capital Inc., British Transco Finance Inc., National Grid Commercial Holdings Limited, 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 Limited.	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 1986 (the “**Gas Act**”). The regimes for gas and electricity are administered in Great Britain by a sectoral regulator, the Gas and Electricity Markets Authority (“**GEMA**”) through its secretariat, the Office of Gas and Electricity Markets (“**Ofgem**”) which was established by the Utilities Act 2000. In addition, the Health and Safety Executive is responsible for safety-related regulation of the gas transportation and LNG storage businesses.

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 or DN businesses (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 Limited. This consent was renewed by GEMA in May 2005. As a result, National Grid Gas Holdings Limited 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 DNs 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 businesses 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.

The UK continues to be in a period of changing energy supply patterns, as the decline in UK continental shelf gas reserve means more reliance is placed on imported gas for both consumption and use in power generation. As a consequence of the decline in gas production from the UK continental shelf, National Grid Gas's latest forecast is that the UK will import around 50 per cent. of its gas requirements by the end of the decade.

These changes are impacting National Grid Gas's gas networks with significant investment underway and planned to link new gas import facilities with domestic, business and industrial consumers. For example, activity to increase the UK's import capability has involved the development of new import infrastructure by National Grid Grain LNG Limited and other market participants. During the year ended 31 March 2008, a number of significant infrastructure projects were commissioned, including a major gas pipeline in south Wales, linking the Milford Haven LNG import terminals to the National Grid Gas's network.

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 1998. In May 2006, Ofgem issued a statement of objections setting out why it believed 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 £41.6 million. National Grid plc has announced it continues to believe it has not breached competition law and has appealed Ofgem's decision to the Competition Appeal Tribunal. National Grid Gas expects to learn the outcome of this appeal during 2009.

On 15 January 2007 National Grid Gas accepted 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 £0.9 billion baseline five year capital expenditure allowance and a £0.3 billion five year operating expenditure allowance. 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.

In addition, National Grid Gas has also accepted Ofgem's final proposals for the incentive schemes covering:

- (i) the external costs of its system operation role to apply for one year from 1 April 2008; 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 National Grid Gas's gas transporter licence in respect of its NTS operations.

National Grid Gas is currently in discussion with Ofgem about the incentive scheme covering the external costs of its system operation role to apply from 1 April 2009. These discussions are ongoing, but the outcome of them will not be known until the end of the first quarter of 2009.

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 4.3 per cent. post-tax real rate of return on National Grid Gas's regulatory asset value, a £0.7 billion baseline five year capital expenditure allowance, a £1.9 billion five year operating expenditure allowance and £2.2 billion for its mains replacement expenditure over the five years. The changes to the licence applicable to National Grid Gas's retained gas distribution business (i.e. DNs) reflecting these proposals were implemented with effect 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. Ofgem began a consultation process in January 2009 on a change to National Grid Gas's licence in respect of the NTS business in order to give it the power to suspend these price caps in certain circumstances.

National Grid plc's current dividend policy is to increase dividends per ordinary share by 8 per cent. per annum until 31 March 2012.

In October 2008 National Grid Gas's internal controls identified that operational data for an activity in its UK Gas Distribution business was misreported as at 31 March 2008. The matter has been reported to National Grid Gas's regulators and is the subject of ongoing investigation.

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 Limited.

Subsidiaries

National Grid Gas Finance (No 1) has no subsidiaries as at the date of this 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.
Steve Noonan	Director	Director of NGH1 and certain other wholly owned subsidiaries of National Grid plc.
Mark Flawn	Director	Director NGH1 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.
Christopher Waters	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.

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”.

UNITED KINGDOM TAXATION

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Instruments. It is based on current law and the practice of HM Revenue and Customs, which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Instruments. The comments relate only to the position of persons who are absolute beneficial owners of the Instruments. Prospective Instrumentholders should be aware that the particular terms of issue of any series of Instruments as specified in the relevant Final Terms may affect the tax treatment of that and other series of Instruments. The following is a general guide 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 Regulated Market of 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 will generally fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available following a direction from HM Revenue and Customs under the provisions of any applicable double taxation treaty, or to any other exemption which may apply. However, the obligation to withhold will not apply if the relevant interest is paid on Instruments with a maturity date of less than one year from the date of issue and which 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 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 2009.

Information may also be required to be reported in accordance with regulations made pursuant to the EU Savings Directive (see (E) below).

(C) Payments under the Guarantee

Instrumentholders should be aware that the withholding tax treatment of payments made under the Guarantee is not free from uncertainty. Specifically, 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 20 per cent.) subject to such relief as may be available following a direction from HM Revenue and Customs 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.

(D) Other Rules Relating to United Kingdom Withholding Tax

1. 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.
2. 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.
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.
4. 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. 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.
5. 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 or otherwise 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 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.

On 13 November 2008 the European Commission published a proposal for amendments to the Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

PLAN OF DISTRIBUTION

Summary of Agreement

Subject to the terms and on the conditions contained in an Amended and Restated Dealer Agreement dated 24 February 2009 (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 of 1986, as amended, and regulations under it.

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

- (a) 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 such 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 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,

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 relevant Issuer or the Guarantor (if applicable);
- (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 or the Guarantor (if applicable); and

- (c) it has complied and will comply with all applicable provisions of the FSMA (and all rules and regulations made pursuant to the FSMA) with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

Japan

The Instruments have not been and will not be registered under the Financial Instruments and Exchange 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, 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 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, the Guarantor (if applicable) 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, the Guarantor (if applicable) 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 none of the Issuers, the Guarantor (if applicable) or 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 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 24 February 2009 [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[, the Guarantor]* and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus [and the supplementary Prospectus(es)] [is] [are] available for viewing at, and copies may be obtained from, the registered address of the Issuer at 1-3 Strand, London WC2N 5EH and the office of the Issuing and Paying Agent at One Canada Square, London E14 5AL and are available for viewing on the website of Regulatory News Services operated by the London Stock Exchange at www.londonstockexchange.com/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**”) contained in the Trust Deed dated [original date] and set forth in the Prospectus dated [original date] [and the supplementary Prospectus dated [•]] and incorporated by reference into the Prospectus dated [current date] and which are attached hereto. This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the 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 [•]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. The Prospectuses [and the supplementary Prospectus] [is/are] available for viewing at, and copies may be obtained from, the registered address of the Issuer at 1-3 Strand, London WC2N 5EH and the office of the Issuing and Paying Agent at One Canada Square, London E14 5AL and are available for viewing on the website of Regulatory News Services operated by the London Stock Exchange at www.londonstockexchange.com/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.

[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 | (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: | [•] |
| | <i>(If fungible with an existing Series, details of that Series, including the date on which the Instruments become fungible).]</i> | |
| 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 |
| | | <i>[Note – where multiple denominations above €50,000 (or equivalent) are being used the following sample wording should be followed:
[€50,000] and integral multiples of [€1,000] in excess thereof [up to and including €99,000]. No Instruments in definitive form will be issued with a denomination above [€99,000]].]</i> |
| | Calculation Amount: | <i>[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]</i> |
| 7 | [(i)] Issue Date: | [•] |
| | [(ii)] Interest Commencement Date: | [•] |
| 8 | Maturity Date: | <i>[specify date or (for Floating Rate Instruments) Interest Payment Date falling in or nearest to the relevant month and year]</i> |
| 9 | Interest Basis: | [[•] per cent. Fixed Rate]
[[specify reference rate] +/- [•] per cent. Floating Rate] |

⁺ Delete as applicable.

^{*} Only applicable where National Grid Gas Finance (No 1) is the Issuer.

¹ Instruments which have a maturity of less than one year must have a minimum denomination of £100,000 (or it equivalent in other currencies).

		[Zero Coupon] [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)]
11	Change of Interest or Redemption/Payment Basis:	[Specify details of any provision for convertibility of 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]*
	[(iii)] Date [Board] approval for issuance of Instruments [and the Guarantee]* obtained:	[•] (N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Instruments[or related Guarantee])]
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 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 interest for Fixed Rate Instruments:	[Not Applicable/give details]

* Only applicable where National Grid Gas Finance (No 1) is the Issuer.

16 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: [•]
 - (iii) First Interest Payment Date: [•]
 - (iv) Business Day Convention: [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)): [•]
 - (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/*specify dates*]
 - (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)):
 - Relevant Time: [•]
 - 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*]]
 - Primary Source for Floating Rate: [*Specify relevant screen page or "Reference Banks"*]
 - Reference Banks (if Primary Source is "Reference Banks"):
[*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 amount*]
 - 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: [•]

	– 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:	[•]
17	Zero Coupon Instrument Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(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:	[•]
18	Index Linked Interest Instrument	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Index/Formula:	<i>[give or annex details]</i>
	(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:	[•]
	(vi) First Interest Payment Date:	[•]
	(vii) Interest Period(s):	[•]
	(viii) Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ <i>other (give details)</i>]
	(ix) Minimum Indexation Factor:	[Not Applicable/ <i>specify</i>]
	(x) Business Centre(s) (Condition 3.2.4(i)):	[•]

- (xi) Maximum Indexation Factor: [Not Applicable/*specify*]
- (xii) Limited Indexation Month(s) or Period for calculation of Limited Indexation Factor: [•] per cent. per annum
- (xiii) Base Index Figure (Condition 4.1): [•]
- (xiv) Day Count Fraction (Condition 3.2.4(i)): [•]
- (xv) "Index" or "Index Figure" (Condition 4.1): Sub-paragraph [(i)/(ii) (iii)] of the definition of "Index" or "Index Figure" as set out in Condition 4.1 shall apply
- (xvi) Reference Gilt: [•]

19 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 3.2.4(i)): [•]

PROVISIONS RELATING TO REDEMPTION

20 Residual 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 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: [•]]

21 Call Option*

[Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

* [This does not include the tax call in Condition 5.2].

	(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	[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):	[•]
	(v) Option Period:	[•]
23	Final Redemption Amount of each Instrument	[[•] per Calculation Amount/other/see Appendix]
	In cases where the Final Redemption Amount is Index-Linked:	
	(i) Index/Formula:	[give or annex details]
	(ii) Party responsible for calculating the Final Redemption Amount (if not the Calculation Agent):	[•]
	(iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[•]
	(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:	[•]

- | | |
|---|----------------------------|
| (vi) Payment Date: | [•] |
| (vii) Minimum Final Redemption Amount: | [•] per Calculation Amount |
| (viii) Maximum Final Redemption Amount: | [•] per Calculation Amount |

24 **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 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 5.2): | [Yes/No] |
| (iii) Unmatured Coupons to become void upon early redemption (Condition 6.5): | [Yes/No/Not Applicable] |

GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

25 **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 "[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]".)

New Global Note intended to be held in a manner which would allow Eurosystem eligibility:

[No¹/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

¹ Specify "No" if the Instruments being issued are Classic Global Notes/CGNs.

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]*

- 26 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(x) relate]*
- 27 Talons for future Coupons or Receipts to be attached to Definitive Instruments (and dates on which such Talons mature): *[Yes/No. If yes, give details]*
- 28 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 Guarantor] to forfeit the Instruments and interest due on late payment: *[Not Applicable/give details]*
- 29 Details relating to Instalment Instruments: *[Not Applicable/give details]*
- Amount of each instalment: *[•]*
 - Date on which each payment is to be made: *[•]*
 - Maximum Instalment Amount: *[•]*
 - Minimum Instalment Amount: *[•]*
- 30 Redenomination, renominatisation and reconventioning provisions: *[Not Applicable/give details]*
- 31 Other final terms: *[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]*
- (ii) Stabilising Manager(s) (if any): *[Not Applicable/give name(s)]*
- 33 If non-syndicated, name of Dealer: *[Not Applicable/give name]*
- 34 U.S Selling Restrictions Reg. S Compliance Category 2; [TEFRA C] / [TEFRA D] / [TEFRA not applicable]
- 35 Additional selling restrictions: *[Not Applicable/give details]*

[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.]

Signed on behalf of the Issuer:

By:
Duly authorised

[Signed on behalf of the Guarantor:

By:
Duly authorised]*

PART B – OTHER INFORMATION*

1 LISTING

- | | |
|---|--|
| (i) Listing: | [London/ <i>other (specify)</i> /None] |
| (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.]
<i>(Where documenting a fungible issue need to indicate that original Instruments are already admitted to trading.)</i> |
| (iii) Estimate of total expenses related to admission to trading: | [•] |

* Only applicable where National Grid Gas Finance (No 1) is the Issuer.

* 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.

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 [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.)]

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

[(i)] Reasons for the offer:

[•]

[(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.]*

(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.]*

6 [Index Linked Instruments only – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER 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]

7 [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.]

8 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: Delivery [against/free of] payment

Names and addresses of initial Paying Agent(s): [•]

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

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]][•]]

Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 11.1: [Not Applicable/give details]

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 26 February 2009. 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 61, 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

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 61, there has been no significant change in the financial or trading position of the National Grid Gas Group since 31 March 2008.
- (10) There has been no material adverse change in the prospects of National Grid Gas or the National Grid Gas Group since 31 March 2008.
- (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 2007 and 31 March 2008, 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 Mellon, 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 2007 and 31 March 2008, together with the audit report thereon; and
 - (v) the amended and restated Trust Deed dated 24 February 2009 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

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB

HSBC Bank plc
8 Canada Square
London E14 5HQ

J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ

Mizuho International plc
Bracken House
One Friday Street
London EC4M 9JA

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA

Royal Bank of Canada Europe Limited
71 Queen Victoria Street
London EC4V 4DE

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 Mellon
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



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

24 March 2009

Mr Robert B. Catell
62 Osborne Road
Garden City
New York 11530
USA

Non-Executive Director Contract for Services

We are delighted that you will continue to serve on the Board of Directors of National Grid plc (the “**Company**”) until the conclusion of the 2009 AGM. In that regard, I am writing to advise that your appointment to the Board as a **Non-Executive Director** of National Grid plc will take effect immediately following the Effective Date (as defined in the Variation Agreement dated 24 March 2009 between yourself, National Grid USA and the Company).

Appointment

Your appointment as a Non-Executive Director will commence immediately following the Effective Date and will terminate as of the conclusion of the Company’s 2009 AGM, unless otherwise terminated earlier in accordance with the Company’s Articles of Association or by and at the discretion of either party upon 45 days’ written notice. In the event your appointment is terminated before the date of the 2009 AGM, you will not be entitled to compensation or damages for such termination.

Time Commitment

Overall, we anticipate a time commitment of approximately 2-2½ days on average per month, taking into account reading and preparation time for Board and Committee meetings. This will include attendance at Board meetings plus ad hoc and emergency meetings, the AGM, any extraordinary general meetings, Board strategy sessions and site visits. It is planned that certain Board meetings will be held at the Company’s operational sites (in the UK and outside the UK).

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 Listing Rules and Combined Code and obligations arising as a result of the Company's shares being listed on the New York Stock Exchange by virtue of its ADR programme. You will also be subject to the Company's Share Dealing Code.

Role

All Directors, both 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 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 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 and other roles

This letter refers to your appointment as a Non-Executive Director of the Company. You will continue to serve on the Risk & Responsibility Committee, hold the position of Deputy Chairman of the Company and act as non – executive chairman of National Grid USA in each case until the Company's 2009 AGM.

Fees

You will be paid an annual retainer fee of £45,000 gross per annum which will be paid monthly. This amount will be prorated for the period of your appointment as a Non-Executive Director.

You will also be entitled to attendance fees of £1,500 for each Board meeting held in your country of residence 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 in US Dollars, using the exchange rate on the day on which payment is made, and subject to any UK deductions required to be made by the Company, including UK income tax and National Insurance Contributions. The Company shall provide you or your tax advisor, upon request, with any documentation needed to claim a foreign tax credit.

The Company shall not withhold from any amount payable under this letter agreement any amount on account of US federal, state or local income taxes or payroll taxes (such as FICA, unemployment, workers' compensation, disability, or similar tax or charge). You shall be solely responsible for all tax reporting and payments and applicable state-mandated insurance obligations, including workers' compensation insurance, arising out of the performance of the services.

Independence

The Board has determined you not to be "independent" according to the provisions of the Combined Code.

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 Group Company Secretary and General Counsel as soon as apparent.

Confidentiality

You will, 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 Group Company Secretary and General Counsel.

Insurance

The Company has Directors' and Officers' liability insurance and it is intended to maintain such cover for the full term of your appointment.

Indemnity The Articles of Association of the Company and relevant legislation in the UK allow the Company to indemnify Directors in relation to legal action taken against them (either actual or threatened) as may arise by virtue of their position in the Company.

The deed of indemnity between you and the Company dated 25 September 2007 continues to apply in your role as Non-Executive Director.

Independent Professional Advice

Occasions may arise when you consider that you need independent professional advice in the furtherance of your duties as a Director. If you believe this advice is necessary, please consult beforehand with either the Chairman or the Group Company Secretary and General Counsel. The Company will reimburse the full cost of authorized expenditures 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.

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.

Counterparts

This letter may be executed in counterparts, each of which will constitute an original, and all of which, when taken together, will constitute one agreement. If a copy or counterpart of this letter agreement is originally executed and such copy or counterpart is thereafter transmitted electronically by facsimile or email transmission of a “.pdf” (or similar) file, such facsimile or “.pdf” document shall for all purposes be treated as if manually executed by the party whose signature so appears.

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 continuing to work with you.

NATIONAL GRID PLC

/s/ Sir John Parker

Sir John Parker

Chairman, National Grid plc

Agreed and accepted this 24th day of March 2009 by:

/s/Robert B. Catell

Robert B. Catell

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
3	ALBERTA NORTHEAST GAS LTD	100 CUMMINGS CENTER, SUITE 457G, BEVERLEY MA 01915 USA
4	ARLINGTON ASSOCIATES LP	535 BOYLSTON STREET, BOSTON MA 02116 USA
5	ASSETHALL LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
6	BEEGAS NOMINEES LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
7	BIRCH SITES LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
8	BLACKWATER A LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
9	BLACKWATER B LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
10	BLACKWATER C LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
11	BLACKWATER D LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
12	BLACKWATER E LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
13	BLACKWATER H LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
14	BLACKWATER J LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
15	BLUE-NG (HOLDINGS) LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
16	BLUE-NG LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
17	BOSTON GAS COMPANY	52 SECOND AVENUE WALTHAM MA 02451 USA
18	BRITISH TRANSCO CAPITAL, INC.	CT CORPORATION, CORPORATION TRUST CENTER , 1209 ORANGE STREET, WILMINGTON, DELAWARE, 19801, USA
19	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
20	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
21	BRITISH TRANSCO FINANCE (NO 3) LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
22	BRITISH TRANSCO FINANCE (NO 5) LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
23	BRITISH TRANSCO FINANCE, INC.	CT CORPORATION, CORPORATION TRUST CENTER , 1209 ORANGE STREET, WILMINGTON, DELAWARE, 19801, USA
24	BRITISH TRANSCO INTERNATIONAL FINANCE BV	SCHOUWBURGPLEIN 30-34, ROTTERDAM 3012 CL, THE NETHERLANDS
25	BRITNED DEVELOPMENT LIMITED	1-3 STRAND, LONDON, WC2N 5EH
26	BROKEN BRIDGE CORP.	LAWYERS INCORPORATING SERVICE 14 CENTRE STREET CONCORD NH 03301
27	C4GAS SAS	PARK ATRIUM, 11 RUE DES COLONIES, 1000 BRUSSELS, BELGIUM
28	COLONIAL GAS COMPANY	52 SECOND AVENUE WALTHAM MA 02451 USA
29	CONNECTICUT YANKEE ATOMIC POWER COMPANY	362 INJUN HOLLOW ROAD, EAST HAMPTON, CT 006424-3099, UNITED STATES
30	DIRECT GLOBAL POWER, INC	1462 ERIE BOULEVARD SCHENECTADY NY 12305 USA
31	EASTERN ASSOCIATED SECURITIES CORP.	52 SECOND AVENUE WALTHAM MA 02451 USA
32	EASTERN RIVERMOOR COMPANY, INC	52 SECOND AVENUE WALTHAM MA 02451 USA
33	ELEXON LIMITED	4TH FLOOR, 350 EUSTON ROAD, LONDON, NW1 3AW
34	ENERGIS PLC (IN LIQUIDATION)	1 MORE LONDON PLACE LONDON SE1 2AF
35	ENERGYNORTH NATURAL GAS, INC.	LAWYERS INCORPORATING SERVICE 14 CENTRE STREET CONCORD NH 03301
36	ENPORIAN, INC	TWO HARBOUR PLACE, 302 KNIGHTS RUN AVENUE, TAMPA FL 33602 USA
37	ESSEX GAS COMPANY	CORPORATION SERVICE COMPANY 84 STATE STREET BOSTON MA 02109
38	EUA ENERGY INVESTMENT CORPORATION	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
39	EUA FRC II ENERGY ASSOCIATES	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
40	EVIONYX, INC.	85 EXECUTIVE BOULEVARD, ELMSFORD NY 10523
41	FIRSTPOINT ENERGY CORPORATION	C/O THE COMPANY CORPORATION, 2711 CENTERVILLE ROAD, SUITE 400, WILMINGTON, DE 19808, UNITED STATES
42	FULCRUM CONNECTIONS (EMPLOYERS) LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
43	FULCRUM CONNECTIONS LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
44	FULCRUM GAS SERVICES LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
45	FULCRUM GROUP HOLDINGS LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
46	FULCRUM INFRASTRUCTURE SERVICES LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
47	FULCRUM PIPELINES LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
48	GRANITE STATE ELECTRIC COMPANY	9 LOWELL ROAD, SALEM, NEW HAMPSHIRE, USA
49	GRIDAMERICA HOLDINGS INC.	2711 CENTERVILLE ROAD, WILMINGTON, DELAWARE, USA
50	GRIDCOM LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
51	HONEOYE STORAGE CORPORATION	4511 EGYPT ROAD, CANANDAIGUA NY 14424 USA
52	INVERSIONES ABC LIMITADA	AVENIDA DEL CONDOR 760, HUECHURABA, SANTIAGO, CHILE
53	IROQUOIS GAS TRANSMISSION SYSTEM L.P.	ONE CORPORATE DRIVE, SUITE 606, SHELTON CT 06448 USA
54	IROQUOIS PIPELINE OPERATING COMPANY	1 CORPORATE DRIVE SUITE 600 SHELTON CT06484
55	ISLAND ENERGY SERVICES COMPANY, INC.	175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA
56	ISLANDER EAST PIPELINE COMPANY, LLC	70 EAST JOHNSON AVENUE CHESHIRE CT06410
57	JOINT RADIO COMPANY LIMITED	UNIT 108 THE BLACKFRIARS FOUNDRY, 156 BLACKFRIARS ROAD, LONDON, SE1 8EN
58	KEYSPAN (U.K.)	1-3 STRAND, LONDON, WC2N 5EH
59	KEYSPAN C.I. II, LTD	ONE METROTECH CENTER, BROOKLYN NY11201 USA
60	KEYSPAN C.I., LTD	ONE METROTECH CENTER, BROOKLYN NY11201 USA
61	KEYSPAN CI MIDSTREAM LIMITED	ONE METROTECH CENTER, BROOKLYN NY11201 USA
62	KEYSPAN CORPORATION	ONE METROTECH CENTER, BROOKLYN NY11201 USA
63	KEYSPAN ENERGY CORPORATION	ONE METROTECH CENTER, BROOKLYN NY11201 USA
64	KEYSPAN ENERGY DEVELOPMENT CO.	ONE METROTECH CENTER, BROOKLYN NY11201 USA
65	KEYSPAN ENERGY SERVICES INC.	303 MERRICK ROAD, SUITE 501, LYNBROOK NY11563 USA
66	KEYSPAN ENERGY SERVICES NEW JERSEY, LLC	ONE METROTECH CENTER, BROOKLYN NY11201 USA
67	KEYSPAN ENERGY SOLUTIONS, LLC	14-04 111 STREET, COLLEGE POINT NY11356 USA
68	KEYSPAN ENGINEERING ASSOCIATES, INC	ONE METROTECH CENTER, BROOKLYN NY11201 USA
69	KEYSPAN GAS EAST CORPORATION	ONE METROTECH CENTER, BROOKLYN NY11201 USA
70	KEYSPAN INTERNATIONAL CORPORATION	ONE METROTECH CENTER, BROOKLYN NY11201 USA

71	KEYSPAN LUXEMBOURG S.A.R.L.	175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA
72	KEYSPAN MHK, INC.	ONE METROTECH CENTER, BROOKLYN NY11201 USA
73	KEYSPAN MIDSTREAM INC.	ONE METROTECH CENTER, BROOKLYN NY11201 USA
74	KEYSPAN PLUMBING & HEATING SOLUTIONS, LLC	175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA
75	KEYSPAN PLUMBING SOLUTIONS, INC.	222-40 96TH AVENUE, QUEENS VILLAGE NY 11429
76	KEYSPAN TELEMETRY SOLUTIONS, LLC	CORPORATION SERVICE COMPANY 2711 CENTERVILLE ROAD SUITE 400 COUNTY OF NEW CASTLE WILMINGTON DELAWARE 19808
77	KSI CONTRACTING, LLC	67 B MOUNTAIN BOULEVARD EXT. WARREN NJ 07059 USA
78	KSI ELECTRICAL, LLC	67 B MOUNTAIN BOULEVARD EXT. WARREN NJ 07059 USA
79	KSI MECHANICAL, LLC	67 B MOUNTAIN BOULEVARD EXT. WARREN NJ 07059 USA
80	LAND MANAGEMENT AND DEVELOPMENT, INC	300 ERIE BOULEVARD WEST, SYRACUSE, NEW YORK, USA
81	LANDRANCH LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
82	LANDWEST, INC	300 ERIE BOULEVARD WEST, SYRACUSE, NEW YORK, USA
83	LATTICE ENERGY SERVICES LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
84	LATTICE GROUP EMPLOYEE BENEFIT TRUST LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
85	LATTICE GROUP INTERNATIONAL HOLDINGS LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
86	LATTICE GROUP PLC	1 - 3 STRAND, LONDON, WC2N 5EH
87	LATTICE GROUP TRUSTEES LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
88	LATTICE OPSCO LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
89	LATTICE TELECOM FINANCE (NO 1) LIMITED	15 - 19 ATHOL STREET, DOUGLAS, ISLE OF MAN, IM1 1LB
90	MAINE YANKEE ATOMIC POWER COMPANY	EDISON DRIVE, AUGUST, ME 04330, UNITED STATES
91	MAINSTREAM FORTY-SEVEN LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
92	MARQUEZ DEVELOPMENT CORP.	175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA
93	MASSACHUSETTS ELECTRIC COMPANY	55 BEARFOOT ROAD, NORTHBOROUGH MA 01532, UNITED STATES
94	MEERESTEIJN FINANCE BV	BIJLMERPLEIN 888, 1102 MG AMSTERDAM, THE NETHERLANDS
95	MELMAR LIMITED	THIRD FLOOR, ST. GEORGE'S COURT, UPPER CHURCH STREET, DOUGLAS, ISLE OF MAN, IM1 1EE
96	METRO ENERGY, L.L.C.	119 GREEN STREET, BROOKLYN NY11222 USA
97	METROWEST REALTY LLC	THE CORPORATION TRUST COMPANY, CORPORATION TRUST CENTER, 1209 ORANGE STREET, WILMINGTON, DELAWARE, USA
98	MILLENNIUM PIPELINE COMPANY, LLC	ONE METROTECH CENTER, BROOKLYN NY11201 USA
99	MYHOMEGATE, INC.	ONE METROTECH CENTER, BROOKLYN NY11201 USA
100	MYHOMEKEY.COM, INC.	ONE METROTECH CENTER, BROOKLYN NY11201 USA
101	MYSTIC STEAMSHIP CORPORATION	ONE METROTECH CENTER, BROOKLYN NY11201 USA
102	NANTUCKET ELECTRIC COMPANY	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
103	NATGRID FINANCE HOLDINGS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
104	NATGRID FINANCE LIMITED	1-3 STRAND, LONDON, WC2N 5EH
105	NATGRID INVESTMENTS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
106	NATGRID LIMITED	1-3 STRAND, LONDON, WC2N 5EH
107	NATGRID ONE LIMITED	1-3 STRAND, LONDON, WC2N 5EH
108	NATIONAL GRID (IOM) UK LTD	2ND FLOOR, SIXTY CIRCULAR ROAD, DOUGLAS, ISLE OF MAN, IM1 1SA
109	NATIONAL GRID (IRELAND) 1 LIMITED	25/28 NORTH WALL QUAY, DUBLIN 1, REPUBLIC OF IRELAND
110	NATIONAL GRID (IRELAND) 2 LIMITED	25/28 NORTH WALL QUAY, DUBLIN 1
111	NATIONAL GRID (SOUTHALL) GENERAL PARTNER LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
112	NATIONAL GRID (SOUTHALL) LP LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
113	NATIONAL GRID (US) HOLDINGS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
114	NATIONAL GRID (US) INVESTMENTS	1-3 STRAND, LONDON, WC2N 5EH
115	NATIONAL GRID (US) INVESTMENTS 2 LIMITED	1-3 STRAND, LONDON, WC2N 5EH
116	NATIONAL GRID (US) INVESTMENTS 3	1-3 STRAND, LONDON, WC2N 5EH
117	NATIONAL GRID (US) INVESTMENTS 4 LIMITED	1-3 STRAND, LONDON, WC2N 5EH
118	NATIONAL GRID (US) PARTNER 1 LIMITED	1-3 STRAND, LONDON, WC2N 5EH
119	NATIONAL GRID (US) PARTNER 2 LIMITED	1-3 STRAND, LONDON, WC2N 5EH
120	NATIONAL GRID AUSTRALIA PTY LTD	LEVEL 21, 140 WILLIAM STREET MELBOURNE AUSTRALIA
121	NATIONAL GRID BLUE POWER FINANCE LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
122	NATIONAL GRID BLUE POWER LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
123	NATIONAL GRID BRAZIL B.V.	1 - 3 STRAND, LONDON, WC2N 5EH
124	NATIONAL GRID BRAZIL FINANCE	1-3 STRAND, LONDON, WC2N 5EH
125	NATIONAL GRID BRAZIL TRANSMISSION B.V.	ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS
126	NATIONAL GRID CARBON LIMITED	1-3 STRAND, LONDON, WC2N 5EH
127	NATIONAL GRID CHILE B.V.	ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS
128	NATIONAL GRID COMMERCIAL HOLDINGS LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
129	NATIONAL GRID CORPORATE SERVICES LLC	175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA
130	NATIONAL GRID DEVELOPMENT HOLDINGS CORP.	ONE METROTECH CENTER, BROOKLYN NY11201 USA
131	NATIONAL GRID EIGHT	1-3 STRAND, LONDON, WC2N 5EH
132	NATIONAL GRID EIGHTEEN LIMITED	1-3 STRAND, LONDON, WC2N 5EH
133	NATIONAL GRID ELECTRIC SERVICES LLC	175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA
134	NATIONAL GRID ELECTRICITY TRANSMISSION PLC	1-3 STRAND, LONDON, WC2N 5EH
135	NATIONAL GRID ELEVEN	1-3 STRAND, LONDON, WC2N 5EH
136	NATIONAL GRID ENERGY MANAGEMENT, LLC	119 GREEN STREET, BROOKLYN NY11222 USA
137	NATIONAL GRID ENERGY SERVICES (NEW ENGLAND), LLC	62 SECOND AVENUE, BURLINGTON MA 01803 USA
138	NATIONAL GRID ENERGY SERVICES, LLC	ONE CHAPIN ROAD, P.O. BOX 2018, PINE BROOK NJ 07058
139	NATIONAL GRID ENERGY SUPPLY, LLC	ONE METROTECH CENTER, BROOKLYN NY11201 USA
140	NATIONAL GRID ENERGY TRADING SERVICES LLC	175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA
141	NATIONAL GRID ENGINEERING & SURVEY, INC.	175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA
142	NATIONAL GRID EXPLORATION AND PRODUCTION, LLC	ONE METROTECH CENTER, BROOKLYN NY11201 USA
143	NATIONAL GRID FIFTEEN LIMITED	1-3 STRAND, LONDON, WC2N 5EH
144	NATIONAL GRID FINANCE B.V.	ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS
145	NATIONAL GRID FIVE LIMITED	1-3 STRAND, LONDON, WC2N 5EH
146	NATIONAL GRID FOUR LIMITED	1-3 STRAND, LONDON, WC2N 5EH

147	NATIONAL GRID FOURTEEN LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
148	NATIONAL GRID GAS FINANCE (NO 1) PLC	1 - 3 STRAND, LONDON, WC2N 5EH
149	NATIONAL GRID GAS HOLDINGS LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
150	NATIONAL GRID GAS PLC	1 - 3 STRAND, LONDON, WC2N 5EH
151	NATIONAL GRID GENERATION LLC	175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA
152	NATIONAL GRID GLENWOOD ENERGY CENTER, LLC	ONE METROTECH CENTER, BROOKLYN NY11201 USA
153	NATIONAL GRID GOLD LIMITED	1-3 STRAND, LONDON, WC2N 5EH
154	NATIONAL GRID GRAIN LNG LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
155	NATIONAL GRID HOLDINGS B.V.	ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS
156	NATIONAL GRID HOLDINGS INC.	CORPORATION SERVICE COMPANY, 2711 CENTERVILLE ROAD, SUITE 400, COUNTY OF NEW CASTLE, CITY OF WILMINGTON DE 19808, UNITED STATES
157	NATIONAL GRID HOLDINGS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
158	NATIONAL GRID HOLDINGS ONE PLC	1-3 STRAND, LONDON, WC2N 5EH
159	NATIONAL GRID HOLDINGS PTY LIMITED	LEVEL 21, 140 WILLIAM STREET MELBOURNE AUSTRALIA
160	NATIONAL GRID HOLLAND LIMITED	1-3 STRAND, LONDON, WC2N 5EH
161	NATIONAL GRID IGTS CORP.	175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA
162	NATIONAL GRID INDIA B.V.	ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS
163	NATIONAL GRID INDUS B.V.	1-3 STRAND, LONDON, WC2N 5EH
164	NATIONAL GRID INSURANCE COMPANY	ONE METROTECH CENTER, BROOKLYN NY11201 USA
165	NATIONAL GRID INSURANCE COMPANY (IRELAND) LIMITED	38/39 FITZWILLIAM SQUARE, DUBLIN 2, REPUBLIC OF IRELAND
166	NATIONAL GRID INSURANCE COMPANY (ISLE OF MAN) LIMITED	THIRD FLOOR, JUBILEE BUILDINGS, VICTORIA STREET, DOUGLAS, ISLE OF MAN, IM1 2LR
167	NATIONAL GRID INTERCONNECTORS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
168	NATIONAL GRID INTERNATIONAL LIMITED	1-3 STRAND, LONDON, WC2N 5EH
169	NATIONAL GRID ISLANDER EAST PIPELINE, LLC	CORPORATION SERVICE COMPANY 2711 CENTERVILLE ROAD SUITE 400 COUNTY OF NEW CASTLE WILMINGTON DELAWARE 19808
170	NATIONAL GRID JERSEY HOLDINGS FIVE LIMITED	WHITELEY CHAMBERS, DON STREET, ST HELIER, JERSEY
171	NATIONAL GRID JERSEY INVESTMENTS LIMITED	WHITELEY CHAMBERS, DON STREET., ST. HELIER, , JERSEY, CHANNEL ISLANDS, JE4 9WG
172	NATIONAL GRID JERSEY INVESTMENTS TWO LIMITED	WHITELEY CHAMBERS, DON STREET., ST. HELIER, , JERSEY, CHANNEL ISLANDS, JE4 9WG
173	NATIONAL GRID LAND AND PROPERTIES LIMITED	1-3 STRAND, LONDON, WC2N 5EH
174	NATIONAL GRID LAND DEVELOPMENTS LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
175	NATIONAL GRID LAND INVESTMENTS LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
176	NATIONAL GRID LNG GP, LLC	CORPORATION SERVICE COMPANY 2711 CENTERVILLE ROAD SUITE 400 COUNTY OF NEW CASTLE WILMINGTON DELAWARE 19808
177	NATIONAL GRID LNG LP, LLC	ONE METROTECH CENTER, BROOKLYN NY11201 USA
178	NATIONAL GRID LNG, LP	ONE METROTECH CENTER, BROOKLYN NY11201 USA
179	NATIONAL GRID MANQUEHUE B.V.	ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS
180	NATIONAL GRID METERING LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
181	NATIONAL GRID MIDDLE EAST FZCO	DUBAI AIRPORT, FREE ZONE AUTHORITY, DUBAI, UNITED ARAB EMIRATES
182	NATIONAL GRID MILLENNIUM, LLC	ONE METROTECH CENTER, BROOKLYN NY11201 USA
183	NATIONAL GRID NE HOLDINGS 2 LLC	52 SECOND AVENUE WALTHAM MA 02451 USA
184	NATIONAL GRID NETHERLANDS ONE B.V.	1-3 STRAND, LONDON, WC2N 5EH
185	NATIONAL GRID NETHERLANDS THREE B.V.	1-3 STRAND, LONDON, WC2N 5EH
186	NATIONAL GRID NETHERLANDS TWO B.V.	1-3 STRAND, LONDON, WC2N 5EH
187	NATIONAL GRID NINE LIMITED	1-3 STRAND, LONDON, WC2N 5EH
188	NATIONAL GRID NINETEEN LIMITED	1-3 STRAND, LONDON, WC2N 5EH
189	NATIONAL GRID NORTH EAST VENTURES INC	ONE METROTECH CENTER, BROOKLYN NY11201 USA
190	NATIONAL GRID ONE LIMITED	1-3 STRAND, LONDON, WC2N 5EH
191	NATIONAL GRID OVERSEAS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
192	NATIONAL GRID OVERSEAS TWO LIMITED	1-3 STRAND, LONDON, WC2N 5EH
193	NATIONAL GRID POLAND B.V.	ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS
194	NATIONAL GRID PORT JEFFERSON ENERGY CENTER, LLC	ONE METROTECH CENTER, BROOKLYN NY11201 USA
195	NATIONAL GRID PROCUREMENT BV	ROKIN 55, 1012 KK AMSTERDAM, NETHERLANDS
196	NATIONAL GRID PROPERTY (HIGH WYCOMBE) LIMITED	1-3 STRAND, LONDON, WC2N 5EH
197	NATIONAL GRID PROPERTY (NORTHAMPTON) LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
198	NATIONAL GRID PROPERTY (NORTHFLEET) LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
199	NATIONAL GRID PROPERTY (TAUNTON) LIMITED	1-3 STRAND, LONDON, WC2N 5EH
200	NATIONAL GRID PROPERTY (WARWICK) LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
201	NATIONAL GRID PROPERTY DEVELOPMENTS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
202	NATIONAL GRID PROPERTY HOLDINGS LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
203	NATIONAL GRID PROPERTY LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
204	NATIONAL GRID PROPERTY NOMINEES (NO 1) LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
205	NATIONAL GRID PROPERTY NOMINEES (NO 2) LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
206	NATIONAL GRID PROPERTY REGENERATION LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
207	NATIONAL GRID SERVICES, INC.	ONE METROTECH CENTER, BROOKLYN NY11201 USA
208	NATIONAL GRID SEVEN LIMITED	1-3 STRAND, LONDON, WC2N 5EH
209	NATIONAL GRID SEVENTEEN LIMITED	1-3 STRAND, LONDON, WC2N 5EH
210	NATIONAL GRID SIX LIMITED	1-3 STRAND, LONDON, WC2N 5EH
211	NATIONAL GRID SIXTEEN LIMITED	1-3 STRAND, LONDON, WC2N 5EH
212	NATIONAL GRID TECHNOLOGIES INC.	ONE METROTECH CENTER, BROOKLYN NY11201 USA
213	NATIONAL GRID TEN	1-3 STRAND, LONDON, WC2N 5EH
214	NATIONAL GRID THREE LIMITED	1-3 STRAND, LONDON, WC2N 5EH
215	NATIONAL GRID TRANSMISSION SERVICES CORPORATION	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
216	NATIONAL GRID TWELVE LIMITED	1-3 STRAND, LONDON, WC2N 5EH
217	NATIONAL GRID TWENTY LIMITED	1-3 STRAND, LONDON, WC2N 5EH
218	NATIONAL GRID TWENTY ONE LIMITED	1-3 STRAND, LONDON, WC2N 5EH
219	NATIONAL GRID TWO LIMITED	1-3 STRAND, LONDON, WC2N 5EH
220	NATIONAL GRID UK LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH

221	NATIONAL GRID UK PENSION SERVICES LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
222	NATIONAL GRID US 6 LLC	CORPORATION SERVICE COMPANY, 2711 CENTERVILLE ROAD, SUITE 400, NEW CASTLE COUNTY, WILMINGTON DE 19808, UNITED STATES
223	NATIONAL GRID US 7 INC.	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
224	NATIONAL GRID US LLC	CORPORATION SERVICE COMPANY, 2711 CENTERVILLE ROAD, SUITE 400, WILMINGTON DE 19808, UNITED STATES
225	NATIONAL GRID USA	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
226	NATIONAL GRID USA SERVICE COMPANY, INC.	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
227	NATIONAL GRID UTILITY SERVICES LLC	175 EAST OLD COUNTRY ROAD, HICKSVILLE NY 11801 USA
228	NATIONAL GRID ZAMBIA LIMITED	1-3 STRAND, LONDON, WC2N 5EH
229	NEES ENERGY, INC.	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
230	NEW ENGLAND ELECTRIC TRANSMISSION CORPORATION	9 LOWELL ROAD, SALEM, NEW HAMPSHIRE, USA
231	NEW ENGLAND ENERGY INCORPORATED	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
232	NEW ENGLAND HYDRO FINANCE COMPANY, INC.	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
233	NEW ENGLAND HYDRO-TRANSMISSION CORPORATION	9 LOWELL ROAD, SALEM, NEW HAMPSHIRE, USA
234	NEW ENGLAND HYDRO-TRANSMISSION ELECTRIC COMPANY, INC.	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
235	NEW ENGLAND POWER COMPANY	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
236	NEW ENGLAND WHOLESALE ELECTRIC COMPANY	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
237	NEWHC, INC.	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
238	NEWPORT AMERICA CORPORATION	280 MELROSE STREET, PROVIDENCE, RHODE ISLAND, 02907, USA
239	NG CHICAGO I LLC	C/O CORPORATION SERVICE COMPANY, 2711 CENTERVILLE ROAD, SUITE 400, WILMINGTON, DE 19808
240	NG CHICAGO II, LLC	C/O CORPORATION SERVICE COMPANY, 2711 CENTERVILLE ROAD, SUITE 400, WILMINGTON, DE 19808
241	NG FINANCING PARTNERSHIP 1	9 PARC D'ACTIVITE SYRDALL, L-5365 MUNSBACH, LUXEMBOURG
242	NG FINANCING PARTNERSHIP 2	9 PARC D'ACTIVITE SYRDALL, L-5365 MUNSBACH, LUXEMBOURG
243	NG JERSEY LIMITED	WHITELEY CHAMBERS, DON STREET, ST. HELIER, JERSEY, JE4 9WG
244	NG LEASING LIMITED	1-3 STRAND, LONDON, WC2N 5EH
245	NG LUXEMBOURG 3 SARL	2 RUE J HACKIN, L - 1746 LUXEMBOURG, LUXEMBOURG
246	NG LUXEMBOURG 4 SARL	2 RUE J HACKIN, L - 1746 LUXEMBOURG, LUXEMBOURG
247	NG LUXEMBOURG 5 SARL	2 RUE J HACKIN, L - 1746 LUXEMBOURG, LUXEMBOURG
248	NG LUXEMBOURG 6 SARL	2 RUE J HACKIN, L - 1746 LUXEMBOURG, LUXEMBOURG
249	NG LUXEMBOURG 7 SARL	2 RUE J HACKIN, L - 1746 LUXEMBOURG, LUXEMBOURG
250	NG LUXEMBOURG HOLDINGS LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
251	NG LUXEMBOURG SA	2 RUE J HACKIN, L - 1746 LUXEMBOURG, LUXEMBOURG
252	NG LUXEMBOURG TWO S.A.R.L	46A AVENUE J.-F KENNEDY, LUXEMBOURG, L-1855
253	NG NOMINEES LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
254	NG PROCUREMENT HOLDINGS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
255	NG VILLIERS LIMITED PARTNERSHIP	57 HERBERT LANE, DUBLIN 2 IRELAND
256	NGC DO BRASIL PARTICIPACOES LTDA	AV. RIO BRANCO NO. 1, ROOM 1608, RIO DE JANEIRO RJ, BRAZIL
257	NGC EMPLOYEE SHARES TRUSTEE LIMITED	1-3 STRAND, LONDON, WC2N 5EH
258	NGC INDUS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
259	NGC TWO LIMITED	1-3 STRAND, LONDON, WC2N 5EH
260	NGC ZAMBIA LIMITED	1-3 STRAND, LONDON, WC2N 5EH
261	NGET FINANCE (NO 1) PLC	1 - 3 STRAND, LONDON, WC2N 5EH
262	NGG (DELAWARE) LLC	CORPORATION SERVICE COMPANY, 2711 CENTERVILLE ROAD, SUITE 400, WILMINGTON DE 19808, UNITED STATES
263	NGG FINANCE (NO 1) LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
264	NGG FINANCE PLC	1-3 STRAND, LONDON, WC2N 5EH
265	NGG LIMITED	1-3 STRAND, LONDON, WC2N 5EH
266	NGG TELECOMS HOLDINGS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
267	NGG TELECOMS LIMITED	1-3 STRAND, LONDON, WC2N 5EH
268	NGM1 (GBR) LIMITED	LINE WALL ROAD, GIBRALTAR
269	NGNE, LLC	52 SECOND AVENUE WALTHAM MA 02451 USA
270	NGRID INTELLECTUAL PROPERTY LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
271	NGT FIVE LIMITED	C/O MAPLES AND CALDER, UGLAND HOUSE., SOUTH GEORGE STREET, GEORGE TOWN, GRAND CAYMAN, P O BOX 309 GT, CAYMAN ISLANDS
272	NGT FOUR LIMITED	C/O M & C CORPORATE SERVICES, PO BOX 309GT, UGLAND HOUSE, SOUTH CHURCH STREET, GRAND CAYMAN, CAYMAN ISLANDS, CAYMAN ISLANDS
273	NGT HOLDING COMPANY (ISLE OF MAN) LIMITED	3RD FLOOR, ST GEORGE'S COURT, UPPER CHURCH STREET, DOUGLAS, IM1 1EE, ISLE OF MAN
274	NGT LUXEMBOURG ONE LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
275	NGT ONE LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
276	NGT TELECOM NO.1 LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
277	NGT TELECOM NO.2 LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
278	NGT THREE	1-3 STRAND, LONDON, WC2N 5EH
279	NGT TWO LIMITED	1-3 STRAND, LONDON, WC2N 5EH
280	NIAGARA MOHAWK ENERGY, INC.	CORPORATION SERVICE COMPANY, 84 STATE STREET, BOSTON MA 02109, UNITED STATES
281	NIAGARA MOHAWK HOLDINGS, INC.	300 ERIE BOULEVARD WEST, SYRACUSE, NEW YORK, USA
282	NIAGARA MOHAWK POWER CORPORATION	300 ERIE BOULEVARD WEST, SYRACUSE, NEW YORK, USA
283	NICODAMA BEHEER V B.V.	ONE METROTECH CENTER, BROOKLYN NY11201 USA
284	NM PROPERTIES, INC.	SECRETARY OF STATE, 41 STATE STREET, ALBANY, NY, 12231-0001, USA
285	NM URANIUM, INC.	300 ERIE BOULEVARD WEST, SYRACUSE, NEW YORK, USA
286	NMP LIMITED	1-3 STRAND, LONDON, WC2N 5EH
287	NORTH EAST TRANSMISSION CO., INC.	ONE METROTECH CENTER, BROOKLYN NY11201 USA
288	NORTHEAST GAS MARKETS LLC	100 CUMMINGS CENTER, SUITE 457G, BEVERLEY MA 01915 USA
289	ONSTREAM METERING SERVICES LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH

290	OPINAC NORTH AMERICA, INC.	300 ERIE BOULEVARD WEST, SYRACUSE, NEW YORK, USA
291	PATIENCE REALTY CORP.	280 MELROSE STREET, PROVIDENCE, RHODE ISLAND, 02907, USA
292	PCC LAND COMPANY, INC.	52 SECOND AVENUE WALTHAM MA 02451 USA
293	PHILADELPHIA COKE CO., INC.	52 SECOND AVENUE WALTHAM MA 02451 USA
294	PORT GREENWICH LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
295	PORT OF THE ISLANDS NORTH LLC	300 EERIE BLVD.W. SYRACUSE NY13202
296	PRUDENCE CORPORATION	280 MELROSE STREET, PROVIDENCE, RHODE ISLAND, 02907, USA
297	SCC UNO S.A.	11TH FLOOR, AVENIDA VITACURA 4380, SANTIAGO, CHILE
298	SENECA UPSHUR PETROLEUM, INC.	ROUTE 33 WEST, P.O. BOX 2048, BUCKHANNON WV 26201
299	SOFRER SA	1 PLACE DE LA BOULE, 92024 NANTERRE, FRANCE
300	SSE TRANSCO LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
301	SST TOWERS COMMUNICATIONS SAS	4 RUE MARIVAUX, 75002 PARIS, FRANCE
302	STARGAS NOMINEES LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
303	STEUBEN GAS STORAGE COMPANY	535 BOYLSTON STREET, BOSTON MA 02116 USA
304	SUPERGRID ENERGY TRANSMISSION LIMITED	1-3 STRAND, LONDON, WC2N 5EH
305	SUPERGRID LIMITED	1-3 STRAND, LONDON, WC2N 5EH
306	TELECOM INTERNATIONAL HOLDINGS LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
307	THAMESPORT INTERCHANGE LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
308	THE BROOKLYN UNION GAS COMPANY	ONE METROTECH CENTER, BROOKLYN NY11201 USA
309	THE ELECTRICITY TRANSMISSION COMPANY LIMITED	1-3 STRAND, LONDON, WC2N 5EH
310	THE NARRAGANSETT ELECTRIC COMPANY	280 MELROSE STREET, PROVIDENCE, RHODE ISLAND, 02907, USA
311	THE NATIONAL GRID GROUP QUEST TRUSTEE COMPANY LIMITED	1-3 STRAND, LONDON, WC2N 5EH
312	THE NATIONAL GRID INVESTMENTS COMPANY	1-3 STRAND, LONDON, WC2N 5EH
313	TRANSCO LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
314	TRANSGAS, INC.	52 SECOND AVENUE WALTHAM MA 02451 USA
315	UPPER HUDSON DEVELOPMENT INC	300 ERIE BOULEVARD WEST, SYRACUSE, NEW YORK, USA
316	UTILITY METERING SERVICES LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
317	VALLEY APPLIANCE AND MERCHANDISING COMPANY	280 MELROSE STREET, PROVIDENCE, RHODE ISLAND, 02907, USA
318	VILLIERS FINANCE SA	5 RUE EUGENE RUPPERT, L-2453 LUXEMBOURG, LUXEMBOURG
319	WAYFINDER GROUP, INC.	25 RESEARCH DRIVE, WESTBOROUGH MA 01582, UNITED STATES
320	XOSERVE LIMITED	1 - 3 STRAND, LONDON, WC2N 5EH
321	YANKEE ATOMIC ELECTRIC COMPANY	19 MIDSTATE DRIVE, SUITE 200, AUBURN, MA 01501, UNITED STATES

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 officers 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 15d-15(f)) for the company and have:
 - (a) 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;
 - (b) 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;
 - (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
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):
 - (a) 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
 - (b) 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.

/s/ Steve Holliday

Steve Holliday

Title: Chief Executive
National Grid plc

June 16, 2009

I, Steve Lucas, 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 officers 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 15d-15(f)) for the company and have:
 - (a) 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;
 - (b) 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;
 - (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
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):
 - (a) 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
 - (b) 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.

/s/ Steve Lucas

Steve Lucas

Title: Finance Director
National Grid plc

June 16, 2009

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, 2009 (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.

/s/ Steve Holliday

Steve Holliday

Title: Chief Executive
National Grid plc

June 16, 2009

/s/ Steve Lucas

Steve Lucas

Title: Finance Director
National Grid plc

June 16, 2009

This document is an extracted form of the Annual Report and Accounts 2008/09. Certain pages, images and text have been deleted from it. The Annual Report and Accounts is available in full on our website, at www.nationalgrid.com.

NATIONAL GRID PLC

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Board of Directors



George Rose, Sir John Parker and Steve Holliday

Sir John Parker, Chairman

Appointed October 2002, Age 67, 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 Chair of the Non-executive Directors Committee – Bank of England, 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) and Chancellor of the University of Southampton. Sir John is a former Chairman of P&O Group and of RMC Group plc and a former Chairman and Chief Executive of Harland & Wolff plc and Babcock International Group PLC.

Steve Holliday, Chief Executive

Appointed March 2001, Age 52, 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 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 Group plc.

Bob Catell, Deputy Chairman

Appointed September 2007, Age 72, R&R

Bob Catell was appointed to the Board in September 2007 as an Executive Director and Deputy Chairman following the acquisition of KeySpan Corporation of which he was Chairman and Chief Executive Officer. He retired as an Executive Director of the Company on 31 March 2009 and will retire as a Non-executive and Deputy Chairman following the conclusion of the 2009 Annual General Meeting. He is a co-Chair of the Board of the Downtown Brooklyn Partnership and Immediate Past 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 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.



Nick Winsor and Steve Lucas

Steve Lucas, Finance Director

Appointed October 2002, Age 55, E, F

Steve Lucas has been Finance Director since October 2002 and is additionally responsible for Property and UK and US Shared Services. He joined the Board following the merger of National Grid Group plc and Lattice Group plc in October 2002. 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 Winsor, Executive Director

Appointed April 2003, Age 48, E

Nick Winsor 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. He is a Non-executive Director of Kier Group PLC and co-Chair of the Energy Research Partnership.

Mark Fairbairn, Executive Director

Appointed January 2007, Age 50, 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.

Tom King, Executive Director

Appointed August 2007, Age 47, E

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.



Stephen Pettit, Linda Adamany and Ken Harvey



Maria Richter and Mark Fairbairn



Philip Aiken, Helen Mahy and Bob Catell



Tom King and John Allan

Ken Harvey, Non-executive Director and Senior Independent Director

Appointed October 2002, Age 68, 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 57, A, R, 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 Group Vice President and Commercial Director, BP Refining & Marketing.

Philip Aiken, Non-executive Director

Appointed 15 May 2008, Age 60, A, R, R&R

Philip Aiken joined the Board in May 2008. He is Chairman of Robert Walters plc, a Non-executive and Senior Independent Director of Kazakhmys plc and senior advisor to Macquarie Capital (Europe) Limited. Philip was previously Group President of BHP Billiton's Energy business, an Executive Director of BTR plc and held senior positions in BOC Group plc.

John Allan, Non-executive Director

Appointed May 2005, Age 60, F, R (ch)

John Allan joined the Board in May 2005. He retires as CFO of Deutsche Post on 30 June 2009, 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. He is Non-executive Director of ISS and will become Chairman of DSG International plc on 2 September 2009. 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 and a Non-executive Director of PHS Group plc, Wolseley plc, Hamleys plc and Connell plc.

Stephen Pettit, Non-executive Director

Appointed October 2002, Age 57, 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

Appointed October 2002, Age 54, 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 Business. 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 Vitac Group plc and The Bessemer Group Inc.

George Rose, Non-executive Director

Appointed October 2002, Age 57, 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 Industrial Development Advisory Board. George is also a former Non-executive Director of Orange plc.

Helen Mahy, Company Secretary & General Counsel

Appointed October 2002, Age 48, 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.

Committee membership

A Audit

E Executive

F Finance

N Nominations

R Remuneration

R&R Risk & Responsibility

(ch) denotes Committee chairman

Operating and Financial Review



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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 and non-regulated gas transmission pipelines in the US.

We have over 27,500 employees located in the UK and the US.

The performance of our principal businesses is reported by segment, reflecting the management responsibilities and economic characteristics of each activity. Our principal businesses and segments, together with other activities, are below. Discontinued operations represent businesses that we have committed to exit, including the Ravenswood generation station in New York City that we sold on 26 August 2008.

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, the electricity interconnector 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 Great Britain'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 Distribution & Generation

- US** 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 on Long Island on behalf of the Long Island Power Authority,

Non-regulated businesses and other

- Other services related to our main operations, principally in the UK. They do not constitute a segment so are reported, together with other operations and corporate activities, as 'other activities'.
- UK** Principally metering services, property management, our

and as a generator of electricity on Long Island.

LNG importation terminal on the Isle of Grain, and the construction and operation of an electricity interconnector between The Netherlands and the UK through our BritNed joint venture.

US Includes LNG storage, LNG road transportation, unregulated transmission pipelines, US gas fields and home energy services.

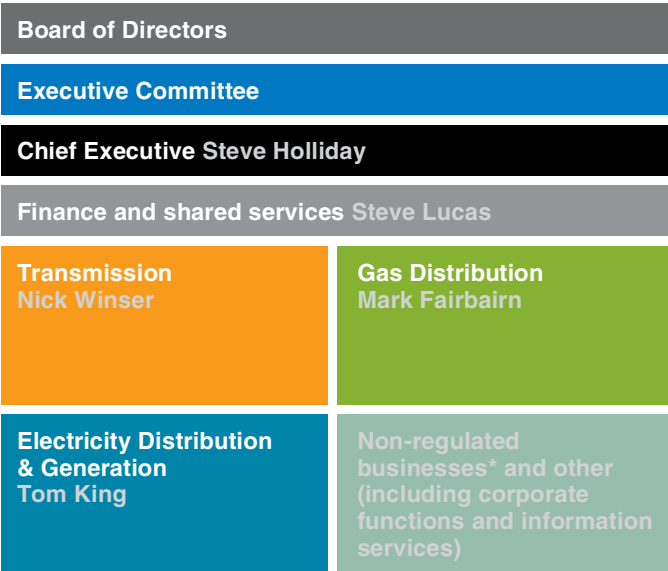
This Operating and Financial Review describes the main trends and factors underlying our development, performance and position during the year ended 31 March 2009 as well as those likely to affect us in the future. It has been prepared in line with the guidance provided in the Reporting Statement on the Operating and Financial Review issued by the UK Accounting Standards Board.

Organisation and structure

Organisation

Our organisational structure and executive responsibilities ensure a 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 the governance, strategy and management oversight 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.



*Responsibility for each of our non-regulated businesses is allocated to the Executive Directors based on the nature of each business

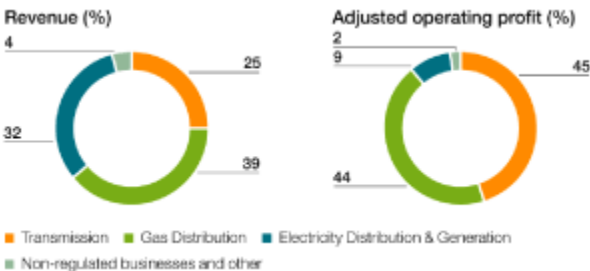
In addition to the Executive Committee, the Board has also established a number of other committees that assist in exercising governance over National Grid's activities, including the Audit, Finance, Nominations, Remuneration, Risk & Responsibility, and Disclosure Committees.

More information on the roles of the Board and these committees is available in the Corporate Governance section on pages 90 to 99.

Business and geographic analysis

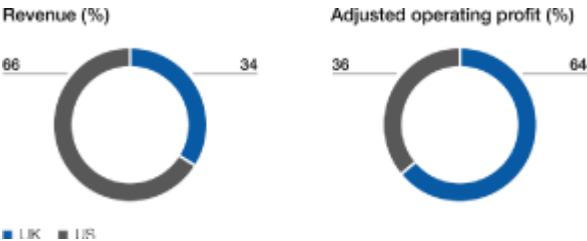
Our continuing operations are organised by lines of business as follows:

Business analysis 2008/09 Continuing operations



Our businesses are divided between the UK and the US as follows:

Geographical analysis 2008/09 Continuing operations



The charts show revenue and adjusted operating profit from continuing operations for the year ended 31 March 2009. Adjusted operating profit excludes 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 such charges.

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 increased our UK wireless infrastructure activities in 2004 and in 2005 we sold four UK regional gas distribution networks.

In 2006, we acquired the gas distribution network in Rhode Island and in 2007, we acquired KeySpan. We sold our UK and US wireless infrastructure operations and the Basslink electricity interconnector in Australia during 2007. In 2008, we sold the Ravenswood generation station.

Key milestones

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
2002	Niagara Mohawk Power Corporation merged with National Grid in US
2002	Merger of National Grid and Lattice Group to 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 and adopted National Grid as our name
2006	Acquisition of Rhode Island gas distribution network
2007	Sales of UK and US wireless infrastructure operations and of the Basslink electricity interconnector in Australia
2007	Acquisition of KeySpan Corporation
2008	Sale of the Ravenswood generation station

The history of operations that are now part of National Grid actually dates back much further than the dates above. For example, the first national gas company in the UK commenced operations in 1812.

External market and regulatory environment

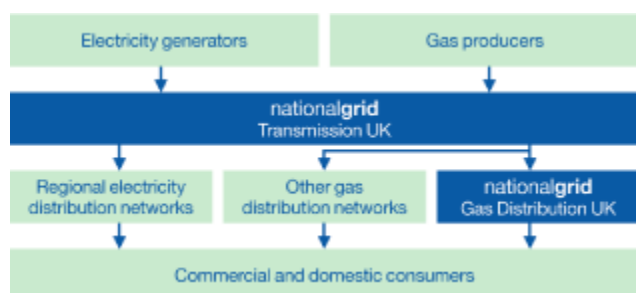
Markets in which we operate

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 shippers.



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.

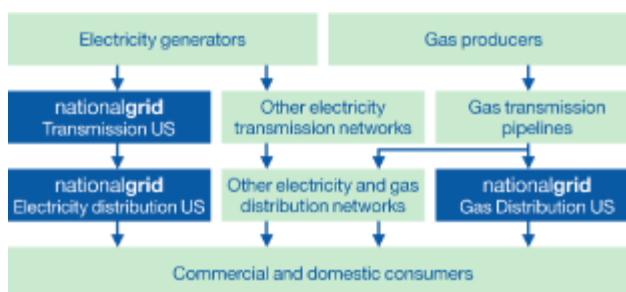
The other principal infrastructure owners and operators in the UK are EDF Group, which owns three electricity distribution networks, Scottish & Southern Energy, Iberdrola, E.ON, Western Power Distribution, and MidAmerican Energy, each of which own two electricity distribution networks, and Electricity North West, which owns 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.

Energy delivery in the northeastern US

In most states in the northeastern US, consumers are able to purchase their energy through independent energy suppliers. While a number of large customers have chosen suppliers other than the local utility provider, the majority of residential and small commercial consumers still purchase electricity or gas from their local electricity or gas distribution network business.

The major alternative fuel source to gas is oil, which is used by many consumers for domestic heating purposes.

Electricity is transported either directly 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 directly 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 (LIPA). We own numerous electricity generation plants on Long Island that supply power under contract to LIPA.

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, Iberdrola and Northeast Utilities.

Other areas in which we operate

Our other businesses 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 a 9% market share of the domestic gas meters in the UK. In addition, we have a significant property portfolio and management business.

Regulation

Due to 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. Therefore, 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 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:

UK

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 that increases 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, and for our service quality.

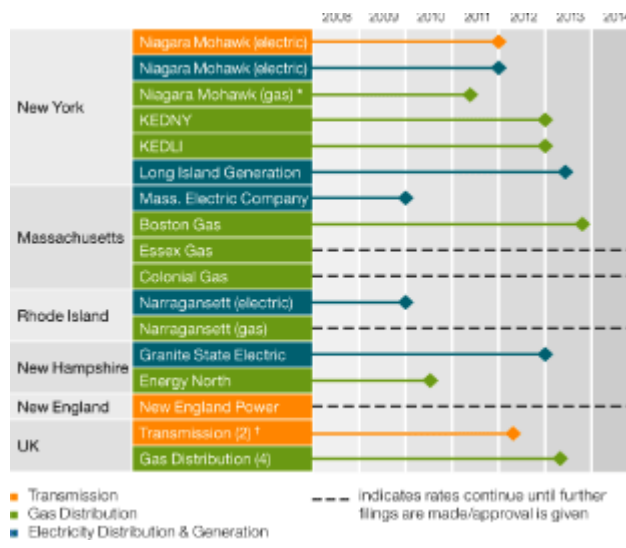
US

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, determine allowable levels of return and usually approve mergers and acquisitions of public utilities. The FERC also regulates public utility holding companies, including the US business of National Grid.

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 and regulatory asset 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. Stranded cost recoveries represent the recovery of historical generation related costs for assets that are no longer owned. Our reliability performance under certain rate plans is subject to performance targets established by the relevant regulator, under which we can be subject to monetary penalties for failing to meet those targets.

Our major current UK price control periods and indicative US rate plan periods can be summarised as follows:



* Based on settlement filed, awaiting approval

† System operator price control reviews for electricity and gas are not illustrated and are in effect until 31 March 2010

More information about the regulatory environments in which we operate, and on the nature of our rate plans and price controls, is provided in each of the business sections starting on pages 48, 57 and 66.

As a public company with shares and other securities listed on the London and New York stock exchanges, we are subject to regulation by the UK Financial Services Authority, the US Securities and Exchange Commission and the exchanges themselves.

Current and future developments

External market developments

Market structure and ownership

There have been no significant changes in either the structure of the UK energy infrastructure market or in ownership during 2008/09.

In the northeastern US, there have been no significant structural or ownership changes to the electricity and gas transmission and distribution networks during the year other than the acquisition by Iberdrola of Energy East, a utility company operating in New York, Connecticut, Massachusetts and Maine in September 2008.

Energy market developments

Despite significant declines in wholesale energy prices since mid 2008, high consumer energy prices have been experienced in both the UK and US markets during the current year. This has led to significant increases in bills to consumers for their energy supplies. The combination of higher energy prices and the current economic climate has led to a reduction in energy demand for both gas and electricity.

Both the UK and the US energy markets continue to undergo developments driven by the projected increased reliance on imported gas (UK) and unconventional gas sources (US), on new sources of electricity generation, including renewables, and increased focus on security of supply. In the UK, the energy sector faces significant challenges relating to the declining gas reserves in the North Sea, meeting the Government's targets on renewable generation, and significant levels of retirement of the current power generation fleet.

As a consequence of the decline in gas production from the North Sea, our latest forecast is that the UK will import around 50% of its gas requirements by the end of the decade.

National Grid has led a major assessment of the UK electricity transmission system, and the changes needed to ensure that renewable targets can be met. The assessment considered the potential locations and volume of renewable generation and the network requirements to connect it. We identified a requirement for £4.7 billion of transmission investment by 2020.

March 2009 saw the completion of the competitive tender process for round three of the offshore wind leasing programme by The Crown Estate for the nine offshore development zones. These zones have the potential to deliver up to 25 GW of offshore wind renewable generation.

Illustration of the nine zones put forward by The Crown Estate for potential offshore wind projects in round three



This year has seen a significant increase in nuclear connection requests and in April 2009 the Government released its list of 11 potential sites for the development of new nuclear power plants.

During April 2009, the UK Government announced its commitment to the development of future carbon capture and storage networks.

These changes are expected to impact all our electricity and gas transmission networks. In particular, they will require significant investment in our UK electricity and gas transmission networks, while in the US asset replacement and renewable power developments will require increasing investment in our US electricity transmission and distribution networks.

In December 2008, phase II of our LNG import terminal on the Isle of Grain was commissioned. Progress is continuing on phase III with commissioning expected in 2010. Once fully commissioned, it is anticipated that our facility will have the capacity to import approximately 20% of the UK's gas demand.

In the US, the administration change has brought an increased political desire to tackle the issues around climate change and security of supply. The development of smart grid technologies is expected to enable more efficient use of the transmission and distribution grid, lower line losses, facilitate greater use of renewables and provide information to utilities and their customers that will lead to greater investment in energy efficiency and reduced peak load demands.

Regulatory developments

UK and European regulatory developments

During the year ended 31 March 2009, there were a number of legislative changes in the UK including the introduction of new consumer arrangements, which incorporate an energy ombudsman scheme to deal with consumer complaints and a new Energy Act facilitating a roll out of smart meters in the UK by 2020.

In March 2008, Ofgem announced a review of the current RPI-X based regulatory framework. It is a two year assessment (RPI-X@20) of the current regulatory regime and its ability to address the challenges facing energy networks in the future. The outcome of this review is unlikely to impact our current regulatory settlements, but could influence future price controls from 2012.

In December 2008, the European Union approved a number of environmental proposals. Legally binding national targets have been established that dictate the proportion of energy production to be provided from renewable sources by 2020. For the UK the target is 15%. In order to achieve this, it is believed the proportion of electricity generated by renewable sources will need to rise to around 35%. At present, it is unclear specifically how these targets will impact National Grid, however, they will significantly influence the UK regulatory framework and UK price control reviews in the future.

The European Commission's third package of legislative proposals for the European gas and electricity markets has been submitted for final adoption by the EU Council of Ministers, following approval by the European Parliament in April 2009. The new legislation consists of two directives on rules for the internal gas and electricity markets, two regulations on conditions for access to those markets, and one regulation establishing an Agency for the Cooperation of Energy Regulators. The original legislation, published in September 2007, contained measures to force

energy companies to unbundle their transmission businesses from supply and generation activities. The revised draft proposals include alternatives to full unbundling. Adoption is expected in summer 2009.

US regulatory developments

The principal US regulatory policy developments continue to 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, including the establishment of targets for reductions in electricity 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. Massachusetts and New York regulatory bodies have instructed utilities to file decoupling proposals as part of their next rate cases. There is also an increasing interest in exploring the deployment by utilities of smart grid technologies.

At the federal level, the new administration and congress have focused new energy and environmental legislation in two main areas: the economic stimulus bill and emerging comprehensive climate and energy legislation. In February 2009, the \$787 billion American Recovery and Reinvestment Act was passed. The Act, which covers all sectors of the economy, has significant provisions for the energy industry, including amounts for the expansion of the electricity transmission network with focus on smart grid development, a broad array of energy efficiency programmes, clean fuel transportation incentives, and research and development programmes.

There is also a high priority on passing comprehensive climate change and energy policy legislation in 2009, including a proposal for a cap and trade regime that would reduce carbon emissions over 80% by 2050.

Price controls, rate plans and other agreements

UK price controls

New price controls with respect to our role as owner of four of the eight gas distribution networks in the UK, covering the period from 1 April 2008 to 31 March 2013, came into effect and have been implemented successfully. The key elements are a 4.3% post-tax real rate of return (equivalent to a 4.94% vanilla return) on our regulatory asset value, a £2.5 billion baseline five year capital expenditure allowance and a £1.6 billion five year operating expenditure allowance. We were subject to one year system operator price controls for our electricity and gas transmission operations for 2008/09. One year system operator price controls for our electricity and gas transmission operations for 2009/10 have been agreed with Ofgem.

US rate plans

We were granted a \$13.6 million (£9.5 million) gas distribution rate increase in Rhode Island, effective 1 December 2008. In New Hampshire, we reached settlement in our gas distribution rate application on all issues with the exception of the return on equity. The rate increase is dependent on the outcome of the litigation on the return of equity issue.

We have also filed, or are planning to file, rate plan applications that would increase gas distribution rates in upstate New York, increase electricity generation rates on Long Island and increase electricity distribution rates in Massachusetts and Rhode Island.

We have also applied for deferred recovery of incremental investment, and deferred recovery of electricity related costs and revenue items in upstate New York.

Other agreements

We have agreements 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. Our agreements with LIPA also give them an option to purchase one generation plant that we own, and cover our provision of energy procurement and management services.

We also have a joint venture arrangement with TenneT to construct an electricity interconnector between the UK and The Netherlands and an agreement with Elia to explore the feasibility of constructing an electricity interconnector with Belgium.

Alliance contracts with various contractors have been entered into by the Gas Distribution businesses in the UK and Transmission businesses in the UK and US. These contracts establish a framework for contractors to carry out capital investment projects. Under the terms of the agreements our supply chain partners share in the risks and rewards, and are jointly responsible with us for work delivery.

We have contracts with E.ON, Iberdrola and Centrica for a further 6.7 billion standard cubic metres of long-term LNG importation capacity at our Isle of Grain LNG importation 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 190,000 cubic metre storage tank and associated works (phase III). National Grid is planning to invest approximately £300 million (excluding capitalised interest and expenditure associated with gas blending) in phase III of Grain LNG.

Legal and related matters

An update on the ongoing Metering competition and KeySpan Department of Justice investigations that were reported in last year's Annual Report and Accounts is provided on page 85. In October 2008, we informed and launched a joint investigation with Ofgem into the misreporting of gas distribution mains replacement activity, further details of this are also provided on page 85.

External relationships

We aim to enhance our relationships with all 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 possible.

We continue to be active in communicating with equity investors, conducting over 300 investor meetings during the year, maintaining a presence at 18 investor conferences, presenting to 10 broker sales teams and holding 2 investor days in October 2008.

One of our objectives is to increase the number of shareholders in the US and one of our investor days was a presentation to our US investors.

We also presented to debt investors in 12 countries including Japan, across Europe and North America.

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, reliable and efficient 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 85.

In the US, we strive to achieve and maintain strong working relationships with our state regulatory commissions and the Federal Energy Regulatory Commission.

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 continue to work in partnership with our suppliers, developing constructive relationships and working together effectively. Our focus in these areas has increased, in response to the greater uncertainties from credit market volatility and the global economic downturn.

We have developed our procurement operating model further over the past year and details of this are provided on page 34.

A key element of our approach in creating a new procurement operating model includes placing increasing emphasis on the linkages between procurement and our overall business strategy.

In addition, as an enhancement to our commercial focus, we are explicitly investing in skills and capabilities to help deliver our social and environmental ambition.

Collectively, all of the areas we have developed or are working towards make National Grid an attractive company to do business with. They also enhance our ability to drive value from our supply chain and provide an excellent opportunity for suppliers who are aligned to our approach and ambition.

Community involvement

National Grid's role in the community supports our ambitions, and is delivered through a sustained and consistent approach.

We have completed an external review of our community activities and we have developed a new community impact framework. We have set targets to improve our community profile around our key themes of education and skills, energy and environment, and community investment. Our key aims are:

- to improve employee engagement in Company community activities;
- to maintain and improve our supply of talent by promoting science, technology, engineering, and maths subject take up and achievement in schools;
- to use volunteering to develop employee skills; and
- to strengthen our corporate reputation.

We continue to use the London Benchmarking Group model to provide a framework for measuring and reporting our community investment contributions, through the capture of spend on the key themes. We invested £10 million (2007/08 and 2006/07: £9 million) in support of community programmes and relationships across our operations in 2008/09.

Working closely with Ofgem, we have developed the framework for connecting fuel poor communities to the gas distribution network under the newly formed Affordable Warmth Solutions Community Interest Company. This will result in the connection of a number of communities to the gas distribution network in the future.

In our 2009 employee engagement survey, 64% (2008: 55%) of respondents considered National Grid makes a positive contribution to the communities in which we operate.

Business drivers

Business drivers

Our principal activities include the operation of complex energy infrastructure networks. Overall, we have a highly developed business with numerous drivers; we continue to seek improvements in our business to maximise returns in the context of these. We consider the following to be our principal business drivers:

Price controls 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 terms of these arrangements have a significant impact on our revenues.

Their duration is significant in providing stability, allowing us to plan 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 performance targets.

Multi-year 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 importation terminal are determined by contractual arrangements that are long term with 'blue chip' customers.

Safety, reliability and efficiency

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 these areas.

Operating efficiently allows us to minimise prices to our customers and improve our own financial performance to benefit our shareholders.

Customer service

The quality of the service we deliver to customers, and the experiences they have when dealing with us, is important as it feeds through to the attitudes of regulators and is also linked to our financial performance.

Capital investment

Capital investment is a significant driver for organic growth.

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 improvements.

Capital investment in non-regulated assets allows us to develop new revenue streams or to increase revenues from existing assets.

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 the price on offer is better than the long-term return we can obtain ourselves or where a business does not fit with our principal operations.

Inflation and deflation

During periods of 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. Correspondingly, during periods of deflation our revenues can decrease, the timing and extent of which may not be offset by equivalent reductions in our operating costs. Consequently, our ability to control costs and improve efficiency

Our price controls in the UK and a proportion of our UK borrowings are linked to retail price inflation, while certain of our electricity and gas regulatory settlements in the US allow us to recover additional distribution revenues if there is a significant change in inflation.

Relationships and responsibility

Our reputation is critical 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

In the US, 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 periods.

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. In the UK, revenues from our gas transmission and distribution networks are less affected as under our current price control agreements the volume driven component of revenue is relatively small. Seasonality does not have a significant impact on revenues from our other operations.

With the exception of commodity and other volume related costs passed through to customers, our operating costs are generally not seasonal.

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 costs

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 leading to an under- or over-recovery within any particular financial period.

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 transmission and gas distribution networks. In the US, we are exposed to potential bad debts related to commodity costs, although under the majority of our rate plans our exposure is either fully or partially mitigated by the recovery of such costs in current or future revenues.

Certain US commodity contracts are recorded in our balance sheet at their fair values. Although remeasurements of these are reflected in our income statement, we expect to recover the actual costs incurred from customers in the current or future periods.

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 at fixed interest rates. The cost of funding our future growth is dependant upon future interest rates and the rate at which we can issue debt.

is important in order to maintain and increase operating profits.

Vision, strategy and objectives

Our vision is the long term aspiration for National Grid – what we want to be in the future.

Vision
We, at National Grid, will be the foremost international electricity and gas company, delivering unparalleled safety, reliability and efficiency, 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.

Our strategy and objectives are a medium term step in the journey towards the vision – what we are doing over the next few years.

Strategy and Company objectives
We will build on our core UK and US, electricity and gas, regulated business base and financial discipline to deliver sustainable growth and superior financial performance.

- Driving improvements in our safety, customer and operational performance
- Delivering strong, sustainable regulatory and long-term contracts with good returns
- Modernising and extending our transmission and distribution networks
- Expanding our capabilities and identifying new financeable opportunities to grow
- Becoming more efficient through transforming our operating model and increasingly aligning our processes
- Building trust, transparency and an inclusive and engaged workforce
- Developing our talent, leadership skills and capabilities
- Positively shaping the energy and climate change agenda with our external stakeholders in both regions

Responsibility
Our strategy and Company objectives are underpinned by our commitment to corporate responsibility. We will operate to the highest standards of corporate governance and conduct our business in a lawful and ethical manner.

The vision, strategy and Company objectives flow down into every employee's annual performance objectives – what we are doing now and how we ensure we achieve our strategy and vision.



Strategy and Company objectives

Our strategy and objectives provide direction and clarity on how we are going to achieve our vision. During the year, we have launched our line of sight framework that establishes a direct link between our strategy and Company objectives and employees' individual objectives. The fundamental principles behind our strategy and Company objectives are below:

We will build on our core UK and US, electricity and gas, regulated business base and financial discipline to deliver sustainable growth and superior financial performance

Sustainable growth is key to our business and is vital to delivering our promise to shareholders of an 8% dividend growth per annum until 2012. The delivery of superior financial returns within our low risk business model will be through focusing on our core regulated business in the UK and US.

Driving improvements in our safety, customer and operational performance

The safety of our people, contractors and the communities we serve is central to everything we do. We strive for an environment where there are zero work-related injuries and where we set the industry benchmark for world-class safety processes. We will work towards a more consistent and improved experience for all our customers and to achieving top quartile satisfaction rates compared to our peers.

Delivering strong, sustainable regulatory and long-term contracts with good returns

The successful delivery of acceptable regulatory agreements will enable us to recover our investment and costs and earn good returns.

We will negotiate strong sustainable regulatory arrangements to fund our ongoing operational costs and future network investment at acceptable levels of return. We will drive continuous improvement to deliver services and investment as efficiently as possible without compromising safety, reliability and customer service.

Modernising and extending our transmission and distribution networks

The capital investment that is required for security of supply and to meet climate change targets is a significant driver of organic growth. We will maintain a sustainable programme of capital investment. Our infrastructure replacement programme will ensure that we adapt our networks for the future and are able to identify opportunities arising from the changes in sources of energy and technology. We aim to increase our returns on capital expenditure through disciplined management of our workload ensuring investment is delivered on budget, to schedule and within our regulatory allowances.

We will improve our reliability performance by sustained investment and enhanced operational performance. We aim to achieve first quartile reliability performance in the majority of our businesses by 2011/12.

Expanding our capabilities and identifying new financeable opportunities to grow

We will evaluate potential acquisitions and new organic investment opportunities currently outside of our regulatory agreements (such as renewable power and Grain LNG), and pursue those with an acceptable risk return profile that build on our existing regulated business model.

Becoming more efficient through transforming our operating model and increasingly aligning our processes

Owning and operating complementary businesses within the UK and US provides us with a great opportunity to create value for our shareholders. Our aim is to reduce the number of systems that we have and to simplify and standardise processes where possible. This will enable us to drive reductions in controllable operating costs.

Building trust, transparency and an inclusive and engaged workforce

Developing and communicating a clear line of sight between our vision, our strategy and individual objectives is important to help develop trust and transparency with our employees. It will enable them to be actively engaged in the journey towards our vision. It will help them understand the challenges we face and also feel that their contribution is valued. We aim to establish a genuinely inclusive working environment where collaboration and sharing best practice is instinctive in the way we work.

Developing our talent, leadership skills and capabilities

The attraction and retention of talent and the quality of skills and capabilities of our employees are fundamental to the delivery of our strategy. We will establish training, coaching and performance management frameworks enabling the creation of a high performance environment where employees at every level are developed and supported to reach their full potential.

Positively shaping the energy and climate change agenda with our external stakeholders in both regions

Delivering sustainable shareholder value depends on the trust and confidence of our stakeholders. We will build strong relationships with government and regulators, taking a leading role in shaping future energy policy including security of supply and the UK and US regulatory frameworks. We will become a trusted and innovative partner in meeting the changing needs of our customers and local communities.

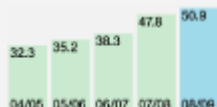
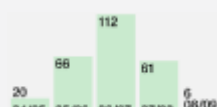
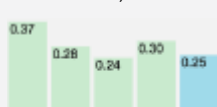
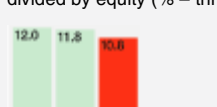


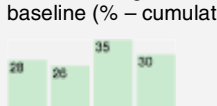
Performance indicators

We use a variety of performance measures to monitor progress against our objectives. Some of these indicators are considered to be key performance indicators and are set out below. Details of our performance indicators are provided in the performance summary section on pages 28 and 29.

Strategy and Company objectives	KPIs
Sustainable growth and superior financial performance	Earnings per share Total shareholder return
Driving improvements in our safety, customer and operational performance	Employee lost time injury frequency rate
Delivering strong, sustainable regulatory and long-term contracts with good returns	Group return on equity
Modernising and extending our transmission and distribution networks	Network reliability targets
Becoming more efficient through transforming our operating model and increasingly aligning our processes	Regulated controllable operating costs
Building trust, transparency and an inclusive and engaged workforce	Employee engagement index based on employee survey
Positively shaping the energy and climate change agenda with our external stakeholders in both regions	Greenhouse gas emissions reduction against baseline

Performance summary:

Key performance indicators

Objective	KPI	Description and performance	Target and page reference																																																								
Delivering superior financial performance	Adjusted EPS † ‡	Adjusted earnings divided by the weighted average number of shares (pence) 	To increase See page 30																																																								
	Total shareholder return	Growth in share price assuming dividends are reinvested (% cumulative three year growth) 	To increase See page 30																																																								
Driving improvements in our safety, customer and operational performance	Employee lost time injury frequency rate *	Injuries resulting in employees taking time off work (per 100,000 hours worked) 	Zero See page 31																																																								
Delivering strong, sustainable regulatory and long-term contracts with good returns	Group return on equity ^	Adjusted earnings with certain regulatory based adjustments divided by equity (% – three year average) 	To increase See pages 32 and 33																																																								
Modernising and extending our transmission and distribution networks	Network reliability	<table><thead><tr><th></th><th colspan="5">Performance</th><th>Measure</th><th>Target</th></tr><tr><th></th><th>04/05</th><th>05/06</th><th>06/07</th><th>07/08</th><th>08/09</th><th></th><th></th></tr></thead><tbody><tr><td>Electricity transmission – UK</td><td>99.99998</td><td>99.9999</td><td>99.9999</td><td>99.9999</td><td>99.9999</td><td>%</td><td>99.9999</td></tr><tr><td>Gas transmission – UK</td><td>100</td><td>100</td><td>100</td><td>100</td><td>100</td><td>%</td><td>100</td></tr><tr><td>Gas distribution – UK</td><td>99.999</td><td>99.999</td><td>99.999</td><td>99.999</td><td>99.9999</td><td>%</td><td>99.999</td></tr><tr><td>Electricity transmission – US</td><td>385</td><td>348</td><td>259</td><td>437</td><td>266</td><td>MWh losses</td><td><303</td></tr><tr><td>Electricity distribution – US</td><td>120</td><td>141</td><td>121</td><td>110</td><td>114</td><td>Mins of outage</td><td><110-120</td></tr></tbody></table> <p>See pages 53, 62 and 70 for additional details on network reliability</p>		Performance					Measure	Target		04/05	05/06	06/07	07/08	08/09			Electricity transmission – UK	99.99998	99.9999	99.9999	99.9999	99.9999	%	99.9999	Gas transmission – UK	100	100	100	100	100	%	100	Gas distribution – UK	99.999	99.999	99.999	99.999	99.9999	%	99.999	Electricity transmission – US	385	348	259	437	266	MWh losses	<303	Electricity distribution – US	120	141	121	110	114	Mins of outage	<110-120	
	Performance					Measure	Target																																																				
	04/05	05/06	06/07	07/08	08/09																																																						
Electricity transmission – UK	99.99998	99.9999	99.9999	99.9999	99.9999	%	99.9999																																																				
Gas transmission – UK	100	100	100	100	100	%	100																																																				
Gas distribution – UK	99.999	99.999	99.999	99.999	99.9999	%	99.999																																																				
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Electricity distribution – US	120	141	121	110	114	Mins of outage	<110-120																																																				
Becoming more efficient through transforming our operating model	Controllable cost –	Regulated controllable operating costs (£m – comparatives stated on a constant currency basis and inflated to current performance year) 	To decrease See page 35																																																								
Building trust, transparency and an inclusive and engaged workforce	Employee engagement index	Employee engagement index calculated using responses to our employee survey (%) 	To increase See page 35																																																								
Positively shaping the energy and climate change agenda	Greenhouse gas emissions # *	Reduction in greenhouse gas emissions against baseline (% – cumulative reduction) 	80% reduction by 2050 45% reduction by 2020 See pages 37 and 38																																																								

‡ Adjusted earnings per share excludes exceptional items, remeasurements and stranded cost recoveries

† 2007/08 includes continuing operations acquired with KeySpan for the period from 24 August 2007 to 31 March 2008 or as at 31 March 2008

* 2007/08 data restated as if KeySpan acquisition had occurred at the beginning of the year, previously published figure excluding KeySpan was 0.24 for employee lost time injury frequency rate and 38% for greenhouse gas emissions

^ 2007/08 results include KeySpan operations on a pro forma financial performance basis assuming the acquisition occurred on 1 April 2007

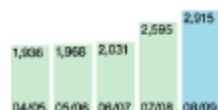
~ 2006/07 and 2007/08 results include KeySpan operations on a pro forma financial performance basis assuming the acquisition occurred at the beginning of the fiscal year
2008/09 result not currently available. Result will be published on our website www.nationalgrid.com in July 2009

Performance summary:

Achievements and other performance measures

Delivering superior financial performance

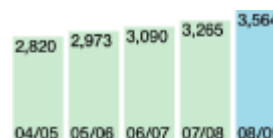
Adjusted operating profit ‡
(£m)



Interest cover †
Long-term target: range 3.0-3.5



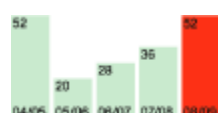
Cash generated by
continuing operations † (£m)



See pages 41 to 47

Driving improvements in our safety, customer and operational performance

Injuries to the public * (number)
Target: zero

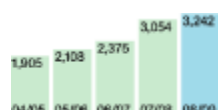


- Electricity Distribution & Generation ranked in lower quartile for customer satisfaction in J.D. Power and Associates survey in the US
- Employee sickness absence rate was 3.06% in 2008/09, an increase from 2.46% in 2007/08

See pages 31 and 32

Modernising and extending our transmission and distribution networks

Total capital expenditure †
(£m)



- Phase II of Grain LNG commissioned in December 2008
- Commencement of the New England East-West Solution (NEEWS) transmission project in the US

See page 33

Becoming more efficient through transforming our operating model

- Synergy savings of \$74 million achieved in the year representing a run rate of \$129 million at 31 March 2009
- Phase II implementation of common ERP operating platform across UK businesses
- Continuing restructuring plans in the US including consolidation of premises. Our new Reservoir Woods office in Waltham, Massachusetts is due for completion in spring 2009
- Transformation of operations within the lines of business focused on projects that maximise tangible returns in the near term

See pages 34 and 35

Building trust, transparency and an inclusive and engaged workforce

Proportion of female
employees (%)



Proportion of ethnic minority
employees (%)



- 91.8% response rate in our employee survey (2007/08: 86.4%)
- 73% (2007/08: 62%) of employees said that they would recommend National Grid as a place to work
- We launched our global inclusion charter that explains what employees can expect from the Company, as well as what National Grid expects from employees

See pages 35 and 36

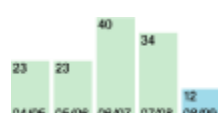
Developing our talent, leadership skills and capabilities

- Recruited a total of 272 advanced apprentices, foundation engineers and graduates in the UK
- Launched workforce planning as a methodology to identify and proactively address the gaps both in people and skills necessary to deliver our strategy
- Launched two new management development programmes

See pages 36 and 37

Positively shaping the energy and climate change agenda

Significant direct environmental
incidents * (number) Target: zero



- Steve Holliday member of the RPI-X@20 advisory panel looking at regulation and future energy challenges in the UK
- 80% of employees working to certified ISO 14001 systems

See pages 37 to 39

‡ Adjusted operating profit excludes exceptional items, remeasurements and stranded cost recoveries

† 2007/08 includes continuing operations acquired with KeySpan for the period from 24 August 2007 to 31 March 2008 or as at 31 March 2008

* 2007/08 excludes KeySpan operations

Following a realignment of our strategy and Company objectives during 2008/09 some of our KPIs and other performance measures are still under review – any new performance measures identified as a result will be reported in the 2009/10 Annual Report and Accounts.

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 41 to 47 and information on the performance and financial results of each business in the business sections on pages 48 to 78.

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 principal aim of sustainable growth and superior financial performance building on our core UK and US regulated business base. We use qualitative assessments to judge progress against our objectives in areas where numerical measures are less relevant.

During 2008/09, we have realigned our strategy and Company objectives. As a result we have undertaken a detailed assessment of our performance measures that resulted in a rationalisation of our performance indicators, directly aligning them with our objectives and providing a clear distinction between key performance indicators and our other performance indicators. This revised presentation is illustrated in the performance summary on pages 28 and 29. We have also introduced two new KPIs regarding the measurement of our efficiency relating to the transformation of our operating model and the engagement of our employees. The new efficiency KPI measures the year-on-year movement in our regulated controllable operating costs on an inflation and foreign exchange adjusted basis. The new employee engagement KPI uses an employee engagement score derived from our annual employee survey administered by Sirota, an independent consultancy firm. We have retained the KPI for greenhouse gas emissions reduction but, due to a change in the timing of when gas leakage performance data are reported by the four UK gas distribution network owners through Ofgem, this year's performance data is not currently available. It is anticipated that the current year's performance data will be available in July 2009 and will be presented on our website. Going forward, the year-on-year performance presented in the Annual Report and Accounts will continue to lag by one year.

We are currently developing a new KPI to monitor our performance on customer service. We will define and report our performance against this new KPI in next year's Annual Report and Accounts.

Last year's comparative figures for certain performance indicators incorporate the KeySpan acquisition. In particular, financial KPIs reflect the results of operations acquired from their acquisition on 24 August 2007, together with the associated increase in interest expense on debt used to finance the acquisition.

Delivering superior financial performance

We aim for superior financial performance, to deliver returns appropriate to our risk profile and to be financially disciplined. We also aim to ensure that the value we create is reflected in our share price.

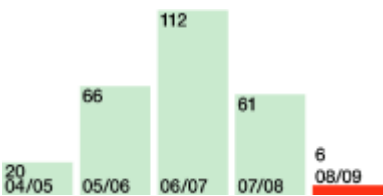
Shareholder returns

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 total shareholder return, being the increase in our share price over the course of the financial year, assuming dividends are reinvested.

Total shareholder return

Total shareholder return
% cumulative three year growth



We measure total shareholder return on a cumulative three year basis. Cumulative total shareholder return between 1 April 2006 and 31 March 2009 was 6%.

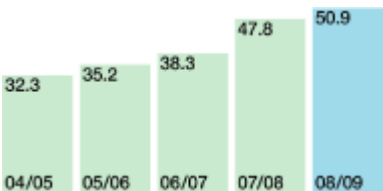
The 6% three year cumulative return represents a strong annual return in 2006/07 partially offset by falls in 2007/08 and 2008/09. These recent reductions over the last two years have occurred in an environment of significant instability in the financial markets and sharp declines in global share indices. We believe that our 6% shareholder gain, in the context of a 34% fall in the FTSE 100 UK share index in the same period, illustrates our low risk, stable business model combined with the potential for strong organic growth and our strong dividend policy.

Earnings

We aim to increase our adjusted earnings each year to support our dividend policy and return value to our shareholders.

The key performance measure we use to monitor our overall performance on earnings is adjusted earnings per share.

Adjusted earnings per share
pence



50.9p

Adjusted earnings per share

6%

Increase in adjusted earnings per share

£597m

Returned to shareholders through the share repurchase programme

17%

Reduction in employee lost time injury frequency rate

Adjusted earnings per share for 2008/09 increased by 3.1 pence, an increase of 6% compared with 2007/08 (2007/08: increased by 9.5 pence, an increase of 25% compared with 2006/07).

This increase reflected the higher adjusted profit for the year from continuing operations and the effects of the share repurchase programme that returned £597 million of value to shareholders (2007/08: the increase in adjusted profit from continuing operations and £1,516 million returned under the share repurchase programme).

A more comprehensive analysis of our financial performance is provided on pages 41 to 47. This includes a description of, and our reasons for using, adjusted profit measures on page 42.

Driving improvements in our safety, customer and operational performance

We aim for operational excellence by performing to the highest standards of safety and by improving customer service.

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 indicators to monitor our performance 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. Our key performance indicator is our employee lost time injury frequency rate.

Operating major hazard sites and pipelines means we remain vigilant to process safety risks as well as personal safety risks. During the year, there was one serious explosion in the UK and three explosions in the US as a result of escapes from our gas distribution networks. In the UK, we continue to replace our metallic gas mains in line with a programme agreed with the Health and Safety Executive (HSE) to reduce the risks of this type of incident. In the US, we continue to implement targeted replacement programmes to reduce the risk of incidents. In the last year, we have implemented revised processes to manage gas escapes in the UK satisfying the requirements of an enforcement notice served by the HSE.

We have continued to embed our trusted to work responsibly approach that builds on our well established safety framework and gives greater ownership for safety to our employees. We received external plaudits for this approach with the Safety and Health Practitioner/Institution of Occupational Safety and Health award for the best campaign of 2008, and the Confederation of British Industry publishing a case study on 'trusted'.

Employee safety

We report our lost time injury frequency rate, expressed as lost time injuries per 100,000 hours worked, as a key measure that can be compared with other companies. This rate takes into account the number of employees and the hours worked. As well as reporting our lost time injury frequency rate, we also report the number of lost time injuries.

This is the first year we have included parts of the business that were acquired with KeySpan. This increase in the size of the organisation is the reason for an increase in the number of lost time injuries to 140 in 2008/09 compared with 88 in 2007/08 and 97 in 2006/07. KeySpan had a lower level of safety performance than the existing business and this has contributed to the lost time injury frequency rate rising slightly to 0.25 in 2008/09 compared with 0.24 in 2007/08 and 0.24 in 2006/07. If KeySpan had been included in the 2007/08 performance indicators, there would have been 157 lost time injuries with a rate of 0.30. Therefore, on a comparable basis performance has improved. The results prior to 2007/08 did not include KeySpan and so are not directly comparable. Definitions for lost time injury and lost time injury frequency rate are included in the glossary on page 195.

The principal causes of lost time injuries to our employees are road traffic collisions, musculoskeletal injuries, impact injuries, and slips, trips and falls. Behavioural change initiatives have been targeted in these areas to improve performance.

Employee lost time injury frequency rate

Per 100,000 hours worked

Target: zero



2007/08 data restated as if KeySpan acquisition had occurred at beginning of year. Previously published figure, excluding KeySpan, was 0.24.

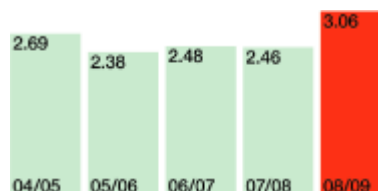
In our 2009 employee engagement survey, 74% (2008: 71%) of respondents felt confident that safety concerns or issues raised would be addressed. In 2009, 76% (2008: 73%) of respondents also considered that National Grid never compromises safety in order to meet other goals.

Employee health

Employee sickness absence rate

%

Target: zero



Data prior to 2008/09 excludes KeySpan.

Improving the health and well-being of our employees continues to be a major focus for National Grid. For several years we have had a comprehensive occupational health service to deal with work related health issues. We are now extending our approach to look at the health and well-being of our employees in a more holistic way. As well as the obvious benefits to individuals, there are significant business and societal benefits to having a fit and

Performance against our objectives continued

healthy workforce. In January we launched a new health and well-being strategy to provide a series of innovative initiatives that engage staff and encourage the restoration and maintenance of an individual's health, function and fitness. An early focus has been cardiovascular risk with screening being offered to UK employees over 45. Over the year, our sickness absence rate increased to 3.06% compared with 2.46% in 2007/08 and 2.48% in 2006/07. Data prior to 2008/09 does not include KeySpan, so is not directly comparable.

Contractor safety

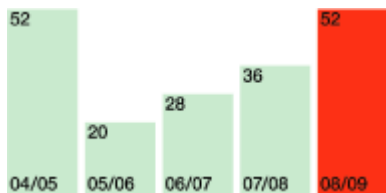
We are committed to the safety of all our workforce, not only direct employees. In 2008/09, there were 108 contractor lost time injuries compared with 105 in 2007/08 and 131 in 2006/07. Data prior to 2008/09 does not include KeySpan, so is not directly comparable. We are very sad to report there have been 3 contractor fatalities in the US: 2 contractors died following an incident while using a drilling rig and 1 died after coming into contact with an energised electricity line.

Public safety

Injuries to members of the public

Number

Target: zero



Data prior to 2008/09 excludes KeySpan. 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).

The safety of the public in the communities we serve is of prime importance to us. In 2008/09, 52 members of the public were injured as a result of our activities compared with 36 in 2007/08 and 28 in 2006/07, predominantly as a result of road traffic collisions and trips and falls around our street works. Sadly, 1 member of the public died in the US resulting from a road traffic accident.

Gas safety

We discuss our performance relating to consumer gas safety in the Gas Distribution section on pages 60 and 61.

Customer service

We aim 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.

We will achieve our aim 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.

An implementation programme will begin during 2009/10 to enhance our US customer experience across all areas. This includes ensuring

activities, streamlining work for the benefit of our customers, and prioritising resolution of customer issues at the first point of contact with National Grid.

In Gas Distribution, we will focus on standardising our practices and maximising collective learning. This will enable us to create a more consistent offering to all our customers. Greater levels of analysis and focus will be given to specific areas of low customer satisfaction.

In our 2009 employee survey, 57% (2008: 47%) of our employees believed National Grid is a good company for customers to do business with.

Further information on our customer service during the year is provided within each of the business sections on pages 53, 61, 69 and 75.

Delivering strong, sustainable regulatory and long-term contracts with good regulatory returns

We will work with our regulators and governments to develop the changes that are required to address climate change and security of supply in a way that is affordable for consumers and ensures timely delivery. Significant levels of investment over the next few years means that it is vital that we optimise our regulatory returns and ensure we are appropriately compensated for our investments.

In the US, we are committed to filing new rate cases whenever current rates do not represent a fair return on our assets. We have made significant progress in rate filings this year, further details of which are provided in the current and future developments section on page 23, and in the business sections on pages 52, 60 and 68.

Regulatory returns

Our aim is to deliver good financial returns compared to the regulatory allowances within our UK price controls and US rate plans and agreements.

We measure the performance of our UK regulated businesses through an operational return metric comparable to the vanilla return defined in the UK price controls. In the US, our performance is measured against the allowed regulatory return on equity under the terms of the relevant rate plan or agreement.

Our performance during the year is measured against each of our UK price controls and our US rate plans. Details of our results are provided in the business sections on pages 53, 61 and 70.

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.

We measure the value we generate from our investments by our consolidated return on equity.

Our group return on equity measure allows us to monitor our performance in generating value from our businesses and from the investments we make. Return on equity is calculated by dividing our annual return by the equity base. The annual return is our earnings

complete alignment of all customer contact

3.06%

Employee sickness absence rate

10.8%

Three year average return on equity

£3.2bn

Total capital expenditure in 2008/09

£3.4bn

Planned total annual capital expenditure for 2009/10

(excluding exceptional items, remeasurements and stranded cost recoveries) plus various regulatory based adjustments. The most significant regulatory adjustments relate to the replacement of IFRS depreciation and capital expenditure with regulatory based treatments, retail price index (RPI) linked UK regulatory asset value indexation uplift, and a pension deficit revenue adjustment. The equity base is invested capital less opening net debt. Invested capital is the opening UK regulatory asset value inflated to mid year based on RPI linked inflation, plus opening US invested capital (excluding stranded cost assets and assets disposed in the year), plus the closing net book value for assets and liabilities of UK based non-regulated businesses, corporate activities and joint ventures. Opening net debt is adjusted for significant individual transactions during the year such as disposal proceeds and share buybacks.

We monitor our performance using a three year average return rather than a return for a specific year. This provides a better measure of our ongoing performance as it helps to reduce short-term fluctuations due to temporary market conditions such as inflation volatility. For 2008/09, our three year average return on equity is 10.8%, down from 11.8% in 2007/08 and 12.0% in 2006/07. Despite an increase in our adjusted earnings during 2008/09, the decrease is primarily driven by UK RPI linked inflation that has reduced the inflation uplift on the regulatory asset value recognised in our return.

Modernising and extending our transmission and distribution networks

Significant capital investment is needed in the next few years to ensure we meet the challenges around the security of supply, renewable generation targets and maintaining and improving the reliability of our networks.

This planned capital expenditure is a significant driver for our future growth.

Reliability

Our principal operations are critical to the functioning of the economies we serve. The 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; maintaining a constant focus on reliability as one of our principal objectives; and 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. More information on the reliability of each of our main businesses is included in the business sections on pages 53, 62 and 70.

Capital 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.

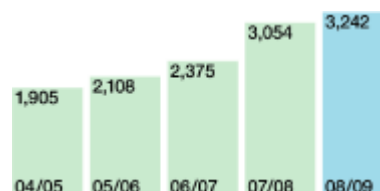
The principal measure we use to monitor organic investment is capital expenditure, which includes investment in property, plant and equipment as well as in internally created intangible assets such as software.

Our capital investment plans reflect changing energy infrastructure requirements.

The capital investment programme in our regulated businesses 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 planned total annual capital expenditure for 2009/10 is around £3.4 billion and we expect it to remain at around this level over the medium term.

Total capital expenditure £m



Our total capital expenditure during 2008/09 was £3,242 million compared to £3,054 million in 2007/08 and £2,375 million in 2006/07. More detail on capital expenditure is provided in the business sections on pages 54, 62, 71 and 75.

Expanding our capabilities and identifying new financeable opportunities to grow

We are committed to the growth of National Grid through organic capital expenditure and potential acquisitions of new businesses. Acquisitions will only be considered when we believe we can derive added shareholder value and they can be readily financed without undermining our external credit ratings.

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 the transformation of our operating model we monitor synergy savings generated following an acquisition (see page 35).

Performance against our objectives continued

Acquisitions

While there have been no new acquisitions during the current year, this is our first full year of ownership of KeySpan following the acquisition on 24 August 2007 for consideration of £3.8 billion together with the assumption of £2.2 billion of net debt.

The acquisition of KeySpan significantly expanded our operations in the northeastern US. The results of KeySpan's operations are included in our results since the date of acquisition on 24 August 2007. In note 28 of the financial statements on page 159 we have included pro forma financial information in accordance with IFRS to present our financial results as if the acquisition had occurred on 1 April 2007. The pro forma information has been provided as we believe it provides the user of the financial statements with additional useful information relating to the KeySpan acquisition and aids the comparison of our financial performance between periods.

There were no other acquisitions during the years ended 31 March 2009 or 31 March 2008, while during the year ended 31 March 2007, we completed the acquisition from Southern Union Company of the Rhode Island gas distribution assets for £269 million, including transaction costs of £3 million.

Recent financial market volatility has led most utility companies to conserve cash and refrain from significant acquisitions that require funding through either the debt or equity markets. We continue to monitor the energy market and assess potential targets for strategic fit, good regulatory returns and the potential to add value to our business. If required, we believe that our ability to access the financial markets to fund transactions remains strong.

Exit non-core businesses

Our focus on our energy delivery markets in the UK and the US means that we have sought to dispose of operations deemed to be non-core.

Our principal objective on exiting a business is to maximise the proceeds we can generate from each sale.

Disposals

During 2008/09, we completed the disposal of the Ravenswood generation station for cash proceeds of \$2.9 billion (£1.6 billion). Its disposal was a condition of regulatory approval for the KeySpan acquisition.

There were no other significant disposals during the year ended 31 March 2009.

During 2007/08, we completed the disposal of several non-core businesses including our UK and US wireless infrastructure operations and our Basslink electricity interconnector in Australia.

Becoming more efficient through transforming our operating model and increasingly aligning our processes

We are in the process of transforming National Grid in line with our strategy.

Last year we successfully created our lines of business and established our shared services functions for procurement, information services, business development, human resources and finance.

During 2008/09, we have continued to transform our business, however, now that our lines of business and shared services functions are established we are focusing on transforming our operating model within each line of business.

We remain committed to our long-term aim of a global operating model and the convergence of operating principles, processes, systems and organisations. However, in order to maximise our near-term benefits and return on investments, our focus during the current year and in the short term is on maximising efficiencies in the operating model within each line of business.

Through targeted reductions in the number of processes, as well as through their standardisation and simplification, we aim to maximise efficiencies and reduce our costs.

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.

Our operating model is focused on the delivery of services to customers, developing the sharing of best practice and positioning ourselves to deliver improvements in operating and financial performance.

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:

- a significantly improved customer experience;
- a high performance culture;
- 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 efficiency; and
- advanced decision support tools and analytic capabilities.

Activities during the year

Lines of business – transforming our operating model

Our focus this year has been on the operating model within each line of business. Further information on transforming our operating model during the year is provided within each of the business sections on pages 54, 62, 71 and 76.

Global procurement model

We continue to develop our procurement operating model and are now structured on a strategic spend category basis. This structure drives greater focus in delivering value from our supply chain. We have strengthened our management team and increased the level of international industrial experience in particular, as we seek to improve the performance of this part of our business.

We have implemented new technology tools that better enable our capacity to plan, monitor, report spend and undertake e-commerce events. We have also introduced a system that provides robust financial monitoring services, focusing on our critical suppliers. We have developed common global spend reporting techniques that are able to consolidate information from our different enterprise resource planning platforms. Together, these developments have significantly enhanced visibility and control of spend.

£2,387m

2008/09 regulated controllable operating costs

\$200m

Total target synergy savings from KeySpan acquisition

\$129m

Run rate cost savings from KeySpan acquisition achieved by 31 March 2009

91.8%

Response rate to 2008 employee engagement survey

We have continued to selectively expand our use of alliance models in our construction activities, in particular developing this model in the US using a rigorous process based methodology to adapt our approach as necessary to suit any structural market differences and to drive value. Overall, as market conditions are affected by current economic uncertainty, we continue to benefit from the closer and more constructive working relationships that can be achieved when project objectives are aligned and financial risks are shared between ourselves and our supplier base.

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.

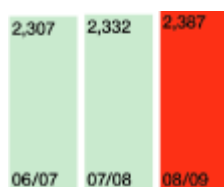
The key performance indicator we use to monitor improvements in our efficiency is our year-on-year movement in regulated controllable operating costs. In addition, we track synergy cost savings related to the integration of KeySpan as a performance indicator, as well as monitoring our overall financial performance.

Regulated controllable operating costs

Controllable operating costs are monitored through the comparison of year-on-year movements in regulated controllable operating costs on a constant currency and inflation adjusted basis. The results illustrated in the graph present 2006/07 and 2007/08 comparatives on a currency adjusted and inflation adjusted basis, as well as including an adjustment to include pro forma KeySpan costs as if its operations were owned for a full year. We believe this provides a comparable measure of our controllable costs on a like-for-like basis. A definition of regulated controllable operating costs is provided in the glossary on page 196.

Regulated controllable operating costs

£m



On a like-for-like basis, during 2008/09 our regulated controllable operating costs slightly increased to £2,387 million compared with £2,332 million and £2,307 million in 2007/08 and 2006/07 respectively.

Regulated controllable operating costs increased by £55 million in 2008/09 compared with 2007/08. If the impact of bad debts is excluded from the cost base the year-on-year increase is only £17 million. Our bad debt costs relate to our US operations. Under the majority of our US rate plans such costs are either fully or partially recoverable from customers in either the current or future periods.

We also monitor our regulated controllable operating costs (on a non inflated basis and excluding bad debts) as a percentage of our total adjusted regulated asset base. Our regulated controllable

operating costs as a percentage of our asset base decreased from 8.2% in 2007/08 to 8.1% in 2008/09. The total adjusted regulated asset base represents an estimated mid year position based on opening UK regulated asset values inflated to mid year, plus US rate bases, and an adjustment for a proportion of capital additions and regulatory depreciation.

We believe cost savings will be delivered in the future through the continued development and deployment of our global procurement model and other cost reduction initiatives. Further information on our efficiency and controllable cost initiatives is provided within each of the business sections on pages 55, 63, 72 and 76.

Synergy savings from KeySpan acquisition

We continue to integrate the operations acquired with KeySpan in the US, which will enable us to achieve significant synergies. When we acquired KeySpan we set ourselves a total target of \$200 million synergy cost savings by 31 March 2010 along with a target cost savings run rate of \$100 million by 31 March 2009.

At 31 March 2009, we had surpassed our run rate target and achieved a rate of \$129 million, and therefore are on schedule to achieve our total savings target by the end of 2009/10.

Information on our financial performance during the year is set out on pages 41 to 47.

Building trust, transparency and an inclusive and engaged workforce

In order to maximise the potential of our workforce and achieve our objectives it is important to develop their belief and engagement in National Grid's vision.

Engagement and performance

To be successful, we will continue to engage our employees to strive for continued improvement. For that purpose our aim is to implement a world-class performance management process.

Our key performance indicator is the employee engagement index based on our independent annual employee survey.

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

In February 2009, we conducted our second annual employee survey. A total of 24,727 employees took part, representing 91.8% of our workforce. During 2008, we undertook intensive action planning at the Company, line of business and individual employee level, to address the key themes of improving communications, providing greater clarity on vision and direction and providing stronger links between performance and reward. The 2009 survey reported a 10% increase in the employee engagement index, up to 70%. Improvements were reported across all survey dimensions, with significant improvements in the areas of vision, direction and communications which were key action items from the 2008 survey. Employees continue to believe National Grid's safety culture and supportive management are significant strengths but would like to see improvements on how the Company creates the context for

Performance against our objectives continued

create links between performance and reward. Action plans are being developed and will form part of the management annual objective process for 2009/10 to ensure we further build upon this survey success.

Performance management

We are continuing the task of building a high performance culture and, further to our work with senior managers, we have now completed training for the majority of middle and first line managers in the UK and US on ‘performance for growth’, our global performance management system. The process continues to focus on raising the performance bar and supporting high quality conversations. We have established support and challenge groups which continue to review best practice, share knowledge and enable managers to have a peer support network. Our performance programmes are driving stronger personal accountability and the leadership within National Grid is now actively involved in creating a culture where everyone across the business understands that business results are of primary importance and that they can directly influence these.

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 ethnic minority employees, along with measuring our employee perceptions.

Following a thorough review of policies throughout National Grid, we have reaffirmed our commitment to inclusion and diversity by highlighting its importance to employee engagement and productivity, the recruitment and retention of talent and our external reputation within our business case.

During the year we launched our global inclusion charter. The charter explains what employees can expect from the Company, as well as what National Grid expects from employees and builds on work in progress throughout the UK and US.

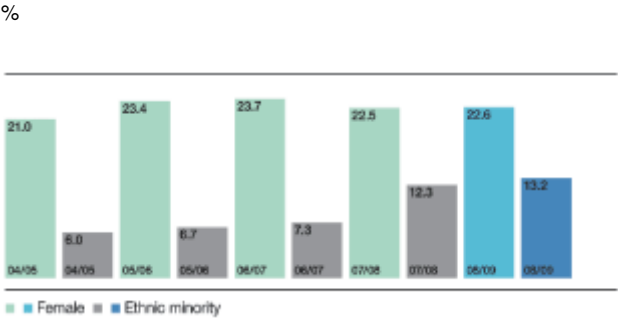
In addition, an inclusion and diversity transition group has been established to develop the necessary communications, governance and human resource processes to support our efforts. Training has continued to offer greater awareness of inclusive behaviours and we have recently launched a new inclusive leadership learning programme.

Employee network groups led the effort in creating and managing a fortnight of events called mobilising inclusion. These events provided an opportunity for employees to learn about all the ways we are different and how we could become more inclusive. We also had the first winner of the Chairman’s award for inclusion and diversity, recognising all the efforts that employees have put in across the business.

We are fortunate to have vibrant employee networks focusing on gender, ethnicity, faith, disability, sexual orientation, families 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.

At 31 March 2009, 22.6% of our employees were female and 13.2% were from ethnic minority groups. This compares with 22.5% and 12.3% at 31 March 2008 and 23.7% and 7.3% at 31 March 2007 respectively. The results prior to 2008 did not include KeySpan, so are not directly comparable.

Inclusion and diversity



Our progress has already received external recognition. We were in The Times/Aurora Where Women Want to Work TOP 50 list for the third year running; made the Stonewall Top 100 for the first time and were short-listed for an ethnicity award. In the US, we scored 100% in the US Human Rights Campaign’s 2008 Corporate Equality Index.

In our 2009 employee survey, 70% (2008: 61%) of respondents considered they were treated fairly by National Grid, while 78% (2008: 76%) of respondents considered that their colleagues treated them with respect and dignity.

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.

Developing our talent, leadership skills and capabilities

Identifying, recruiting and developing talented people is critical to our future success.

Talent and skills

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.

Our performance in this area is the qualitative monitoring of our various projects and initiatives aimed at addressing these issues.

We have strengthened our talent management processes in 2008/09, creating talent management plans for senior management and for business critical roles. We are now conducting regular cross-business talent planning sessions using consistent processes to support senior management in developing employees within each business area and to address succession issues. We are carrying out an annual global review of talent for all our businesses and functions and have implemented metrics that will help us track the depth of our talent pool on a regular basis.

Our focus on developing the talent of our current and future business leaders has moved forward with the launch of our developing future leaders programme for senior managers, around 75 of whom will be invited to participate in 2009. We have also launched a foundations of leadership programme for first line leaders and supervisors. It was launched in April with a one day

22.6%

Percentage of female employees

13.2%

Percentage of ethnic minority employees

45% by 2020

Our intermediate greenhouse gas emissions reduction target

Carbon budgets

Being implemented across the Company during 2009/10

orientation of managers of first line leaders so that they are better prepared to support their supervisors' development. The first training for about 200 front line leaders followed in May and focused on understanding how our business operates and makes money, in addition to understanding the critical behaviours of motivating and managing teams of individuals toward higher levels of performance. The future leaders programme launched in May with a focus on enhancing business acumen and the demonstration of our leadership qualities.

We continue to invest in the recruitment and development of skilled employees for the future, recruiting 184 advanced apprentices, 58 foundation engineers and 30 graduates in the UK. In addition, we are currently reviewing our US approach to bring it into line with our UK efforts. These programmes are designed to facilitate the entrance into National Grid and the training and progression of talented people, with special emphasis on key engineering roles.

Through our e-futures strategy, we continue to organise and sponsor a number of educational initiatives in the UK. These initiatives continue to increase the number and diversity of young people interested in engineering careers and, ultimately, create and sustain a greater pool of skilled talent from which we can recruit. Key to this success has been the dedicated involvement of our employees.

In addition, we have formally launched workforce planning as a methodology to identify and proactively address the gaps both in people and skills necessary to deliver our ambitious business strategies. We are completing the first phase in Transmission UK and are planning on a full National Grid roll out during the coming year.

We will continue to use our annual employee survey to help determine the human resource initiatives we put in place to maximise our employees' contribution to the delivery of our vision.

Positively shaping the energy and climate change agenda with our external stakeholders in both regions

Our aim is to embrace, address and lead on the current and future issues affecting the energy market. We are committed to safeguarding the global environment for future generations, taking positive action to reduce our contribution to climate change and other impacts on the environment. We strive to be an environmental leader and will work with our UK and US regulators to develop the regulatory framework required to address the changes in future energy supplies.

This year has seen significant changes to UK government policy with the introduction of the Climate Change and Energy Acts, which will implement a wide range of measures including setting carbon budgets on a national scale and enshrining climate change targets in law. In the US, energy policy is expected to change significantly following the administration change. In addition, energy efficiency, security of supply and the cost of energy will be key areas of focus.

Positively shaping the agenda

We aim to take the lead on the energy and climate change issues facing society. We will not allow ourselves to simply react to the initiatives of other relevant bodies. Instead, we will be proactive in leading the agenda to make sure we help safeguard the environment.

In the last year, National Grid has raised its profile in the UK and US in the area of climate change. We have partnered with Ceres in the US and with the Worldwide Fund for Nature (WWF) in the UK to seek their review and comment on our internal and external efforts to reduce our climate change impacts and shape our positive influence on legislators and regulators.

We have also been active participants in the UK, with such programmes and organisations as the RPI-X@20 group and Business in the Community, and in the US, with the shaping of state climate change regulations through our membership of the Clean Energy Group and collaboration with other entities such as Environment Northeast.

Climate change

We continued with our climate change initiative and increased our energy efficiency programmes, focusing on initiatives that are cost effective and regulated. We see our 80% greenhouse gas emissions reduction target as being industry leading within the UK and US.

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.

As reported last year, we have adopted a long-term target of reducing our Scope 1 and 2 greenhouse gas emissions by 80% against our baseline by 2050. We have now set an intermediate objective of a 45% reduction in our emissions by 2020. These targets remain at the centre of our efforts to identify and implement measures to meet our commitment to safeguard our global environment for future generations. In 2009/10, we will be evaluating the inclusion of Scope 3 emissions into these targets.

This year, we have focused our efforts on educating our workforce on the targets and the means by which we will achieve them. We have conducted an inventory of our greenhouse gas emissions to ensure that we have up-to-date information on the magnitude of the reductions necessary and the areas of the operations where reductions can take place. We have also established internal working teams tasked with developing opportunities to achieve our 80% target.

Our climate change initiative is being embedded in all areas and operations of the Company through the establishment of teams working in such areas as introducing low emission vehicles for our fleets, developing low carbon design features for our asset replacement programmes and incorporating a cost of carbon methodology in our investment decision making processes.

During 2009/10, we will implement carbon budgets. For each financial year, each business will be set a maximum level of greenhouse gas emissions which can be emitted. Subsequent years will see a reduction in these budgets that is needed to achieve our 2020 and 2050 targets.

In 2008/09, we completed a detailed review of our greenhouse gas emission inventory for the year ended 31 March 2008 and included the operations acquired as part of the KeySpan transaction as if we had owned them for the entire year. On this basis, our total Scope 1 and 2 emissions for 2007/08 would have been approximately 12.1 million tonnes CO₂ equivalent compared with the approximate 4.1 million tonnes reported.

Our performance measure in this area is the quantitative monitoring of our contribution to various projects, committees, task forces and other initiatives aimed at addressing these issues.

Performance against our objectives continued

Emissions from the electricity generating plants on Long Island account for approximately 50% of the total for National Grid.

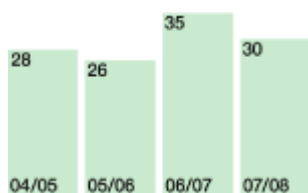
Currently, we are using a reporting baseline of 1990 for the majority of our greenhouse gas emissions.

As noted on page 30, the 2008/09 performance is currently unavailable. We expect it to become available in July 2009 and it will then be presented on our website.

Greenhouse gas emissions (Scope 1 and 2)

% reduction against baseline

Target: 80%



2007/08 data restated as if KeySpan acquisition had occurred at beginning of year. Previously published figure, excluding KeySpan, was 38%.

Protecting the environment

We will help to protect the environment for future generations and we are committed to continuously improving our environmental performance.

The performance indicators that we monitor in this area include the amount of waste we generate and recycle, activity in land contamination management and the number of significant direct environmental incidents.

At 31 March 2009, approximately 80% of our employees worked to certified ISO 14001 environmental management systems compared to 66% at the same time last year. The main reason for this increase is the certification in November 2008 of the gas operations we acquired as part of the KeySpan acquisition. During 2009, we will be seeking certification of KeySpan electricity operations acquired.

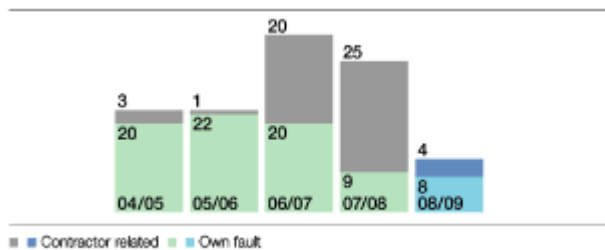
The number of significant environmental incidents in 2008/09 arising directly from our operations was 12, which included 4 contractor-related incidents, compared with 34, including 25 contractor-related incidents in 2007/08 and 40, including 20 contractor-related incidents in 2006/07. Incidents outside of our control resulting from third party or weather-related damage to our networks were 1 compared with 1 in 2007/08 and 13 in 2006/07. The results prior to 2008/09 did not include KeySpan and so are not directly comparable. There was 1 contractor-related prosecution resulting from these incidents. In the US, we received 6 environmental citations in 2008/09 compared with 6 in 2007/08 and 9 in 2006/07, attracting a total of \$86,500 in fines. Data prior to 2008/09 does not include KeySpan, so is not directly comparable. In the UK, we received 1 improvement notice.

In our 2009 employee survey, 62% (2008: 55%) of respondents considered National Grid acts responsibly in all its business dealings, including environmental management.

Significant environmental incidents

Direct

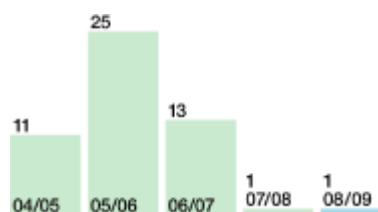
Target: zero



Data prior to 2008/09 excludes KeySpan.

Significant environmental incidents

Third party/weather



Data prior to 2008/09 excludes KeySpan.

We manage an inherited portfolio of historically contaminated land including former manufactured gas plants, industrial landfills, former and current gas holders and electricity substations on our transmission and distribution networks. Sites can sometimes have a complex mix of contamination dating back over 100 years.

National Grid manages land contamination issues on 678 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 2008/09, environmental work stages were completed on 316 sites of which 22 included remediation. As a proportion of the programme in the UK is linked to the redevelopment of brownfield sites, the economic downturn has adversely influenced the number of remediation work stages completed.

We also take seriously the issues that surround electric and magnetic fields. We recognise that there is scientific uncertainty as to whether the electric and magnetic fields that are produced by some of our assets have an effect on health or not, and that this produces public concern. We monitor the science carefully (this year has seen new studies on issues such as Alzheimer's disease and damage to genes) but we look to relevant independent bodies such as the World Health Organization and the UK's Health Protection Agency for authoritative advice. In all our operations, as a minimum, we aim to comply with the relevant regulations, guidelines or practices in force in the different jurisdictions in which we operate. In addition, we actively support high-quality research and open communication (including maintaining a website at www.emfs.info) and we look for more constructive and less confrontational ways of handling this issue. All these activities are governed by our public position statement on electric and magnetic fields, which we review annually.

80%

Percentage of employees working to ISO 14001

316

Number of sites where environmental work stages were completed

63%

Reduction in significant environmental incidents

Platinum

Our BITC corporate responsibility index status for the 7th consecutive year

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.

Responsibility

We believe operating responsibly is essential to the way we conduct our operations, invest in our business, develop our people and manage our relationships. It underpins everything we do and is a prerequisite to delivering our vision to be the foremost international electricity and gas company, delivering unparalleled safety, reliability and efficiency.

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 Framework defines the principles by which we manage our business and our day-to-day dealings with our customers, employees, shareholders, suppliers and local communities. It is underpinned by Company wide policies and position statements that are available on our website.

We continue to enjoy external recognition of our responsible business approach. We remain on the Dow Jones Sustainability World and FTSE4Good indices and maintained a platinum status in the Business in the Community corporate responsibility index; the seventh successive year we have been accorded this top tier ranking. National Grid is a signatory to the United Nations Global Compact.

Our Standards of Ethical Business Conduct provide a common set of practical guidelines to help ensure that our behaviours are lawful, comply with our policies and licences and follow the values set out in our Framework and our core values. In 2008/09, there were 11.3 substantiated breaches per 1,000 employees compared with 11.6 in 2007/08 and 8.0 in 2006/07. Offences include such things as fraud, internet and email abuse, drugs and alcohol abuse and misuse of company vehicles and other assets. We take all breaches very seriously and disciplinary action can range from a verbal warning to dismissal.

In our 2009 employee survey, 66% (2008: 61%) of respondents considered something would be done if they reported an inappropriate business practice or an ethical issue.

More information on our corporate responsibility and business ethics objectives is included in the Corporate Governance section on pages 90 to 99.

On our website, we provide information on our method for assuring the corporate responsibility information and data in this report and our other public corporate responsibility reporting.

Risks and opportunities

Risks and opportunities

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.

Financial performance

Financial performance and operating cash flows are the basis for funding our future capital investment programmes, for servicing our borrowings and paying dividends, and for increasing shareholder value.

Driving improvements in our safety, customer and operational performance

The operating profits and cash flows we generate are dependent on our operating performance – operating safely, reliably and efficiently and providing a quality service to customers.

Delivering strong, sustainable regulatory and long-term contracts with good returns

Our relationships with our stakeholders are critical to our future success. Maintaining these good relationships is dependent on focusing on the areas that are important to them, such as the 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.

Modernising and extending our transmission and distribution networks

Our future organic growth is dependent on the delivery of our capital investment plans. In order to deliver sustainable growth with a superior financial performance, we will need to finance our investment plans. Turmoil in the financial markets may restrict our ability to raise finance.

Expanding our capabilities and identifying new financeable opportunities to grow

Identifying, evaluating, and acquiring new businesses that build on our core regulated operations is important. If we are unable to acquire businesses with the correct strategic fit it will restrict our future sustainable growth and our ability to increase shareholder value. Acquisition of new businesses is dependent on our ability to fund transactions through the issuance of new debt or new shares. Volatility in financial markets may restrict our financing opportunities.

Becoming more efficient through transforming our operating model and increasingly aligning our processes

Transforming the way we operate through the simplification and standardisation of our systems and processes, will drive efficiency and reduce costs. Transforming our operating model will enable us to deliver increased value to our shareholders.

Conversely, if we do not achieve this transformation, or associated benefits in efficiency, then shareholder value will not grow as we hope or will diminish.

Building trust, transparency, and an inclusive and engaged workforce

Our workforce is a vital part of our business and is critical to our future success. Failure to maintain a trusting, engaged, and motivated workforce, who can see how their actions directly contribute to achieving our strategy and objectives will restrict our ability to meet those objectives.

Positively shaping the energy and climate change agenda with our external stakeholders in both regions

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 our employees, customers and suppliers to change their behaviour to be more environmentally aware.

Responsibility

Strong corporate governance is essential to operating responsibly and the achievement of all our objectives. Our reputation as a responsible business depends on our behaviours being 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.

Risk management

Our approach to risk management is described in the Corporate Governance section on pages 96 and 97. 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 79 to 86.

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, changes in credit ratings, volatility and disruption of global financial markets, reduced liquidity and access to funding opportunities;
- periods of deflation;
- future funding requirements of our pension schemes;
- changes in accounting standards or in tax rates;
- consumers, suppliers or other counterparties failing to perform their obligations; and
- impact of seasonal or weather-related fluctuations.

Not all 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

The skills and talents of our employees, along with succession planning and the development of future leaders, 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.

detail within the Corporate Governance section on pages 97 to 99.

Financial performance

Our performance against the key performance indicators for delivering superior financial performance is described on pages 30 and 31. In the following section we provide a more detailed analysis of our financial results.

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 a measure of the cash flows we generate compared to 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 2009 remained within our target range although it decreased to 3.1 from 3.2 for the year ended 31 March 2008 (year ended 31 March 2007: 3.8). The primary reason for the decrease in 2008/09 was due to increased interest expense resulting from higher average net debt levels during the year partially offset by higher levels of cash inflows from operations. In addition, decreased interest receipts on cash and financial investments compared with 2007/08 contributed to the decrease.

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 ended 31 March 2009, we repurchased £597 million of our shares, £1,516 million in 2007/08, which together with the £169 million repurchased in 2006/07 totals £2.3 billion of returns to shareholders in the last three years through share repurchases. This now completes our promise to return the 2008/09 stranded cash flows and the return of £1.8 billion from our wireless disposals. However, in the current economic climate we believe that it is now financially prudent to suspend our remaining share repurchase programme.

Profit, cash flow and dividends

If we achieve our objectives, we should be able to achieve continued improvements in financial performance, so that we deliver on our commitment to increase our dividend by 8% each year to 2012.

The key performance indicator we use to monitor our financial performance is adjusted earnings per share. Adjusted earnings per share is basic earnings per share before exceptional items, remeasurements and stranded cost recoveries.

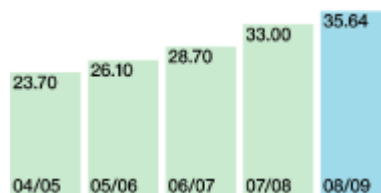
We report our financial results and position in accordance with International Financial Reporting Standards (IFRS).

Dividends in respect of the financial year

Our target is to increase dividends by 8% each year until 31 March 2012.

Dividends per share

pence



Dividends	2009 pence	2008 pence	2007 pence	2006 pence	2005 pence
Interim	12.64	11.70	10.90	10.20	8.50
Final	23.00	21.30	17.80	15.90	15.20
Total	35.64	33.00	28.70	26.10	23.70

Dividends per ADS	\$	\$	\$	\$	\$
Interim	0.95	1.21	1.03	0.88	0.79
Final	1.74	2.05	1.76	1.51	1.38
Total	2.69	3.26	2.79	2.39	2.17

The total ordinary dividend for 2008/09 (including the final proposed ordinary dividend of 23.00 pence) amounts to £867 million or 35.64 pence per ordinary share. This represents an increase of 8% over the previous year's ordinary dividend per share of 33.00 pence. The above amounts exclude the return of £597 million, £1,516 million and £169 million to shareholders in 2008/09, 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 1.4 times by adjusted earnings from continuing operations per ordinary share (2007/08 covered 1.4 times, 2006/07 covered 1.3 times) and covered 1.0 times by earnings per ordinary share from continuing operations (2007/08 covered 1.8 times, 2006/07 covered 1.7 times).

The dividend table 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 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 2008/09 of 23.00 pence per share, amounting to approximately £560 million (assuming all dividends are settled in cash), will be reported in the financial statements for the year ending 31 March 2010. This year we are offering our shareholders the option of a scrip dividend (subject to shareholder approval), whereby they can elect to receive the final dividend in the form of new ordinary shares rather than cash.

Continuing and discontinued operations

The financial results of our businesses and segments and of our other activities, as described on page 18, are presented within continuing operations.

Financial performance continued

The results of our Ravenswood generation station, KeySpan Communications and of the KeySpan engineering companies that were sold during or subsequent to the year ended 31 March 2009 are included in discontinued operations.

Our financial results incorporate activities acquired with KeySpan on 24 August 2007.

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 for that year.

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. Firstly business performance, which excludes exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles. 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 acquisition-related intangibles.

Exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles are items of income and expense 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, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning provisions, the 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 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 largely to cease by the end of calendar year 2011. Amortisation of acquisition-related intangibles arises from intangible assets, principally customer relationships, that are only

recognised as a consequence of the accounting required for a business combination. Such amortisation distorts the comparison of the financial performance of acquired businesses compared with non-acquired 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 the amortisation of acquisition-related intangibles. We believe that in separately presenting our financial performance in two components it is easier to read and interpret financial performance between periods. Adjusted profit measures are more comparable by excluding the distorting effect of 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 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. The average exchange rate in 2008/09 was \$1.54: £1 compared with the average rate of \$2.01: £1 in 2007/08. The same amount of revenue and other operating income (excluding stranded cost recoveries), adjusted operating profit and operating profit in US dollars earned in 2007/08 would have been reported as £1,947 million, £260 million and £398 million higher if earned in 2008/09. In 2006/07, the average rate was \$1.91: £1. If the revenue and other operating income (excluding stranded cost recoveries), adjusted operating profit and operating profit in US dollars recognised in 2006/07 were earned in 2007/08, it would have been £193 million, £26 million and £51 million lower respectively.

However, the effect of movements in the US dollar exchange rate on adjusted operating profit and operating profit in 2008/09 was largely offset by the impact of interest and tax charges denominated in US dollars, when translated into sterling. This includes 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 2007/08 would have been £49 million and £137 million higher respectively if translated at the 2008/09 average exchange rate of \$1.54: £1 (2006/07: £4 million and £17 million lower respectively if translated at the 2007/08 average exchange rate of \$2.01: £1).

£1,253mAdjusted profit from
continuing operations**50.9p**

Adjusted earnings per share

6%Increase in adjusted earnings
per share**37.4p**

Earnings per share

The balance sheet at the end of the financial year has been translated at an exchange rate of \$1.44: £1 at 31 March 2009 (\$1.98: £1 at 31 March 2008).

Profit for the year from continuing operations

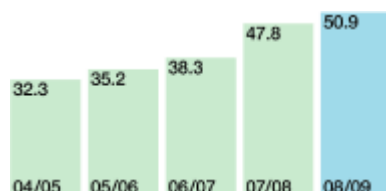
Profit for the year from continuing operations decreased from £1,575 million in 2007/08 to £922 million in 2008/09 (increased from £1,310 million in 2006/07 to £1,575 million in 2007/08) as a consequence of the changes in operating profit, net finance costs, exceptional finance costs and remeasurements, and taxation described in the following sections.

Details of the financial results of business segments and other activities are included in the business sections on pages 48 to 77.

Earnings and earnings per share from continuing operations

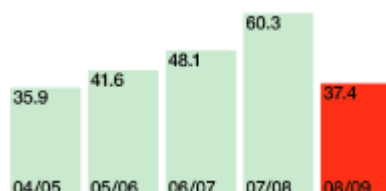
Adjusted earnings per share

pence



Earnings per share

pence



Adjusted earnings

	Years ended 31 March		
	2009	2008	2007
	£m	£m	£m
Continuing operations			
Adjusted operating profit	2,915	2,595	2,031
Net finance costs excluding exceptional items and remeasurements	(1,150)	(770)	(547)
Share of post-tax results of joint ventures	5	4	2
Adjusted profit before taxation	1,770	1,829	1,486
Taxation excluding tax on exceptional items, remeasurements and stranded cost recoveries	(517)	(579)	(442)
Adjusted profit from continuing operations	1,253	1,250	1,044
	pence	pence	pence
Adjusted earnings per share from continuing operations	50.9	47.8	38.3

Earnings

	Years ended 31 March		
	2009	2008	2007
	£m	£m	£m
Continuing operations			
Operating profit	2,623	2,964	2,513
Net finance costs	(1,234)	(786)	(764)
Share of post-tax results of joint ventures	5	4	2
Profit before taxation	1,394	2,182	1,751
Taxation	(472)	(607)	(441)
Profit from continuing operations	922	1,575	1,310
	pence	pence	pence
Earnings per share from continuing operations	37.4	60.3	48.1

Earnings per share from continuing operations

The following table sets out the adjusted earnings per share and earnings per share from continuing operations for 2008/09, 2007/08 and 2006/07 and reconciles the differences between them. Reconciling items are net of tax.

	Years ended 31 March		
	2009	2008	2007
	pence	pence	pence
Continuing operations			
Adjusted earnings per share	50.9	47.8	38.3
Exceptional items	(10.1)	(0.1)	(1.5)
Commodity cost remeasurements	(10.8)	5.1	1.3
Derivative financial instrument remeasurements	(3.0)	(1.3)	0.6
Stranded cost recoveries	10.4	8.8	9.4
Earnings per share – continuing operations	37.4	60.3	48.1

Adjusted earnings per share for 2008/09 increased by 3.1 pence, an increase of 6% compared with 2007/08 (2007/08: increased by 9.5 pence, an increase of 25% compared with 2006/07). The reasons for this increase are our growth in adjusted profit and the share buyback programme during 2008/09.

Earnings per share from continuing operations decreased from 60.3 pence per share in 2007/08 to 37.4 pence per share in 2008/09 reflecting the increase in adjusted earnings per share, combined with the higher net exceptional items, remeasurements and stranded cost recoveries on a per share basis (2007/08: increase from 48.1 pence per share in 2006/07 to earnings of 60.3 pence per share).

Diluted earnings per share from continuing operations were 37.1 pence per share in 2008/09, 0.3 pence lower than basic earnings per share from continuing operations, compared with 59.9 pence per share in 2007/08 (0.4 pence lower) and 47.8 pence per share in 2006/07 (0.3 pence lower). The principal reason for the dilution in 2008/09, 2007/08 and 2006/07 relates to employee share plans.

Adjusted profit measures

The following tables reconcile the adjusted profit measure to the corresponding profit measure in accordance with IFRS.

Financial performance continued

a) Reconciliation of adjusted operating profit to operating profit

	Years ended 31 March		
	2009	2008	2007
	£m	£m	£m
Continuing operations			
Adjusted operating profit	2,915	2,595	2,031
Exceptional items	(275)	(242)	(22)
Commodity contract remeasurements	(443)	232	81
Stranded cost recoveries	426	379	423
Operating profit	2,623	2,964	2,513

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		
	2009	2008	2007
	£m	£m	£m
Continuing operations			
Adjusted profit before taxation	1,770	1,829	1,486
Exceptional items	(275)	(242)	(67)
Commodity contract remeasurements	(445)	223	62
Derivative financial instrument remeasurements	(82)	(7)	(153)
Stranded cost recoveries	426	379	423
Profit before taxation	1,394	2,182	1,751

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 company)

	Years ended 31 March		
	2009	2008	2007
	£m	£m	£m
Continuing operations			
Adjusted earnings	1,250	1,247	1,042
Exceptional items	(247)	(2)	(41)
Commodity contract remeasurements	(266)	133	37
Derivative financial instrument remeasurements	(74)	(35)	16
Stranded cost recoveries	256	229	254
Earnings	919	1,572	1,308

Adjusted earnings is presented in note 10 to the consolidated financial statements, under the heading Adjusted earnings – continuing operations.

Discontinued operations

During 2008/09, discontinued operations included the Ravenswood generation station, KeySpan Communications and KeySpan engineering companies, which were sold during the year or subsequent to it. As at 31 March 2008, all these operations were classified as held for sale on the balance sheet and their results included in discontinued operations from their acquisition under KeySpan on 24 August 2007 to 31 March 2008. In addition, during 2007/08, discontinued operations included our wireless infrastructure operations in the UK and the US and the Basslink electricity interconnector in Australia that we sold during 2007/08. The results of these operations are also included within discontinued operations for 2006/07. Details of the results of these operations are provided on page 78.

We sold the Ravenswood generation station for \$2.9 billion (£1.6 billion) on 26 August 2008.

Earnings per share from discontinued operations in 2008/09 were 1.1 pence per share (including 0.7 pence per share relating to gains on the businesses sold during the year) compared with 62.0 pence per share in 2007/08 (including 60.6 pence per share relating to gains on the businesses sold during the year) and 3.2 pence per share in 2006/07 with no gains from disposals.

Net profit and total earnings per share for the year

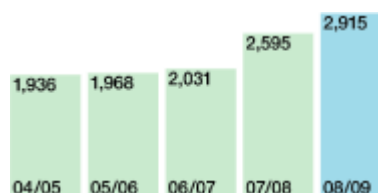
Net profit from both continuing and discontinued operations was £947 million in 2008/09, compared with £3,193 million in 2007/08 and £1,396 million in 2006/07.

Total earnings per share from both continuing and discontinued operations were 38.5 pence per share in 2008/09, 122.3 pence per share in 2007/08 and 51.3 pence per share in 2006/07.

Adjusted operating profit and operating profit

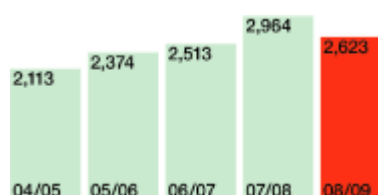
Adjusted operating profit

£m



Operating profit

£m



During 2008/09, KeySpan operations contributed £556 million (\$855 million) and £203 million (\$313 million) to adjusted operating profit and operating profit for continuing operations respectively. During the year ended 31 March 2008, KeySpan was acquired on 24 August 2007 and consequently only contributed seven months of results for that period. During 2007/08, KeySpan contributed £368 million (\$740 million) and £453 million (\$911 million) to the adjusted operating profit and operating profit for continuing operations respectively.

KeySpan's operations are significantly affected by seasonality. Therefore, during 2007/08 the results of KeySpan that were consolidated from 24 August 2007 provide a larger contribution on a time apportioned basis compared with a full year's 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 in the US during the colder winter period.

£15.6bn

Revenue

£2,915m

Adjusted operating profit

12%Increase in adjusted
operating profit**£2,623m**

Operating profit

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		
	2009	2008	2007
	£m	£m	£m
Continuing operations			
Transmission UK	3,487	2,956	2,816
Transmission US	420	299	270
Gas Distribution UK	1,466	1,383	1,193
Gas Distribution US	4,786	2,845	638
Electricity Distribution & Generation US	4,972	3,508	3,430
Other activities	719	642	567
Total segmental revenues	15,850	11,633	8,914
Less: sales between business segments	(226)	(210)	(219)
Total	15,624	11,423	8,695

Segmental operating profit before exceptional items, remeasurements and stranded cost recoveries

	Years ended 31 March		
	2009	2008	2007
	£m	£m	£m
Continuing operations			
Transmission UK	1,126	1,021	946
Transmission US	175	128	108
Gas Distribution UK	672	595	409
Gas Distribution US	612	392	71
Electricity Distribution & Generation US	265	330	364
Other activities	65	129	133
Adjusted operating profit	2,915	2,595	2,031

Segmental operating profit

	Years ended 31 March		
	2009	2008	2007
	£m	£m	£m
Continuing operations			
Transmission UK	1,063	1,013	936
Transmission US	173	122	107
Gas Distribution UK	629	574	412
Gas Distribution US	226	487	67
Electricity Distribution & Generation US	531	696	859
Other activities	1	72	132
Operating profit	2,623	2,964	2,513

2008/09 compared with 2007/08

Changes in revenue and other operating income, operating costs and operating profit for 2008/09 compared with 2007/08 are summarised in the following table.

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
Continuing operations			
2007/08 results	11,498	(8,534)	2,964
Add back exceptional items and remeasurements	–	10	10
Deduct stranded cost recoveries	(382)	3	(379)
2007/08 adjusted results	11,116	(8,521)	2,595
Exchange movements	1,947	(1,687)	260
2007/08 constant currency results	13,063	(10,208)	2,855
Transmission UK	561	(456)	105
Transmission US	30	(22)	8
Gas Distribution UK	77	–	77
Gas Distribution US	1,068	(968)	100
Electricity Distribution & Generation US	454	(620)	(166)
Other activities	15	(79)	(64)
Sales between businesses	(16)	16	–
2008/09 adjusted results	15,252	(12,337)	2,915
Exceptional items and remeasurements	–	(718)	(718)
Stranded cost recoveries	435	(9)	426
2008/09 results	15,687	(13,064)	2,623

Revenue and other operating income excluding stranded cost recoveries was £4,136 million higher than in 2007/08. This primarily reflected a £1,947 million increase as a result of exchange movements on our US operations and the first full year contribution from KeySpan.

In addition, due to the pass-through nature of our commodity costs in the US, revenues have increased during 2008/09 due to a rise in average commodity costs during 2008/09 compared with 2007/08. This has not resulted in a significant increase in our operating profit.

There was a decrease of £12 million in other operating income, which primarily reflects a £49 million reduction in the sale of property by our property management business in the UK, partially offset by a £30 million increase in our Transmission UK business and a net £7 million increase from the other regulated and non-regulated businesses.

The increase in operating costs excluding exceptional items, remeasurements and stranded cost recoveries reflects a £1,687 million increase as a result of exchange movements, and the first full year contribution from KeySpan.

KeySpan operations contributed £4,635 million of revenue and £4,084 million of costs excluding exceptional items, remeasurements and stranded cost recoveries in 2008/09 compared with £3,262 million and £2,782 million respectively in 2007/08, on a constant currency basis.

Apart from the impact of a full year contribution from KeySpan and exchange movements, the other principal reasons for the increased revenue and operating costs were: in Transmission, higher UK regulated revenue and interconnector auction income; in Gas Distribution, increased allowed regulatory revenue and increased revenue due to colder weather partially offset by higher bad debt costs; and in Electricity Distribution & Generation, increased revenue, storm costs and depreciation.

Financial performance continued

Adjusted operating profit in 2008/09 was £320 million higher than 2007/08, comprising a £260 million increase as a result of exchange movements on US operations and a net increase of £60 million from the movements in revenue, other operating income and costs on a constant currency basis.

Net operating exceptional charges of £275 million in 2008/09 primarily related to restructuring costs incurred in the UK and US, and increases in environmental provisions resulting from significant movements in discount rates during the year. The majority of the restructuring costs related to the ongoing KeySpan integration programme, restructuring of our LNG storage facilities, and costs associated with initiatives related to the transformation of our operating model.

There were £443 million of operating remeasurement losses in 2008/09 compared with £232 million of gains in 2007/08. The losses 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 divestiture of generation assets. Such costs can be recovered from customers as permitted by regulatory agreements. Revenue and costs associated with stranded cost recoveries were £435 million and £9 million respectively (2007/08: £382 million and £3 million).

As a consequence of the increase in adjusted operating profit of £320 million, the net movement in operating exceptional items and remeasurements of £708 million and an increase in operating profit from stranded cost recoveries of £47 million, total operating profit decreased by £341 million in 2008/09 to £2,623 million compared with £2,964 million in 2007/08.

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
Continuing operations			
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 movements	(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
Exceptional items and remeasurements	–	(10)	(10)
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, including a £193 million decrease as a result of exchange movements on US operations. KeySpan contributed £2,498 million to this increase in revenue. There was a decrease of £8 million in other operating income. Operating costs excluding exceptional items, remeasurements and stranded cost recoveries increased by £2,200 million including a £167 million decrease as a result of exchange movements on US operations. 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 movements on US operations and an increase of £590 million from the movements in revenue, other operating income and costs on a constant currency basis, primarily due to the acquisition of KeySpan.

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. The majority of the restructuring costs related to the integration programme following the KeySpan acquisition.

There was a £151 million increase in operating remeasurement gains to £232 million in 2007/08 compared with £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 divestiture of generation assets. Such costs can be recovered from customers as permitted by regulatory agreements. Revenue and costs associated with stranded cost recoveries were £382 million and £3 million respectively (2006/07: £426 million and £3 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 the 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.

Net finance costs

Net interest excluding exceptional items and remeasurements was £1,150 million in 2008/09, compared with £770 million in 2007/08. The increase was primarily due to higher average net debt balances during the year reflecting the KeySpan acquisition, exchange movements and increased pension interest, partially offset by a lower effective interest rate reflecting lower floating and RPI linked rates.

29.2%

Effective tax rate before exceptionals, remeasurements and stranded cost recoveries

9%

Increase in cash generated from continuing operations

£3.6bn

Cash inflow from continuing operations

£1.6bn

Net cash inflow from borrowings

Net interest excluding exceptional items and remeasurements was £223 million higher in 2007/08 compared with £547 million in 2006/07. The increase was a consequence of higher average net debt balances following the KeySpan acquisition.

Exceptional finance costs and remeasurements

There were no exceptional finance costs in 2008/9 and in 2007/08. In 2006/07, there were £45 million of charges primarily relating to the early redemption of debt.

Financial remeasurements in 2008/09 relate to net losses on derivative financial instruments of £82 million (2007/08: £7 million, 2006/07: losses of £153 million) and the financial element of commodity contract revaluations, totalling £2 million (2007/08: £9 million, 2006/07: £19 million). Net losses on derivative financial instruments in 2008/09 includes £nil (2007/08: £3 million, 2006/07: £126 million) arising from a difference in the tax treatment of certain derivative instruments that offset on a post-tax basis.

Taxation

A net charge of £472 million arose in 2008/09 comprising £517 million on profit before tax excluding exceptional items, remeasurements and stranded cost recoveries, and a £45 million credit on exceptional items, remeasurements and stranded cost recoveries, compared with £607 million in 2007/08 (comprising £579 million and a £28 million expense respectively) and £441 million in 2006/07 (comprising £442 million and a credit of £1 million respectively).

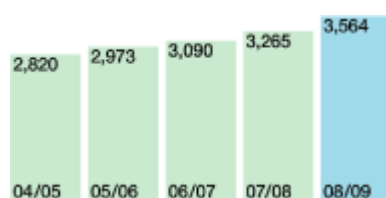
In 2008/09, exceptional items, remeasurements and stranded cost recoveries included a £49 million expense for increased deferred tax liabilities due to a change in the UK industrial allowance regime. In 2007/08, it included an exceptional tax credit in 2007/08 of £170 million relating to the release of deferred tax provisions arising from the change in the UK corporation tax rate.

The effective tax rates before and after exceptional items, remeasurements and stranded cost recoveries were 29.2% and 33.9% respectively (2007/08: 31.7% and 27.8%, 2006/07: 29.7% and 25.2%).

Cash flows

Operating cash flows

£m



Cash flows from operating activities

Cash generated from continuing operations was £3,564 million in 2008/09, compared with £3,265 million in 2007/08 and £3,090 million in 2006/07. This included cash outflows for continuing operations relating to exceptional items of £131 million, £132 million and £86 million respectively and cash inflows from stranded cost recoveries of £359 million, compared with £278 million and £288 million respectively.

After reflecting cash flows relating to discontinued operations and tax paid, net cash inflow from operating activities was £3,413 million, compared with £3,165 million in 2007/08 and £2,958 million in 2006/07. This included net corporate tax payments amounting to £143 million in 2008/09, £110 million in 2007/08 and £313 million in 2006/07.

Cash flows from investing activities

Cash outflows from investing activities were £1,998 million in 2008/09, compared with an outflow of £3,023 million in 2007/08 and an outflow of £4,061 million in 2006/07. There were no payments in respect of business acquisitions in 2008/09, compared with £3,502 million spent on acquiring KeySpan in 2007/08 and £269 million on business acquisitions in 2006/07. Proceeds from sales of financial investments were £99 million (2007/08: net sales of £45 million, 2006/07: net purchases of £1,725 million). Proceeds from disposals of businesses in 2008/09 were £1,617 million (2007/08: £3,064 million, 2006/07: £27 million) and proceeds from sales of joint ventures and other investments were £nil (2007/08: £55 million, 2006/07: £19 million).

Excluding acquisitions, disposals and financial investments, cash outflows increased in 2008/09 compared with 2007/08 as a result of purchases of property, plant and equipment within continuing operations increasing to £3,107 million during the year (2007/08: £2,832 million, 2006/07: £2,185 million). Investing activities of discontinued operations in the period resulted in a cash inflow of £1,049 million in 2008/09 (2007/08: £3,050 million inflow, 2006/07: £105 million outflow).

Cash flows from financing activities

Net cash outflows from financing activities were £877 million in 2008/09, compared with £1,592 million in 2007/08 and a £1,278 million inflow in 2006/07. This reflected net inflows from borrowings of £1,641 million (2007/08: £1,589 million, 2006/07: £3,045 million) and £627 million of share repurchases (2007/08: £1,498 million, 2006/07: £169 million).

In both 2007/08 and 2006/07 £26 million was paid in respect of the B share £2 billion return of value to shareholders.

Payments to providers of finance, in the form of interest and dividends, totalled £1,899 million in 2008/09 compared with £1,680 million in 2007/08 and £1,588 million in 2006/07.

Net interest cash outflows increased from £694 million in 2007/08 to £976 million in 2008/09 (increased from £597 million in 2006/07 to £694 million in 2007/08). The increase in 2008/09 compared with 2007/08 reflected higher average net debt (primarily the full year impact of the acquisition of KeySpan and higher capital expenditure) and the impact of the stronger US dollar partially offset by lower effective interest rates on our debt due to lower floating and RPI rates. 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.

Transmission



This year we have delivered more than £1.4 billion worth of electricity and gas projects to upgrade and reinforce ageing infrastructure and adapt our networks to cope with changing sources of energy.

Our fundamental priorities remain safety, reliability and efficiency. We have also created an enhanced line of sight from National Grid’s objectives to Transmission’s objectives and annual priorities.

We are focused on the long-term security of supply and environmental challenges arising from the transition to a low carbon economy and the decline of UK gas production from the North Sea.

Key Facts

- Over 20,900 kilometres of electrical overhead lines
- Over 800 kilometres of electrical underground cable
- 296 TWh of electricity transmitted in the UK
- Over 7,600 kilometres of gas pipeline
- 1,158 TWh of gas throughput

Adjusted operating profit	Capital investment
£1,301m	£1,441m
2007/08: £1,149m	2007/08: £1,711m
Employees	UK energy transmitted
3,874	1,454 TWh
2007/08: 3,678	2007/08: 1,437 TWh

About Transmission

Our Transmission business operates in both the UK and the US. As a consequence of the different 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 the external market and regulatory environment; current and future developments; business drivers; vision, strategy and objectives; and risks and opportunities set out on pages 20 to 27 and page 40.

Principal operations

Transmission UK

Our transmission operations in the UK encompass both electricity and gas transmission, comprising the following principal activities:

Electricity transmission owner

We own the electricity transmission system in England and Wales. Our electricity assets comprise approximately 7,200 kilometres of overhead line, about 690 kilometres of underground cable and 337 substations at 241 sites.

Gas transmission owner

We own the gas national transmission system in Great Britain. This comprises approximately 7,600 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 consumers.

Electricity system operator

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. We are also designated as system operator for the new offshore electricity transmission regime.

Gas system operator

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 met.

French 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. With the scheduled closure of Dynevor Arms during 2009 the number of facilities will decrease to three.

337	99.9999%	26	100%
UK electricity substations	UK electrical system reliability	UK gas compressor stations	UK gas system reliability

Transmission UK – electricity system

— Scottish electricity transmission system

— English and Welsh electricity transmission system

Commissioned 434 circuit kilometres of overhead line, 18 super grid transformers and 41 circuit breakers.

Diverted two existing overhead line circuits into a newly constructed cable tunnel on the site of the 2012 Olympic Park.

Developed a strategic plan for infrastructure investment to support the UK Government to meet its climate change targets.

Implemented a mobile flood defence system to protect substations from flooding.

Transmission UK – gas system

— Gas transmission system

● Terminal

○ LNG terminal

Completed Trans-Pennine high pressure gas pipeline connecting the two main north-south pipelines to provide greater operational flexibility.

Commissioned two new pipelines in southern England to connect new gas fired power stations.

New electric drive compressor station completed at Wormington, allowing greater flexibility of flows.

We are exploring carbon capture and storage – a technology that transports CO₂ emissions from power stations to depleted gas fields under the North Sea.

02 Operating and Financial Review

Transmission continued

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 transmission system operator and gas transmission 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 real-time balancing of supply and demand, and management of 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 supply and demand is balanced at the end of each day. We are also required to maintain levels of short-term gas reserves to ensure domestic and other non-interruptible gas supplies can be maintained during prolonged cold conditions.

Transmission US

In the US, we are involved in electricity transmission and our principal activities are as follows:

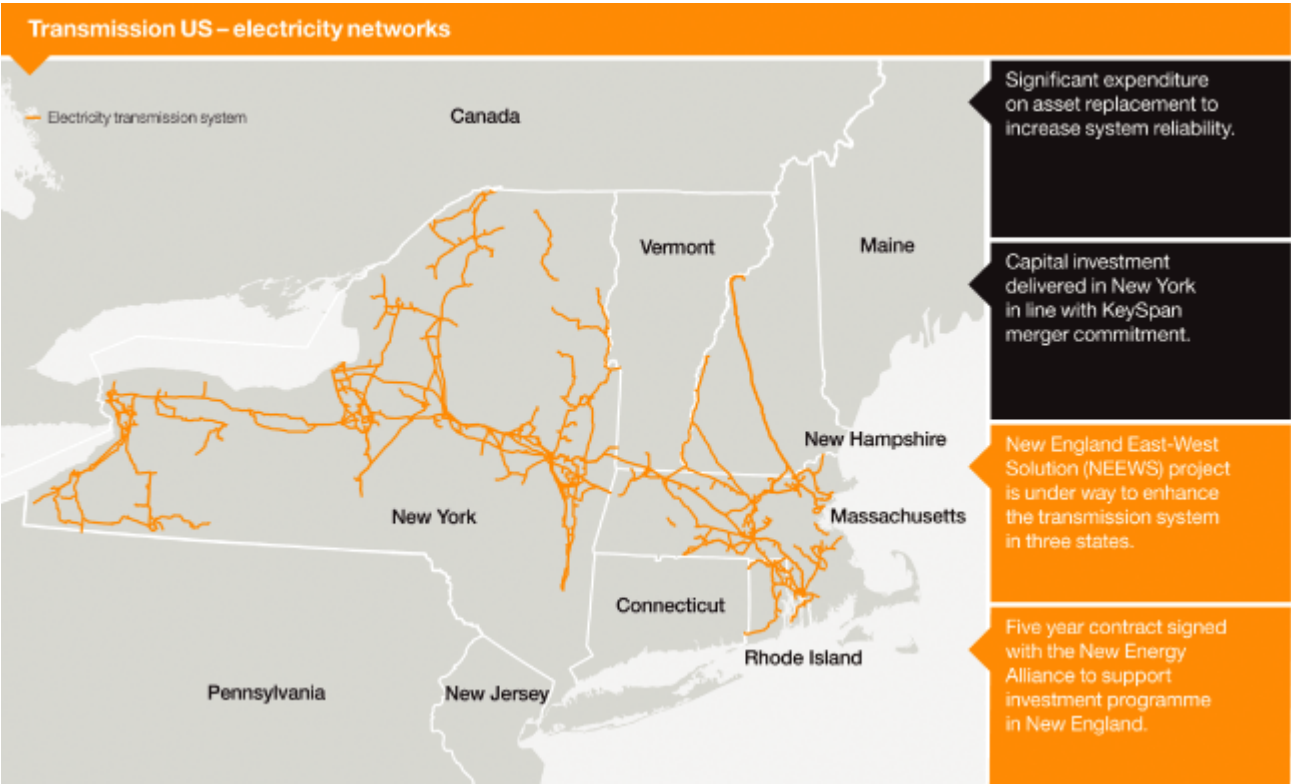
Electricity transmission owner

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 140 kilometres of underground cable and 524 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 interconnector

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 and Canada.



As one of several transmission owners, we work with two distinct independent system operators in New England and New York. These non profit system operator entities for New England and New York 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.

The transmission owners are responsible for certain aspects of the operation of the facilities they each own, such as maintenance, equipment restoration and switching operations.

National Grid also works closely with the independent system operators in New England and New York to support efficient market and network operations and transmission investment.

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.

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, some elements of its operations are 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 controls for both electricity and gas transmission activities cover the period 1 April 2007 to 31 March 2012.

We accepted Ofgem's final proposals for the system operator incentive schemes that applied to the year ended 31 March 2009 for both gas transportation and electricity transmission. We have also accepted their proposals for the one year schemes from 1 April 2009.

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 (equivalent to a 5.05% vanilla return), a £4.4 billion baseline five year capital expenditure allowance and a £1.2 billion five year controllable 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. These include the transmission network reliability incentive scheme and the sulphur hexafluoride (SF₆) incentive scheme.

Both our UK electricity and gas system operation activities are also 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 underperformance.

For electricity transmission, we also have a balancing services incentive scheme that covers the external costs incurred in balancing the system. For 2009/10, we have accepted an incentive scheme with a cost target between £600 million and £630 million, such that we retain 25% (up to a cap of £15 million) of any savings below £600 million, and we lose 15% (down to a collar of £15 million) of any costs in excess of £630 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 capacity constraints, the provision of market information, and the cost of purchasing shrinkage gas (gas used in operating the system) and other gas system operation costs.

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 (FERC).

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 recent years our investment has been three to four times greater than the levels in the rate plan. We are permitted to petition for additional revenues with respect to incremental capital expenditure, which we have done with respect to the 2008 calendar year.

In New England, the transmission 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 fail 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

Transmission continued

than forecast, our revenue goes down. In New England, working efficiently is also vital. 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.

Security of supply and climate change

The decline of the UK's North Sea gas reserves and the transition to a low carbon economy, are the two long-term security of supply and environmental challenges we are focused on. We are working with the UK electricity generators and Ofgem to ensure that the connection of renewable generation to the transmission network can be facilitated quickly and within our current licencing framework. In the US, we have major projects under way to increase the capacity of the transmission system to meet future demand. We are also working with the US Government and regulatory bodies to ensure that we help facilitate the implementation of the new climate change initiatives and stimulus package.

Other UK developments

The price controls contain allowances for transmission reinforcement works to accommodate the growing impact of renewable energy from Scotland. Works to upgrade the two double circuits connecting Scotland and England are under way and due for completion in 2010 at a total cost of around £110 million. Further works are being carried out to increase the capability of the transmission system in the northeast and northwest of England so that increased transfers from Scotland can be transported to demand centres in England and Wales. The further works will be completed in 2011 at a total cost of around £230 million.

At this time, network access is being sought by approximately 9 GW of renewable generation projects in Scotland consisting of just over 100 projects, each with connection agreements with National Grid. For England and Wales, connection offers have been made to an additional 8 GW of renewable generation projects. We have continued to work closely with the Scottish transmission companies to find innovative solutions to advancing new generation projects in Scotland. We have introduced measures to allow generators who are ready and able to connect to do so before wider reinforcement works. Importantly, on 8 May 2009, Ofgem confirmed that they will agree derogations from the GB Security and Quality Standards of Supply to advance the connection of 450 MW of Scottish renewable generation.

We continue to develop a strategic plan for our networks up to 2050, recognising the unique role they play in meeting the UK's climate change objectives. In respect of electricity transmission, our plan is aligned with meeting the UK's 2020 renewables target and remaining on the trajectory towards the 2050 greenhouse gas reduction target. Comprising £4.7 billion of mainly onshore strategic infrastructure investment, this plan has been shared with and is supported by the multi agency Electricity Networks Strategy Group. It facilitates the connection of up to 34 GW of new renewable wind generation. These new connections will occur alongside an unprecedented replacement of the ageing generation fleet.

A network incorporating variable and potentially large and inflexible generators will be challenging to operate. We are a leading member of a cross-industry working group considering these issues and we are consulting the industry on the future requirements for balancing services.

US regulatory developments

In New England, incentives applicable to transmission investments in service after 31 December 2008 require a separate petition filing with the FERC. On 17 September 2008, we and Northeast Utilities jointly filed a petition with the FERC to recover financial incentives for the New England East-West Solution (NEEWS) project, a series of interrelated transmission upgrades in the tri-state area of Connecticut, Massachusetts and Rhode Island, in which National Grid will invest approximately \$0.6 billion (approximately £0.4 billion). The FERC granted incentives returns for NEEWS in November 2008.

We are seeking improvements to the New York regional planning process, and are working with the New York Independent System Operator (NYISO) and the New York Public Service Commission (NYPSC) to achieve this. The New York transmission owners are conducting a joint study to identify improvements needed to address ageing transmission infrastructure and the integration of renewables.

As permitted under our rate plan, in December 2007 we petitioned the NYPSC for deferred recovery of incremental investment on major capital programmes for calendar year 2008. The NYPSC issued its order on our deferral petition in September 2008 that recognised that the total programme of investment could be considered incremental to the existing rate plan but required us to file an additional petition based upon our actual 2008 investments after the end of the calendar year. This supplemental petition was filed on 21 April 2009. We anticipate that we will also petition for deferred recovery of qualifying incremental investment for calendar years 2009 and 2010.

50%

Reduction in Transmission UK employee lost time injury frequency rate

17%

Reduction in Transmission US employee lost time injury frequency rate

4.7%

Transmission UK electricity operational 2008/09 vanilla rate of return

6.9%

Transmission UK gas operational 2008/09 vanilla rate of return

Performance against our objectives

Our progress against all National Grid's objectives is set out on pages 30 to 39. We include below further information specific to Transmission with respect to the objectives that are closely aligned to the lines of business.

Driving improvements in our safety, customer and operational performance

Safety

Our objective is to reduce employee lost time injuries to zero.

To monitor our safety performance we use employee lost time injury frequency rate as our key performance indicator.

The safety of our employees, contractors and operations is of paramount importance and we have focused our efforts on safety messages that really matter and empowering our professionals to deliver continuous improvement in safety performance. The impact is illustrated through improvements in our safety performance in 2008/09.

In the UK, during 2008/09 there were 8 lost time injuries compared with 15 in 2007/08. The lost time injury frequency rate was 0.14 in 2008/09 compared with 0.28 in 2007/08.

Our US electricity transmission lost time injury frequency rate decreased to 0.20 in 2008/09 from 0.24 in 2007/08. There were 2 lost time injuries in 2008/09 compared with 2 in 2007/08.

Customer 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 within which we operate.

Delivering strong, sustainable regulatory and long-term contracts with good returns

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.

The performance indicator we use to monitor our return on investment is the vanilla return in the UK and the return on equity per rate plan in the US.

We measure the financial performance of our UK regulated businesses 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 4.7% operational return in 2008/09 (2007/08: 5.2%), performing broadly in line with regulatory assumptions. In our gas transmission operations we achieved a 6.9% return in 2008/09 (2007/08: 6.9%), significantly outperforming regulatory assumptions mainly as a result of a strong performance under our incentive schemes.

In the US, we measure our financial performance against the allowed regulatory return on equity under the terms of our rate plans or rate agreements. In New England, we achieved a weighted average 11.8% return on equity broadly in line with the prior year. 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 the Electricity Distribution & Generation business commentary on page 70.

Modernising and extending our transmission networks

In the US, we are entering into new agreements with supply chain partners to deliver our commitments for significantly increased investment to replace ageing transmission assets. In the UK, we have also agreed with Ofgem to commit significant investment into planning new infrastructure to connect low carbon power generation ahead of the traditional timescales. In addition, we have committed to developing new processes to enable investment in new physical network capacity, which provides customers with easier access to our network.

Reliability

Our aim is to meet or exceed network reliability and availability objectives.

To monitor our reliability performance we use network reliability percentages as our key performance indicator.

In the UK, the total amount of electricity transmitted in 2008/09 was 296.1 TWh compared with 303.0 TWh for 2007/08 and 303.7 TWh for 2006/07. Gas transmitted amounted to 1,158 TWh compared with 1,134 TWh in 2007/08 and 1,086 TWh in 2006/07.

In the UK, the winter of 2008/09 saw demand from the electricity transmission network in England and Wales hit a peak of 52.9 GW. This compares with 54.2 GW in 2007/08 and 52.1 GW in 2006/07.

2008/09 saw a maximum gas demand of 443 million standard cubic metres on 6 January 2009. This is higher than last year's peak of 419 million standard cubic metres.

In the US, the summer of 2008 saw demand from the electricity transmission networks in New England and New York hit a combined peak load of 13.0 GW. This compares with 13.2 GW in 2007 and 14.0 GW in 2006.

Transmission continued

Our reliability and availability performance during the year can be summarised as follows:

Measure	Years ended 31 March		
	2009	2008	2007
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 < 303 MWh	266 MWh	437 MWh	259 MWh
UK average annual availability for electricity transmission network	94.64%	95.09%	95.02%
UK electricity system availability at winter peak demand	97.7%	98.0%	98.2%
UK gas compressor fleet performance – mean time between failures	405 hrs	259 hrs	430 hrs
US annual network availability	98.8%	98.6%	98.1%

In the US, our electricity system reliability performance broadly improved over the previous year as well as the average of the previous five years. However, continued improvement remains an objective for 2009/10.

Capital investment

Our aim is to deliver our planned capital investment programme involving approximately £5 billion of capital expenditure between 1 April 2009 and 31 March 2012.

UK investment

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 we replace parts of our UK electricity network as the assets become due for renewal. In addition, parts of the gas transmission network are reaching the end of their technical lives. These are mainly compressor stations, control systems and valves. 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 network renewal.

Capital investment in the replacement, reinforcement and extension of the UK electricity and gas transmission systems in 2008/09 was £1,259 million, compared with £1,600 million in 2007/08 and £1,235 million in 2006/07. 2008/09 has seen a substantial decrease in the level of investment in gas pipeline projects, some £363 million lower than 2007/08 (2007/08: £138 million higher than 2006/07) as the south Wales project is now substantially complete. Capital investment included £18 million with respect to intangible assets, principally software applications (2007/08: £22 million, 2006/07: £17 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 £863 million in 2008/09, compared with £800 million in 2007/08 and £607 million in 2006/07.

US investment

Capital investment in the replacement, reinforcement and extension of the US electricity transmission networks in 2008/09 was £182 million compared with £111 million in 2007/08 and £108 million in 2006/07. After excluding the £33 million effect of exchange rate movements, capital investment increased by £38 million in 2008/09 compared with 2007/08. The change principally reflects an increase in regional reliability projects in New England and additional asset replacement in New York to improve system reliability.

We expect increasing investment in New England to deliver our regional system expansion projects including the NEEWS project.

NEEWS is a large scale, regional transmission solution involving improvements to the transmission systems of National Grid and Northeast Utilities. In total it has an estimated cost of approximately \$2.1 billion (£1.5 billion) with National Grid's share estimated at approximately \$0.6 billion (£0.4 billion). The NEEWS project is designed to address reliability problems in the southern New England transmission system. The complexity and geographical coverage is on a larger scale than any other transmission infrastructure project built in New England in more than 20 years and represents the most significant addition to the New England 345 kV transmission system since it was first built.

Other investment projects in New York will also deliver our asset replacement plans and improve the reliability of the system.

Becoming more efficient through transforming our operating model and increasingly aligning our processes

Key areas of focus

Key areas of focus for our Transmission business in 2008/09 have been safety, securing funds for strategic investment in the UK, better operational planning and establishing construction alliances in the US.

Much of the focus for Transmission has been on preparing for the significant increase in capital investment that will occur in future years. In the UK, this has included developing the strategic investment plan. In the US, this has involved setting up new construction alliances, based on the established UK model, to manage the asset replacement programme more efficiently.

The new operational planning way of working brings together consistent planning information from all parties across a longer timeframe. This has improved the alignment of workload, resources and system access across multiple years between National Grid and supply chain partners to drive the efficient and timely delivery of work on our assets.

£1,126m

Transmission UK adjusted operating profit up 10%

£175m

Transmission US adjusted operating profit up 5%

£1,259m

Transmission UK capital expenditure

£182m

Transmission US capital expenditure

Efficiency

Our objective is to increase the efficiency of Transmission's operations.

Transmission has continued to focus on incremental efficiencies and is committed to further improving the levels of efficiency in our operations. This is how we will reduce controllable costs on an enduring basis contributing to an improved financial performance.

Efficiency is reflected in our financial performance, which is discussed below.

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 £1,301 million is 10% higher than 2007/08 on a constant currency basis, which in turn was 10% higher than in 2006/07, also on a constant currency basis.

Financial results – Transmission UK

The results for the Transmission UK segment for the years ended 31 March 2009, 2008 and 2007 were as follows:

	Years ended 31 March		
	2009	2008	2007
	£m	£m	£m
Revenue and other operating income	3,517	2,956	2,822
Operating costs excluding exceptional items	(2,391)	(1,935)	(1,876)
Adjusted operating profit	1,126	1,021	946
Exceptional items	(63)	(8)	(10)
Operating profit	1,063	1,013	936

2008/09 compared with 2007/08

The principal movements between 2007/08 and 2008/09 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	2,956	(1,943)	1,013
Add back exceptional items	–	8	8
2007/08 adjusted results	2,956	(1,935)	1,021
Allowed revenues	232	–	232
Timing on recoveries	(20)	–	(20)
BSIS	318	(330)	(12)
French interconnector	43	(4)	39
Depreciation	–	3	3
Other	(12)	(125)	(137)
2008/09 adjusted results	3,517	(2,391)	1,126
Exceptional items	–	(63)	(63)
2008/09 results	3,517	(2,454)	1,063

Revenue and other operating income increased by £561 million in 2008/09 compared with 2007/08, mainly driven by recovery of higher incentivised costs associated with balancing the electricity system (BSIS) and an increase in allowed revenues. French interconnector revenue was up £43 million due to higher capacity auction revenues. Other movements mainly comprise lower LNG storage auction income.

Operating costs, excluding exceptional items, increased by £456 million in 2008/09 compared with 2007/08. This was primarily due to higher incentivised BSIS costs relating to higher constraint, margin and energy balancing costs (largely covered by the revenue increase above). Higher other operating costs reflect an increase in gas shrinkage costs, due to higher energy prices, and higher pass-through costs.

The increase in UK adjusted operating profit in 2008/09 reflects the movements in revenue and operating costs, excluding exceptional items, as described above.

The £63 million exceptional charge in 2008/09 primarily consists of a £50 million charge relating to the restructuring of our LNG storage facilities.

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 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
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

Transmission continued

of increasing capital investment. Other items increased costs by £39 million, principally because of higher pass-through costs and increased non-regulated 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 with 2006/07, while operating profit increased by £77 million.

Financial results – Transmission US

The average exchange rates used to translate the results of US operations during 2008/09, 2007/08 and 2006/07 were \$1.54: £1, \$2.01: £1 and \$1.91: £1 respectively.

	Years ended 31 March		
	2009 £m	2008 £m	2007 £m
Revenue	420	299	270
Operating costs excluding exceptional items	(245)	(171)	(162)
Adjusted operating profit	175	128	108
Exceptional items	(2)	(6)	(1)
Operating profit	173	122	107

2008/09 compared with 2007/08

The principal movements between 2007/08 and 2008/09 can be summarised as follows:

	Revenue £m	Operating costs £m	Operating profit £m
2007/08 results	299	(177)	122
Add back exceptional items	–	6	6
2007/08 adjusted results	299	(171)	128
Exchange movements	91	(52)	39
2007/08 constant currency results	390	(223)	167
Allowed revenues	25	–	25
Timing of recoveries	4	–	4
Other	1	(22)	(21)
2008/09 adjusted results	420	(245)	175
Exceptional items	–	(2)	(2)
2008/09 results	420	(247)	173

Adjusted operating profit increased by £47 million in 2008/09, of which £39 million was caused by the movement in exchange rates when compared with 2007/08. On a constant currency basis, revenue and operating costs increased by £30 million and £22 million respectively, resulting in an £8 million, or 5%, increase in adjusted operating profit in 2008/09.

Allowed revenues increased by £25 million in 2008/09. This growth was in New England where we have seen the benefit of our investment in regional reliability projects coming through in higher sustainable revenue streams.

In addition, revenue was £4 million higher in 2008/09 because of the timing of recoveries under our New York rate plan.

Operating costs were £22 million higher, on a constant currency basis, in 2008/09 than in 2007/08 reflecting our commitment to improve the operational performance of the networks in both New England and New York. The majority of the increase was driven by reliability enhancements and maintenance programmes aimed at improving system reliability. In addition, both depreciation and property taxes have increased as a direct consequence of the growth in network capital investment brought into service.

The £2 million exceptional charge in 2008/09 relates to restructuring costs arising from the integration of the operations acquired with KeySpan.

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 on 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 with 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.

Gas Distribution



We continue to share best practice ideas between the UK and US to improve our operating model and make it more consistent.

In the UK, we are one year into the new price control period, which will bring considerable challenge and opportunity over the remaining four years as we look to become more efficient and effective.

Once again, we have achieved our objective to replace metallic main with plastic this year, totalling over 1,900 kilometres in the UK, and reduced the amount of cast iron and unprotected steel mains by 398 kilometres in the US, improving the safety and reliability of our networks.

Key Facts

- Around 190,000 kilometres of gas pipe
- Delivery of 317 and 205 TWh of gas to over 10.8 and 3.5 million consumers in the UK and US respectively

Adjusted operating profit	Capital investment
£1,284m	£1,019m
2007/08: £987m	2007/08: £702m
Employees	Gas delivered
9,534	522 TWh
2007/08: 9,136	2007/08: 455 TWh

About Gas Distribution

Our Gas Distribution business operates in both the UK and the US. As a consequence of the different 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 the external market and regulatory environment; current and future developments; business drivers; vision, strategy and objectives; and risks and opportunities set out on pages 20 to 27 and page 40.

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 25 active gas shippers from the gas national transmission system to around 10.8 million consumers.

We also manage the national gas emergency number (0800 111 999) for all the gas distribution networks and for other transporters in the UK. During 2008/09, we handled approximately 2 million calls to the national gas emergency number and a further 1.4 million calls to the enquiries line, appliance repair helpline and meter number enquiry service.

Gas Distribution US

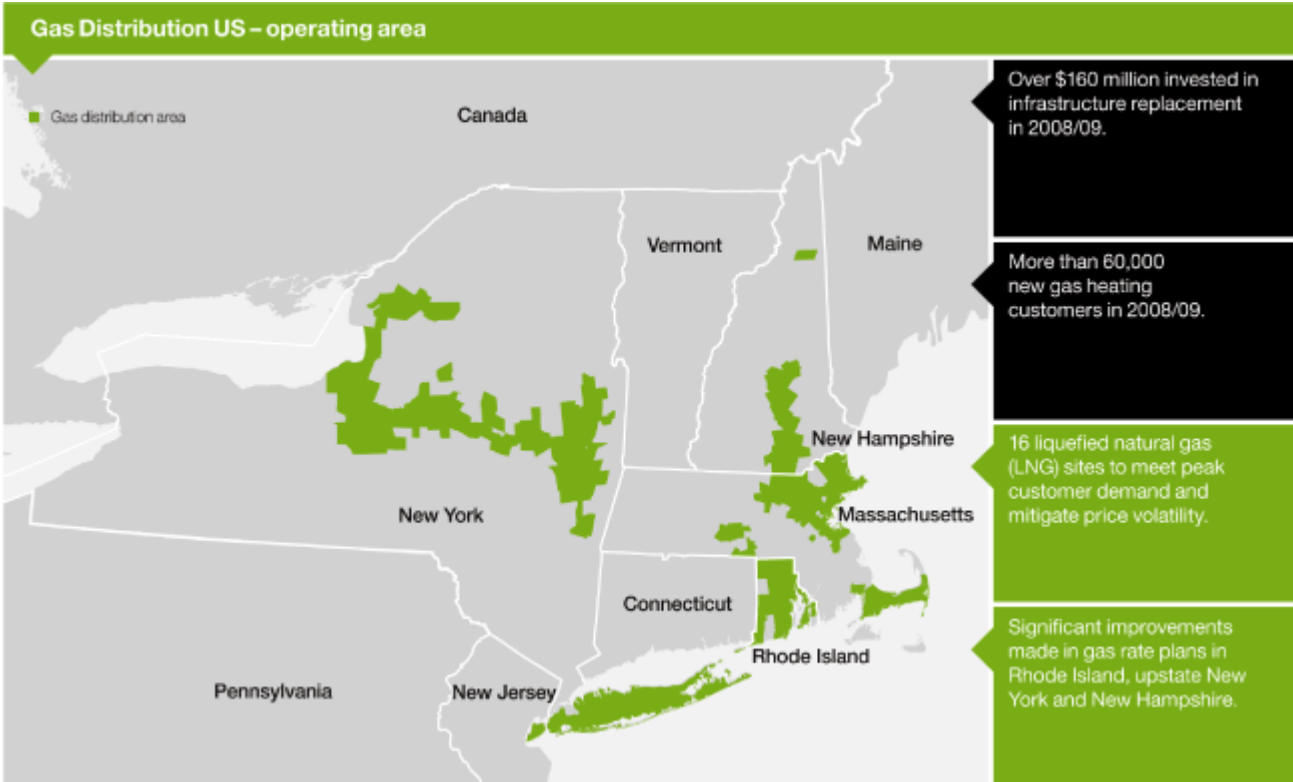
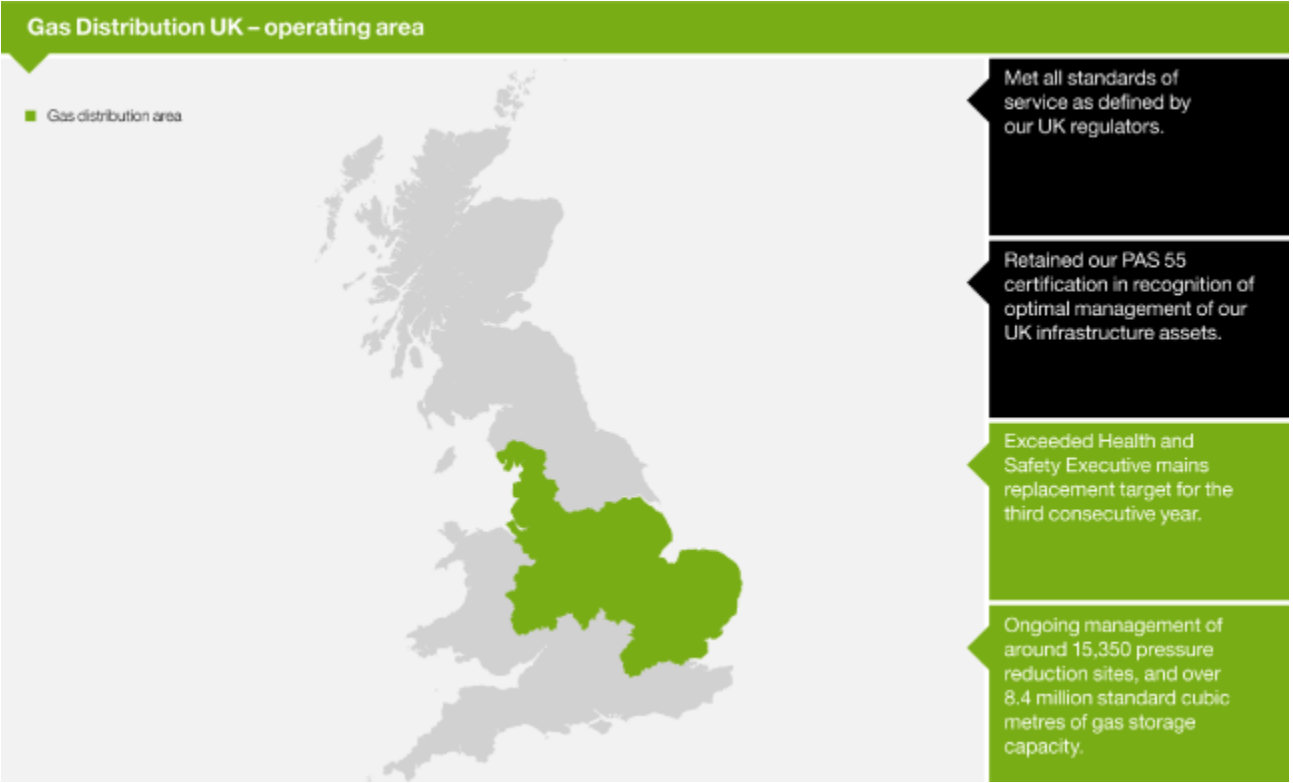
Our Gas Distribution US segment comprises gas distribution networks providing services to around 3.5 million consumers across the northeastern US, located in service territories in upstate New York, New York City, Long Island, Massachusetts, New Hampshire and Rhode Island.

Our network of approximately 58,000 kilometres of gas pipelines covers an area of approximately 26,400 square kilometres.

In the US, our core services are the operation and maintenance of 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 95 gate stations. The inter-state 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.

Gas Distribution continued



Over 1,900km**£6.6bn****\$8.1bn****14.3m**

Metallic gas main replaced within the UK

Estimated UK regulatory asset value

Estimated US rate base (based on latest filings)

Gas consumers served in the UK and the US

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 that 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 current price control period came into force on 1 April 2008 and covers the period up to 31 March 2013 providing for an allowed average revenue increase of 2% per annum above the retail price index. Key elements of the price control are a 4.3% post-tax real rate of return (equivalent to 4.94% vanilla return) on our regulatory asset value. Ofgem's final proposals (at 2005/06 prices) allow a £1.6 billion five year operating expenditure allowance and a £2.5 billion baseline five year capital expenditure allowance split £1.8 billion for replacement expenditure and £0.7 billion for capital expenditure.

The allowed formula revenue was decoupled from delivery volumes from 1 April 2007. This eliminated the sensitivity to warm weather and lower underlying volumes. In addition, from 1 October 2008 only a minimal proportion of our income is recovered through the volume delivery component of our charges.

At 31 March 2009, our regulatory asset value was estimated at approximately £6.6 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 and an opportunity to earn additional revenue through new incentive schemes including: a mains and services replacement adjustment mechanism; shrinkage and environmental emissions incentives; an exit capacity scheme; and innovation, environmental and community incentives.

Replacement expenditure maintains the safety and reliability of the network, by replacing older gas pipes with modern polyethylene equivalents. 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 36% of any outperformance against Ofgem's annual cost targets as additional return or, alternatively, bears 36% of any overspend if it underperforms.

In specific instances, Ofgem has agreed the price control can be re-opened in response to changes in legislation that may increase the cost of carrying out work in the public highway.

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.

Ofgem has established standards of service we are required to meet that apply to our operations. These include: standards of service incorporated within our gas transporter licence, for example, answering 90% of all calls to the national gas emergency number, enquiries line and meter number enquiry service 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; and guaranteed standards of service for our other transportation services such as, restoration of supply after an unplanned interruption and complaint handling. Compensation is payable for any failures to meet guaranteed standards of service.

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 that govern 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 consist 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, gas costs are set either monthly, semi-annually or annually based on estimated gas prices and volumes expected to be delivered to customers, 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.

Gas Distribution continued

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. A summary of the key features and allowed returns within our rate plans is provided below.

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*	10.2%	44/56	100% to 11.35%, 50% to 13.6%, 25% to 15.6%, 10% above 15.6%
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	10.5%	48/52	50% to 11.5%, 25% above 11.5%
New Hampshire	10.4%	49/51	None

* Based on settlement filed, awaiting approval

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.

Rhode Island gas rate plan filing

We filed a request on 1 April 2008 with the Rhode Island Public Utilities Commission for a \$20.4 million (£14.2 million) rate increase, representing a 4.6% increase on a total bill basis. In November, we were granted a \$13.6 million (£9.4 million) rate increase with a 10.5% return on equity, effective as of 1 December 2008. The case has a discrete funding mechanism for a mains replacement programme, a new rate for low income customers, and an increased recovery of commodity related bad debt expense. Our decoupling proposal was rejected and the Commission indicated that full revenue decoupling was not appropriate at this time.

Upstate New York gas rate plan filing

We filed a rate plan with the New York Public Service Commission on 23 May 2008 for an \$84 million (£58 million) rate increase in natural gas delivery rates. We filed a settlement proposal on 13 February 2009, which included a two year rate plan, a \$39.4 million (£27.4 million) rate increase in year one resulting in an overall 5.1% increase on customer bills. The settlement contains a 10.2% return on equity, revenue decoupling, a new rate for low income customers, a partial recovery of commodity related bad debt expense based on current gas costs, a full recovery of New York State Energy Research and Development Authority (NYSERDA) auction rate debt, and a partial recovery of new long-term debt. The Commission will rule on the settlement during 2009, with new rates expected to come into effect during the year.

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 (£6.9 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. On 23 January 2009, we filed a partial settlement addressing all issues other than the return on equity. The return on equity was fully litigated. The partial settlement includes a commodity related bad debt allowance in the first year of 2.54%, (decreasing to 1.75% in year four) increased customer charges, an enhanced collections programme and the elimination of the requirement to connect new customers to the system at no charge who are within 80 feet of the network. The Commission ruling is expected in 2009 and will cover the settlement and the return on equity.

Performance against our objectives

Our progress against all National Grid's objectives is set out on pages 30 to 39. We include below further information specific to Gas Distribution with respect to the objectives that are closely aligned to the lines of business.

Driving improvements in our safety, customer and operational performance

Safety

Our objective is to reduce employee lost time injuries to zero.

To monitor our safety performance we use employee lost time injury frequency rate as our key performance indicator. In addition, we monitor kilometres of gas distribution mains replaced in the UK.

Lost time injuries totalled 76 in 2008/09, of which 24 were within the UK and 52 were within US. This was equivalent to a lost time injury frequency rate of 0.35. This compared with a total of 72 lost time injuries in 2007/08, of which 15 were within the UK and 57 within the US, equivalent to a lost time injury frequency rate of 0.36. Data for 2007/08 has been restated as if the KeySpan acquisition had occurred at the beginning of the year.

In both the UK and US, we again exceeded all our regulatory agreed targets on safety related standards.

5.8%

Vanilla rate of return achieved in the UK

Safety

Exceeded our UK and US targets to attend gas escapes

3 rate filings

Three new gas rate plan filings being progressed in the US

£25m

Investment in active pressure management systems to reduce our impact on climate change

In the UK, we have decommissioned more than 1,900 kilometres of metallic gas main in 2008/09 under our long-term main replacement programme, exceeding the target agreed with the UK Health and Safety Executive (HSE) for the third consecutive year. The HSE target this year was 1,852 kilometres. We decommissioned over 1,850 kilometres in both 2007/08 and 2006/07. We have also seen good performance in the US with the rate of mains replacement steadily increasing. As detailed on page 85, we identified that some of our mains replacement activity may have been misreported. We have notified both Ofgem and the HSE, and a full investigation is currently being conducted.

In the UK, we are also investing around £25 million in a wider roll-out of active control systems, which change the pressure in the gas mains automatically as customer demand conditions require. This investment reduces average system pressure on our gas mains, thereby reducing natural gas escapes and is a direct consequence of the new environmental emissions incentive laid out by Ofgem in this current price control period. The combined effect of the above mains replacement activity and pressure management investments ultimately reduces the number of gas escapes that impact climate change.

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.

To monitor our customer service performance we use customer satisfaction surveys as our performance measure.

In addition to meeting all service standards defined by our UK regulators, we aim to deliver a high quality customer experience, with satisfaction levels measurable through industry surveys in the geographic areas within which we operate.

In the UK, quality of service standards apply to three principal areas of activity: new connections; the telephone service; and attendance at gas emergencies. All standards have been met in 2008/09 and, in the individual cases where compensation is due, we have processes to ensure that customers receive the statutory compensation to which they are entitled. Customer satisfaction with the levels of service provided in respect of our main types of work (emergency response and repair, planned work and connections work) is measured and reported on a quarterly basis. Results of these surveys are directly comparable with the other independent distribution network operators and can be found at www.nationalgrid.com/uk/gas and www.ofgem.gov.uk. In summary, out of a maximum score of 10, we achieved the following year-to-date network average scores: 7.86 for emergency response and repair; 7.29 for planned work; and 6.74 for connections work. All scores are calculated within the Ofgem template and represent the mean scores of individual quarters. There is a programme of activities within the UK to improve these scores in future surveys.

For gas utility businesses in the US, J.D. Power and Associates formulate an annual survey and customer satisfaction rating. In 2008/09, the gas line of business experienced a decline. The

business customer satisfaction scores were in the third quartile and residential customer satisfaction scores are in line to be in the third quartile. As our relationship with J.D. Power develops, we plan to implement initiatives that should improve customer satisfaction in the next three years by focusing on: communications and price; corporate citizenship; bill payment and collections; gas and electricity quality; reliability and safety; customer field services; and customer operations.

In the US, our Gas Distribution business met all gas safety related regulatory requirements on service quality indices and performance measures. These standards are set by state regulatory agencies and cover operational activities including, but not limited to, damage prevention, leak repair, emergency response, meter changes and main and service replacements.

Delivering strong, sustainable regulatory and long-term contracts with good returns

Returns on investment

Our aim is to meet the base financial returns in our price controls in the UK and our rate plans in the US.

The performance indicator we use to monitor our return on investment is the vanilla return in the UK and the return on equity per rate plan in the US.

In the UK, we measure our return on investment using an operational return metric comparable to the vanilla return measure as defined in our UK price controls. 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 5.8% vanilla return in 2008/09 exceeding the regulatory allowance. A summary of returns under our US rate plans is provided below.

Regulatory entity	Asset base*		Return on equity*		Allowed return current
	2008	2007	2008	2007	
KEDNY	\$2,294m	\$2,239m	11.9%	14.9%	9.8%
KEDLI	\$1,795m	\$1,715m	11.1%	10.4%	9.8%
Mass. Gas	\$2,425m	\$2,137m	8.3%	9.2%	10.6%
Energy North	\$191m	\$173m	4.4%	4.9%	10.4%
Narragansett	\$337m	\$341m	7.6%	3.2%	10.5%
Niagara Mo. Gas**	\$1,067m	\$1,084m	4.8%	5.9%	10.2%

* Based on regulatory returns for the 12 months ended either 31 October or 31 December

**Based on settlements filed, awaiting approval

Current returns for our downstate New York and Long Island gas businesses are above our allowed returns. We are in the second year of a five year rate plan. Returns for our gas businesses in Rhode Island, New Hampshire and upstate New York are below our allowed returns. As previously discussed, we have filed rate cases in these jurisdictions. In upstate New York, we are awaiting approval for a two year gas settlement that increases rates by \$39.4 million and has a 10.2% return on equity. In our Massachusetts gas businesses, we are operating under long-term rate plans but anticipate filing for rate adjustments in April 2010 to be effective 1 November 2010.

Gas Distribution continued

Modernising and extending our distribution networks

Reliability

Our objective is to meet regulatory targets and to have zero loss of supply incidents.

To monitor our reliability performance we use network reliability percentages as our key performance indicator.

In the UK, we again achieved a very high network reliability percentage of 99.9999% which reflects a low volume of unplanned customer interruptions during the year.

In the UK, actual gas consumption was 317 TWh compared with 315 in 2007/08. In the US, gas consumption was 205 TWh for 2008/09 compared with 212 in 2007/08. This was below the previous year due to the decreased gas usage among customers having dual fuel capability.

In both the UK and US, we continue to focus on improving reliability, in particular in the area of gas escapes, and targets in both regions have been met. Specifically in the US, workable gas escape backlog has been reduced by 30% over the previous year.

We continue to focus on process safety, which is the collective name for the measures, systems, procedures or policies which prevent incidents and/or protect people and the environment from the effects of major accidents. We are aligning our approach for controlling asset risks between the UK and the US.

Our asset management policies promote continual improvement in how our physical assets (plant, pipes, meters and regulators) are managed throughout their lifecycle from conception through construction, operation, maintenance and decommissioning.

Capital investment

Our aim is to deliver capital investment by 2012 in line with our UK price control allowance and supported by our US rate plans.

During 2008/09, we successfully delivered £1,019 million of capital investment and plan to invest a further £3.3 billion by 2012.

UK capital investment

Gross investment including reinforcement, extension and replacement of the UK gas distribution network was £598 million in 2008/09 compared with £514 million in 2007/08 and £490 million in 2006/07. Of these amounts, £425 million in 2008/09 related to replacement expenditure that is capitalised (2007/08: £353 million, 2006/07: £333 million) and £173 million to other capital investment including new connections, new pipelines and minor capital expenditure (2007/08: £161 million, 2006/07: £157 million). Expenditure on software applications included within the above amounts was £22 million (2007/08: £18 million, 2006/07: £12 million).

Replacement expenditure increased by £72 million (20%) compared with 2007/08 reflecting an increase in workload and a higher proportion of complex large diameter mains. Performance under the mains replacement incentive scheme is expected to be broadly neutral in 2008/09.

In collaboration with our alliance partnerships, we have replaced more than 1,900 kilometres of metallic gas main this year and approximately 8,800 kilometres since 2004/05, the vast majority of which relates to the long-term mains replacement programme agreed with the HSE.

The increase in other capital expenditure in 2008/09 compared with 2007/08 is driven by the commencement of the construction of a major new pipeline in west London, which is due for completion in 2009/10 together with information technology expenditure to replace obsolete equipment in system control and operational activities.

US capital investment

Capital expenditure in the replacement, reinforcement and extension of our US gas distribution networks was £421 million in 2008/09, £188 million in 2007/08, and £36 million in 2006/07.

After excluding the effect of exchange movements of £58 million in 2008/09 compared with 2007/08, capital expenditure increased by £175 million. The primary reason for the increase arose from five months of additional activities from the gas distribution network of KeySpan acquired in August 2007.

After excluding the effect of exchange movements of £2 million in 2007/08 compared with 2006/07, capital expenditure 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.

Becoming more efficient through transforming our operating model and increasingly aligning our processes

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.

We have continued the transformation of our gas business towards the National Grid operating model. During 2008, we agreed a core of eight processes that can be more common across our business. These processes have been further broken down in preparation for work to commence on detailed design of our new IT system to support a more efficient operation in the UK gas business.

We completed the alignment of the Gas Distribution organisation to a globally aligned process based structure, as opposed to the traditional geocentric approach. This, combined with piloting new ways of planning, standardising and delivering of work, will enable us to release more value from our scale of operations and the greater centralisation of our back office support tasks.

In 2009/10, we will start the progressive replacement of our ageing front office IT suite of systems. The lessons learnt from the pilots, and the advances in technology since the original front office was

£1,466m

Gas Distribution UK revenue

£4,786m

Gas Distribution US revenue

£598mGas Distribution UK
capital expenditure**£421m**Gas Distribution US
capital expenditure

installed, will help us drive further improvements in the efficiency and customer performance of the gas business.

We have also made significant progress towards achieving the KeySpan integration initiatives attributable to Gas Distribution. Major categories of these initiatives included process model driven cost savings, standardisation, best practices, revenue enhancement and leak management. These initiatives were an integral part of the overall KeySpan integration.

Efficiency

Our objective is to increase the efficiency of Gas Distribution operations.

Our aim is to maintain the proper level of investment in our infrastructure to enable related operating cost reductions. The transformation of the front office programme in the UK is an example of how we are looking to execute information systems priorities to facilitate savings. US operations have achieved operating efficiencies of \$15 million (annual run rate) due to initiatives related to merger integration synergies, which include, but are not limited to, consolidation of New England control centres, standardisation of fleet vehicles, organisational and office consolidations and increased utilisation of best practice technologies such as keyhole coring and remote service shut off systems.

Efficiency is reflected in our financial performance, which is discussed below.

Financial performance

Profit

Our objective is to increase profits each year.

The adjusted operating profit was £1,284 million in 2008/09 compared with £987 million in 2007/08 and £480 million in 2006/07.

Financial results – Gas Distribution UK

The results for our Gas Distribution UK segment for the years ended 31 March 2009, 2008 and 2007 were as follows:

	Years ended 31 March		
	2009	2008	2007
	£m	£m	£m
Revenue	1,466	1,383	1,193
Other operating income	2	8	6
Operating costs excluding exceptional items	(796)	(796)	(790)
Adjusted operating profit	672	595	409
Exceptional items	(43)	(21)	3
Operating profit	629	574	412

2008/09 compared with 2007/08

The principal movements between 2007/08 and 2008/09 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	1,391	(817)	574
Add back exceptional items	–	21	21
2007/08 adjusted results	1,391	(796)	595
Allowed revenues	90	–	90
Timing on recoveries	(15)	–	(15)
Pass-through costs	–	(9)	(9)
Non-formula	9	(12)	(3)
Other revenue and costs	(7)	21	14
2008/09 adjusted results	1,468	(796)	672
Exceptional items	–	(43)	(43)
2008/09 results	1,468	(839)	629

Revenue and other operating income in Gas Distribution UK increased by £77 million in 2008/09 compared with 2007/08. Allowed revenue was up £90 million, driven by the five year price control that came into effect on 1 April 2008 and incentive gains through the efficient management of our capacity requirements and improved pressure management. This was partially offset by a £15 million timing impact on recoveries.

The net year-on-year timing impact against allowed revenues was a reduction of £15 million as in 2008/09 there was a net benefit of £10 million (comprising the under-recovery of £20 million relating to the previous year, partially offset by a £10 million under-recovery for 2008/09), compared with a net benefit of £25 million in 2007/08 (comprising a £20 million under-recovery in 2007/08, offset by £45 million under-recovery from 2006/07).

Operating costs for 2008/09, excluding exceptional items, were in line with 2007/08. Efficiency savings through strong operating cost performance were combined with one-off benefits in the year. As expected, this was offset by £9 million higher pass-through costs due to an increase in business rates following the changes in rateable values introduced from 1 April 2005 and shrinkage costs due to higher gas prices. Non-formula costs were £12 million higher because of increased meter work and other non-formula activities.

Exceptional charges of £43 million in 2008/09 included an increase in the environmental provision of £13 million with the remaining £30 million made up of restructuring and transformation costs, which include system related projects costs. This compared with a £21 million charge in 2007/08.

As a consequence of the above, adjusted operating profit excluding exceptional items was £77 million higher in 2008/09 than 2007/08, an increase of 13%. Including exceptional items, operating profit was £55 million higher in 2008/09 than 2007/08, an increase of 10%.

Gas Distribution continued

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 exceptional items	–	(3)	(3)
2006/07 adjusted results	1,199	(790)	409
Allowed revenues	165	–	165
Timing on recoveries	59	–	59
Depreciation and amortisation	–	(11)	(11)
Pass-through costs	–	(18)	(18)
Other revenue and costs	(32)	23	(9)
2007/08 adjusted results	1,391	(796)	595
Exceptional items	–	(21)	(21)
2007/08 results	1,391	(817)	574

Revenue and other operating income in Gas Distribution UK increased by £192 million in 2007/08 compared with 2006/07. Net formula income was higher by £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 partially 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 was reflected in the improvement in other costs.

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 under-recovery 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' pension costs. This was partially 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 by 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%.

Financial results – Gas Distribution US

The average exchange rates used to translate the results of US operations during 2008/09, 2007/08 and 2006/07 were \$1.54:£1, \$2.01:£1 and \$1.91:£1 respectively.

	Years ended 31 March		
	2009 £m	2008 £m	2007 £m
Revenue	4,786	2,845	638
Operating costs excluding exceptional items and remeasurements	(4,174)	(2,453)	(567)
Adjusted operating profit	612	392	71
Exceptional items and remeasurements	(386)	95	(4)
Operating profit	226	487	67

2008/09 compared with 2007/08

The principal movements between 2007/08 and 2008/09 can be summarised as follows:

	Revenue £m	Operating costs £m	Operating profit £m
2007/08 results	2,845	(2,358)	487
Add back exceptional items	–	(95)	(95)
2007/08 adjusted results	2,845	(2,453)	392
Exchange movements	873	(753)	120
2007/08 constant currency results	3,718	(3,206)	512
KeySpan contribution	902	(896)	6
Rate increases	32	–	32
Weather and volumes	22	–	22
Timing on recoveries	(6)	52	46
Merchant function charge	38	–	38
Energy efficiency programme	19	(12)	7
Pass-through costs	69	(69)	–
Bad debt expense	–	(29)	(29)
Other revenues and costs	(8)	(14)	(22)
2008/09 adjusted results	4,786	(4,174)	612
Exceptional items	–	(52)	(52)
Remeasurements	–	(334)	(334)
2008/09 results	4,786	(4,560)	226

Revenue and operating costs excluding exceptional items and remeasurements increased by £1,068 million and £968 million respectively in 2008/09 compared with 2007/08 on a constant currency basis, an increase of 29% and 30% in each case. The rise in revenue and operating costs primarily arose from an increase in contributions from KeySpan operations in 2008/09 reflecting the first full year of ownership since acquisition in August 2007.

£672m

Gas Distribution UK adjusted operating profit

£612m

Gas Distribution US adjusted operating profit

13%

Gas Distribution UK increase in adjusted operating profit

20%

Gas Distribution US increase in adjusted operating profit at constant currency

Revenue increased by £1,073 million in 2008/09 compared with 2007/08. Revenue from KeySpan operations increased by £902 million compared with 2007/08. The remaining £171 million was primarily driven by New York, Long Island, Rhode Island, and New Hampshire rate increases of £32 million, colder weather and higher consumption of £22 million, higher recoveries of gas inventory carrying charges of £38 million, higher commodity pass-through costs of £69 million, and other increases of £10 million.

The weather in 2008/09 was significantly colder than 2007/08. As measured in heating degree days, weather in 2008/09 across National Grid's US gas territories was approximately 5% colder than normal and was approximately 8% colder than 2007/08.

Operating costs, excluding exceptional items were £973 million higher in 2008/09 compared with 2007/08. The increase in costs from KeySpan operations in 2008/09 was £896 million on a constant currency basis. The remaining increase of £77 million was a result of higher commodity pass-through costs, an increase in maintenance costs and higher bad debt expense as a result of the economic downturn partially offset by a favourable overcollection in commodity costs.

Exceptional charges of £52 million in 2008/09 related to integration initiatives, including the cost of voluntary early redundancies, while adverse mark-to-market commodity contract remeasurement losses were recorded as a consequence of lower energy prices compared with contracted amounts as at 31 March 2009. The losses from these transactions will be realised in subsequent periods and recovered from consumers.

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 contribution	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
Exceptional items	–	(46)	(46)
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. The rise in revenue and operating costs 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.

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.

Electricity Distribution & Generation



Our customers are at the heart of everything we do. We continue to invest in our distribution and generation systems creating sustained improvements in our system reliability.

We are focused on building a branded customer experience that demonstrates our commitment to our customers and educates them on the environmental impact they have. We believe that increased energy efficiency and deployment of smart technologies are the best ways to help our customers control their energy costs while addressing the effects of climate change.

We are seeking regulatory agreements that decouple our revenue from customer energy usage. With decoupling, we can enable increased energy efficiency for our customers without reducing our revenue stream.

Key Facts

- Over 116,700 kilometres of circuit
- 3.4 million customers
- 65 TWh of electricity delivered
- 670 substations
- 57 generation units at 13 locations across Long Island
- LIPA network serving 1.1 million customers over 24,100 kilometres of circuit and 177 substations, delivering 22 TWh of electricity

Adjusted operating profit	Capital investment
£265m	£355m
2007/08: £330m	2007/08: £257m
Employees	Energy saved through energy efficiency measures
7,950	275 GWh
2007/08: 7,955	2007/08: 266 GWh

About Electricity Distribution & Generation

Our Electricity Distribution & Generation business operates in the northeastern US and is reported as a single segment in our financial statements.

This section should be read in conjunction with the rest of this Operating and Financial Review, in particular the external market and regulatory environment; current and future developments; business drivers; vision, strategy and objectives; and risks and opportunities set out on pages 20 to 27 and page 40.

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 homes, small businesses, 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. Our work is essential to the economies of the regions in which we operate and contributes to the comfort and well-being of the millions of people who depend on our services.

Through our electricity distribution networks we serve approximately 3.4 million electricity customers over a network of approximately 116,700 circuit kilometres (72,500 miles) in New England and New York.

We strive to provide a reliable, high quality distribution network to our customers. In all that we do, we are committed to safeguarding our global environment for future generations.

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 177 substations in its electricity system. From these substations, approximately 24,100 circuit kilometres (15,000 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.

4.1 GW	38 TWh	£426m	670
Generation facilities on Long Island	Annual electricity procurement	Stranded cost recoveries	Substations

Generation

We own 57 electricity generation units 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 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.

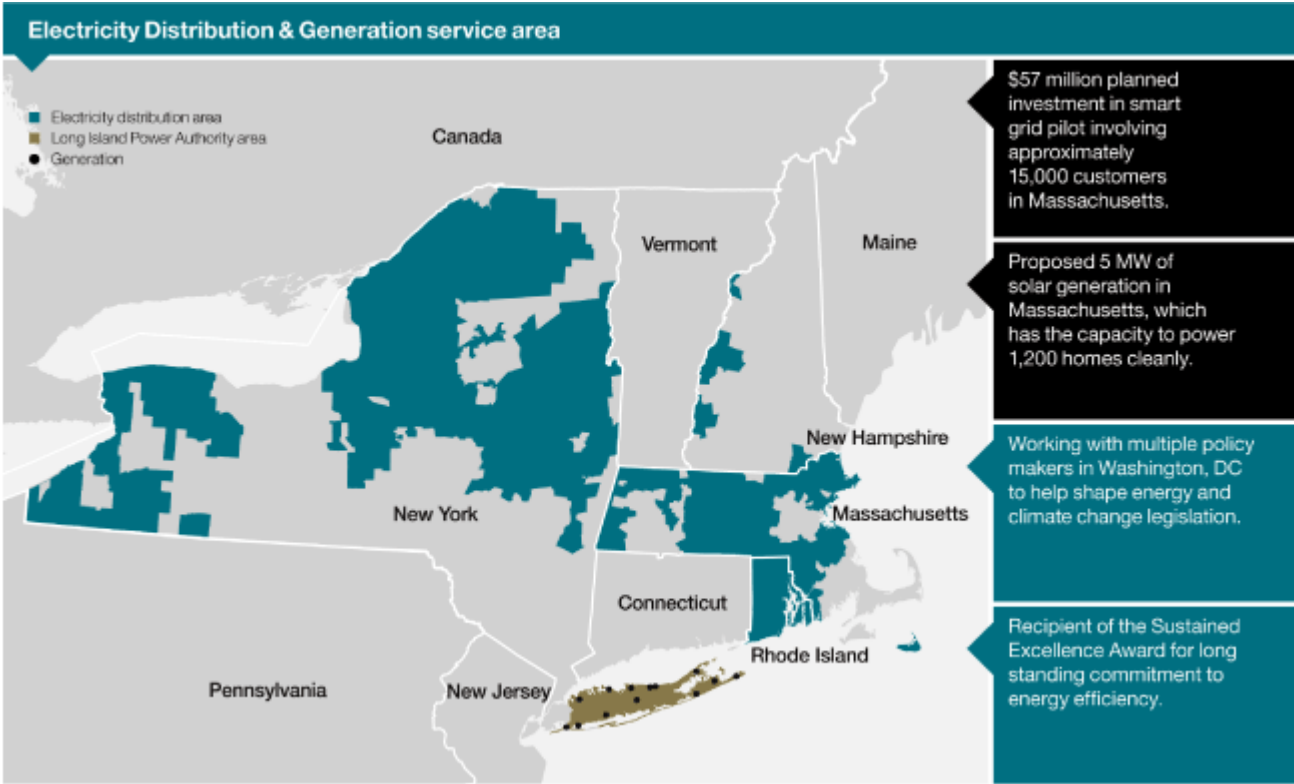
Pursuant to the settlement and stranded cost recovery agreements in effect in each of the states in which National Grid operates, this

revenue stream will decline as the recovery of stranded costs is completed. As a consequence, we do not consider this to be part of our business performance and so this is excluded from adjusted operating profit.

Energy procurement

We are responsible for the planning, procurement and administration of natural gas and electricity commodity supply for our customer base within our Electricity Distribution & Generation and Gas Distribution US businesses. Delivering on our commitment to achieve the highest reliability at low cost, we transact with a diverse group of creditworthy energy companies in order to supply approximately 500 billion standard cubic feet of natural gas, and procure 38 TWh of electricity annually across four states. We maintain a diversified and flexible portfolio of gas supply, transmission and storage assets, and are the largest shipper on major inter-state pipelines including Tennessee, Dominion, Algonquin and Iroquois. We transport 30% of all gas consumed in the northeast region of the US. We are also responsible for optimising our gas transmission and storage assets in order to provide additional benefits for our customers and shareholders.

We also provide fuel management services to power generators including LIPA and procure natural gas and oil to supply the 57 generation units on Long Island. We also provide LIPA with energy trading services.



Electricity Distribution & Generation continued

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. A summary of the key features of our rate plans is provided below.

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 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 individual item thresholds and \$100 million (£69 million) in total. 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.

The fourth and final filing for recovery of actual and projected deferral costs up to 31 December 2011 is anticipated to be made in August 2009 for recovery over a two year period commencing 1 January 2010.

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.

Environment

We aim to be a leader in the energy policy agenda by progressing efforts in energy efficiency and climate change. The US administration and Congress are working to pass legislation driving a federal renewable portfolio standard, an energy efficiency standard, and potentially a cap and trade regime for CO₂ reduction in advance of the Copenhagen climate change meeting in December 2009. National Grid is working closely with Congress, and the states to assist in the analysis of policy options and their impact on our industry and service area. We continue to lead on emissions reduction initiatives and collaborate with like minded companies through the US Clean Energy Group and community organisations.

LIPA Power Supply Agreement (PSA) rate adjustment

On 30 January 2009, we filed with the FERC for a rate increase for the power supplied to LIPA. Rates pursuant to the PSA agreement are in effect until May 2013. They were initially set in 1998 and are reset every five years. Rates were last reset in 2004. The PSA also allows for certain annual rate adjustments such as property tax increases and certain inflationary increases. The filing seeks an increase of \$92 million, \$60 million of which would be allowable under the annual rate adjustment provisions. On 31 March 2009, the FERC accepted our proposed tariff effective from 1 February 2009, subject to refund. The order also encourages a negotiated settlement. Absent a settlement, the issues would be ruled on later this year by a FERC administrative law judge.

37% reduction \$71m

In lost time injury frequency rate

Investment in energy efficiency programmes

114 minutes

SAIDI network reliability

Rate filings

New rate filings for New York and LIPA

Update New York capital expenditure rate filing

In New York, capital expenditure in the rate plan for electricity distribution is set at historic levels that are significantly lower than those currently required to maintain a safe and reliable network. On 21 December 2007, we petitioned the New York Public Services Commission (NYPSC) for deferred recovery of incremental investment on major capital programmes for calendar year 2008, as permitted under our rate plan.

On 5 September 2008, the NYPSC ordered that we should only file for deferred recovery of incremental investment once the calendar year of spend had finished. We filed a new petition in April 2009 for deferred recovery of incremental investments in 2008. We anticipate that we will also petition for deferred recovery of qualifying incremental investment for calendar years 2009 to 2011.

Massachusetts and Rhode Island rate plans

In both the Massachusetts and Rhode Island rate plans, we have the right to file for rate adjustments effective from 1 January 2010. In both jurisdictions, rate applications to increase electricity distribution rates will be filed during 2009.

Performance against our objectives

Descriptions of our progress against all National Grid's objectives are set out on pages 30 to 39. We include below further information specific to Electricity Distribution & Generation with respect to the objectives that are closely aligned to the lines of business.

Driving improvements in our safety, customer and operational performance

Safety

Our objective is to reduce employee lost time injuries to zero.

To monitor our safety performance we use employee lost time injury frequency rate as our key performance indicator.

The number of employee lost time injuries in Electricity Distribution & Generation decreased to 37 compared with 53 in 2007/08 (based on National Grid's definition that aligns the measure between the UK and the US). Our lost time injury frequency rate for 2008/09 was 0.22, representing a 37% decrease over the prior year's rate of 0.35. The data for 2007/08 has been restated as if the KeySpan acquisition had occurred at the beginning of the year. Improvement programmes implemented in 2008/09 were aimed at aligning our merged operations in key areas of safety and occupational health management and to promote one positive safety culture. The key safety initiatives during 2008/09 were as follows:

- integration of a safety observations programme focused on fostering open communications and promoting safe behaviours. A new online system was developed to support the programme;
- a new safety performance committee structure was established to drive safety initiatives and promote communication;
- implementation of the soft tissue injury prevention programme continued to improve our approach to preventing soft tissue or musculoskeletal injuries, which make up 60% of injuries;
- an attendance management programme was initiated to increase supervisors' focus on non occupational absence reduction; and

- as part of our trusted to work responsibly strategy, we continue to address the 'golden rules' of safety that involve the most critical areas of safety and set clear expectations of the workforce.

In 2009/10, our safety objectives include implementing a safe driving policy, incorporating techniques in the field to help address transitional risk and hazard identification, improving the quality of incident investigation and analysis to ensure we consistently identify underlying causes and help to prevent recurrence, and promote union involvement through increased participation in the safety advocate and other programmes.

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.

To monitor our customer service performance we use customer satisfaction surveys as our performance indicator.

Reliability and service issues are key factors contributing to customer satisfaction. Our investment in enhanced reliability will increasingly improve customer perceptions. We are taking steps to improve our customer satisfaction, manage cost and use, enhance billing quality, and increase responsiveness to customer queries, regulatory complaints and call handling. Recent performance against our peers shows we need to substantially improve customer satisfaction. A key customer satisfaction metric is the J.D. Power and Associates customer satisfaction study. A global marketing information company, J.D. Power conducts independent and unbiased surveys of customer satisfaction, product quality and buyer behaviour. In the most recent surveys, we rank in the lower quartile for large east coast utilities. Our objective is to achieve first quartile performance in all J.D. Power customer satisfaction surveys by 2013.

To drive immediate and sustained improvements, ownership of the major survey components has been assigned to senior management who will develop and implement action plans designed to improve our ranking each year for the next three years. The National Grid customer experience team identified the following priority areas:

- communications and price;
- corporate citizenship;
- billing, payment and collections;
- gas and electricity quality, reliability and safety;
- customer field services; and
- customer operations.

Electricity Distribution & Generation has established a customer steering committee that will work in partnership with National Grid's customer experience team to drive improvement in customer satisfaction in 2009/10. Detailed customer feedback identified targeted improvement opportunities, including:

- outage communications and estimated time of restoration accuracy;
- customer education, relevance, and frequency of communications associated with forestry related work; and
- customer facing skills to ensure customers feel valued.

Electricity Distribution & Generation continued

Energy efficiency provides our customers with long-term cost saving opportunities. For more than 20 years National Grid has offered a comprehensive portfolio of energy efficiency programmes to customers. These nationally recognised programmes have saved billions of kilowatt hours of electricity, eliminated millions of dollars in energy costs and have reduced millions of tonnes of greenhouse gas emissions associated with electricity production. In 2008/09, energy efficiency programmes helped customers mitigate the rising costs of energy and educated them on conservation methods.

National Grid has received national recognition from the US Environmental Protection Agency and the US Department of Energy for our leadership and outstanding contribution to energy savings and mitigating the effects of climate change.

Using our proven performance in delivering energy efficiency programmes, we aim to significantly expand programme funding through initiatives under way in Rhode Island, New York, and Massachusetts. We are also continuing to develop new and creative ways to provide our customers with end-to-end energy solutions that help them manage their energy use and reduce their carbon footprint.

LIPA and National Grid are in discussions as to whether we have achieved the customer satisfaction metrics in the management services agreement for the years 2006 to 2008. Failure to meet these metrics for all three years could constitute an event of default under the agreement.

Delivering strong, sustainable regulatory and long-term contracts with good returns

Returns on investment

Our aim is to meet the base financial returns in our rate plans by delivering on long-term contracts that provide value.

The performance indicator we use to monitor our return on investment is the defined regulatory return on equity under the terms of each rate plan.

A summary of returns under our rate plans is provided below.

Regulatory entity	Asset base*		Return on equity*		Allowed return current
	2008	2007	2008	2007	
Niagara Mohawk (Electric)	\$4,609m	\$4,882m	6.7%	9.1%	10.6%
Massachusetts (Electric)	\$1,495m	\$1,373m	7.0%	9.5%	11.0%
Narragansett Electric (Dist Only)	\$564m	\$543m	2.3%	6.8%	10.5%
Long Island Generation	\$574m	\$621m	7.1%	9.5%	9.5%

* Based on regulatory returns for the 12 months ended either 31 October or 31 December

Our US electricity businesses are operating under long-term rate plans which are reaching their conclusion. Current returns for our New York, Massachusetts, and Rhode Island (Narragansett) electricity operations are below allowed returns, primarily due to higher levels of investment and continued cost pressures, particularly bad debts and storm costs. In Massachusetts and Rhode Island, we anticipate filing for rate adjustments to be effective 1 January 2010, the earliest that rates are eligible for adjustment pursuant to the rate plans.

In New York, the regulatory return on equity includes electricity transmission, electricity distribution and stranded cost recoveries. For the rate year ended 31 December 2008, the reported return on equity was 5.2%. When adjusted for the Company's share of merger savings allocated to electricity and certain one-off costs, the return was 6.7%. The long-term electricity rate plan concludes on 31 December 2011 at which time electricity rate adjustments would become effective. In April 2009, we filed for recovery of incremental investment above the amount included in the electricity rate plan, and plan on filing for this relief in each of the remaining rate plan years.

Our Long Island generation business has filed with the FERC for a rate increase effective 1 February 2009, subject to refund, as described on page 68. Resolution of this case is expected in the latter part of 2009.

Modernising and extending our networks

Reliability

In addition to meeting reliability performance targets agreed with our regulators, our objective is to improve reliability.

To monitor our reliability performance we use industry average outage frequency and duration as our key performance indicator.

The system average interruption duration (SAIDI) for 2008/09, being the time the average customer is without power during the year, was 114 minutes, compared with a target of below 120 minutes and 110 minutes in 2007/08.

Our customers depend on a reliable electricity distribution service. In 2008, we achieved our regulatory targets for our Rhode Island, Massachusetts and upstate New York electricity operations, while Long Island operations continued to achieve first quartile reliability performance based on 2007 data. Although we did not meet the LIPA management service agreement metric for average customer interruption duration, no monetary penalties were incurred as strong performances against other operational metrics provided an offset.

In 2009, we intend to meet internal targets that move towards achieving first quartile reliability performance by 2013. A key element to delivering these targets and achieving sustainable improvements in reliability will be the continued investment in our distribution infrastructure.

7.0%

2008 regulatory return on equity for Massachusetts Electric

6.7%

2008 regulatory return on equity for Niagara Mohawk (Electric)

\$750m

Planned capital spend on infrastructure in 2009/10

\$7.2bn

Estimated rate base (based on latest filings)

As we enter the fourth year of the five year reliability enhancement programme, we are now realising the benefits. We will continue to replace ageing underground cables, overhead lines, protection/control systems and substation infrastructure as part of our asset replacement programme, and continue our ongoing reliability enhancement programme. This programme also includes:

- feeder hardening – upgrading our worst performing overhead electricity circuits by replacing aged and deteriorated components and protecting against lightning strikes and animal contacts; and
- inspection and maintenance – increasing our preventative maintenance and repair activities to find potential faults before they occur to improve reliability and public safety.

We will also continue our vegetation management programme across all operating areas, increasing our focus on dealing with hazardous trees.

We plan to invest over \$520 million in our networks across New England and New York during 2009/10, delivering on our commitment to invest \$1.47 billion in upstate New York over four years. In addition, with the asset replacement programme agreed with LIPA, we will be investing an estimated \$237 million in the LIPA distribution and transmission infrastructure.

Overall, we propose to invest over \$750 million in the renewal of our infrastructure during 2009/10.

Capital investment

Our objective is to deliver our capital investment plans over the next five years.

Capital investment in the replacement, reinforcement and extension of our US electricity distribution networks was £355 million in 2008/09, £257 million in 2007/08, and £218 million in 2006/07. After excluding the effect of exchange movements of £79 million in 2008/09 compared with 2007/08, capital investment increased by £19 million. This reflects a £10 million increase from a full year of generation capital expenditure compared with a partial year in 2007/08 following the KeySpan acquisition, higher investment at the Port Jefferson and Northport generating stations of £7 million, increased capital related storm costs of £6 million, and other investment including asset replacement of £23 million. This higher expenditure has been partially offset by decreased capital lease additions of £15 million relating to vehicles and lower investment in new business installations of £12 million as a result of the downturn in the US economy.

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.

Becoming more efficient through transforming our operating model and increasingly aligning our processes

Key areas of focus

Our focus includes building upon our high performance safety culture while executing on our reliability enhancement programme, creating a branded customer experience and delivering on our electricity distribution operations transformation programme.

We have a clear focus on an operating model that encourages collaboration with other business units and ensures continued efficiency gains through common practices and policies. Ensuring the reliability of our system, operating safely, and improving relationships with stakeholders, are our main objectives.

Our aim is to be recognised as an industry leader and help to transform the current traditional utility model into a business that is able to deliver sustained improvements in operating performance.

Transform operations

We are undergoing a major transformation programme that will significantly improve the performance of the business. The impetus for this transformation includes ageing infrastructure, increased customer expectations, changing technology, challenging economic environment and the desire to improve service to our customers and the communities we serve. We are in the deployment and implementation phase of this multi-phase transformation programme that will extend to the year 2012. The focus of the current phase is on implementing our new operating model and organisation structure; designing, testing and implementing new capabilities, processes and systems; and realising targeted benefits. We will enhance our asset management expertise and discipline by utilising the benefits of a common operating model and greater standardisation across the business. Our implementation effort is structured around six core work streams:

- manage the assets – integrated planning and efficient capital allocation;
- customer management – single point of contact for the customer while ensuring end-to-end coordination for all processes that affect the customer;
- contracting strategies – effective management of all contracts and arrangements;
- deliver the work – optimise work coordination to maximise crew efficiency while increasing productive time;
- design – centralised to drive productivity and standards focused on core design and field support activities; and
- operate the network – consolidation of control centres while ensuring standardisation across all regions.

In addition, we have begun to execute an integrated change plan to engage employees and facilitate smooth transitions.

Customer experience

Our business is fundamentally about serving our customers and providing them with a positive customer experience while delivering safe, reliable and efficient energy services to homes, businesses, schools and other customer segments across our service areas.

Electricity Distribution & Generation continued

Our customer transformation efforts are focused on delivering an unparalleled customer experience and providing customers with products and services that help them not only manage their energy use, but to also reduce their impact on the environment. We are collaborating across our business areas to instil a stronger customer focus and to align processes to deliver a National Grid branded customer experience. Our customer transformation initiatives are targeting the following areas:

- customer focused culture – building clear focus and a customer first culture through clear accountability and aligned goals and metrics across our business areas;
- customer experience initiatives – improving processes that directly impact customer satisfaction such as billing, collections, contact centre performance, self service options, outage communications and field service;
- sustainable products and services – delivery of targeted energy efficiency programmes and other energy management solutions that help customers manage their energy use; and
- building our brand – through marketing and integrated communications that reinforce our commitment to the environment and the communities we serve.

Efficiency

Our objective is to develop consistent processes and implement actions that will deliver cost efficiencies across our business, including the development of a cost conscious culture.

Improving the efficiency of our business continues to be one of our key priorities.

Delivering on many of the initiatives developed under our transformation programme is one way we can continue to improve efficiency. Some of the areas where we continue to focus and expand our efficiency efforts include:

- additions – by prioritising and optimising our investment programmes in both distribution and generation;
- materials – by optimising both use and stock levels;
- procurement – through longer term visibility of equipment needs and optimal balance between workload and resources; and
- generation – optimising generation plant performance.

We also continue to make progress on location efficiency with the consolidation and reconfiguration of key locations. With the opening of our new Reservoir Woods office in Waltham, Massachusetts we will bring together people from across the business and from multiple locations. We will work as one integrated team in a new state of the art leadership in energy and environmental design (LEED) certified, environmentally friendly office, providing a vibrant work environment.

Efficiency is reflected in our financial performance.

Financial performance

Profit

Our objective is to increase profits each year.

Adjusted operating profit was £166 million lower in 2008/09 than 2007/08 on a constant currency basis, a decrease of 39%, largely driven by higher storm costs resulting primarily from the December 2008 ice storm, higher purchased electricity costs and higher capital related costs associated with the increasing capital programme, partially offset by a full year of KeySpan results. Further information is included below.

Financial results

The results of the Electricity Distribution & Generation segment for the years ended 31 March 2009, 2008 and 2007 were as follows:

	Years ended 31 March		
	2009 £m	2008 £m	2007 £m
Revenue excluding stranded cost recoveries	4,537	3,126	3,004
Operating costs excluding exceptional items and remeasurements	(4,272)	(2,796)	(2,640)
Adjusted operating profit	265	330	364
Exceptional items	(51)	(104)	(9)
Remeasurements	(109)	91	81
Stranded cost recoveries	426	379	423
Operating profit	531	696	859

2008/09 compared with 2007/08

The principal movements between 2007/08 and 2008/09 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	3,508	(2,812)	696
Add back exceptional items	–	104	104
Add back remeasurements	–	(91)	(91)
Add back stranded cost recoveries	(382)	3	(379)
2007/08 adjusted results	3,126	(2,796)	330
Exchange movements	957	(856)	101
2007/08 adjusted results at constant currency	4,083	(3,652)	431
Purchased electricity	176	(187)	(11)
Volume, price and weather	6	–	6
LIPA capital recovery	74	(74)	–
Generation	124	(114)	10
LIPA contribution	77	(65)	12
Bad debt expense	–	(14)	(14)
Storms	–	(74)	(74)
Other direct costs	–	(53)	(53)
Depreciation and amortisation	–	(10)	(10)
Other	(3)	(29)	(32)
2008/09 adjusted results	4,537	(4,272)	265
Exceptional items	–	(51)	(51)
Remeasurements	–	(109)	(109)
Stranded cost recoveries	435	(9)	426
2008/09 results	4,972	(4,441)	531

Reservoir Woods

New England LEED certified office

£265m

Adjusted operating profit

£4,537m

Revenue

Comparability of our financial results between 2008/09 and 2007/08 are affected by having a full year contribution from KeySpan operations in 2008/09 compared with a partial contribution in 2007/08 following the acquisition on 24 August 2007. In 2008/09, KeySpan operations contributed £662 million, £607 million and £55 million to revenue and other operating income (excluding stranded cost recoveries), adjusted operating costs and adjusted operating profit respectively, compared with £383 million, £350 million and £33 million in 2007/08 on a constant currency basis.

Excluding stranded cost recoveries, revenue increased by £454 million in 2008/09 on a constant currency basis as compared with 2007/08. This was primarily due to the recognition of higher LIPA capital recoveries, LIPA contribution and generation revenues reflecting the full year KeySpan contribution. LIPA capital recovery relates to assets which are owned by LIPA but are constructed on behalf of LIPA by National Grid. These costs are fully recoverable. LIPA also contributes under management contracts for the ongoing maintenance of these assets. The revenue and costs associated with this activity are included as part of the LIPA contribution movement. The generation business results also increased compared with 2007/08 reflecting a full year KeySpan contribution. Generation revenues further increased following the reset of generation capacity charges which were retrospectively applied to January 2008. There is a corresponding increase in costs to partly offset some of this benefit.

Revenues also increased compared with 2007/08 reflecting the pass-through of higher purchased electricity costs. These commodity costs are recovered in full from customers although the recovery of these costs can occur in more than one financial year resulting in a year-on-year operating profit impact.

Excluding stranded cost recoveries, operating costs increased by £620 million on a constant currency basis. This is primarily due to the higher costs associated with LIPA distribution and generation and purchased electricity as referred to above in addition to higher storm costs associated mainly with the December 2008 ice storm. A portion of storm costs incurred during 2008/09 will be recovered in future periods.

The £166 million decrease on a constant currency basis in adjusted operating profit from Electricity Distribution & Generation in 2008/09 compared with 2007/08 was primarily due to higher storm costs, higher capital related costs which impacted depreciation and other direct costs and higher purchased electricity partially offset by the benefits of a full year of KeySpan.

Exceptional costs for 2008/09 primarily relate to the electricity distribution operations transformation initiatives and merger related integration costs.

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	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
Exceptional items	–	(104)	(104)
Remeasurements	–	91	91
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.

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. Investment in 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 in 2007/08 compared with 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.

Non-regulated businesses and other



This year has seen further expansion activity at our liquefied natural gas (LNG) importation terminal on the Isle of Grain. Through the commissioning of phase II, the site now has annual import capacity of 9.9 million tonnes. We are continuing to invest in Grain LNG and by 2010, with the phase III expansion, it will have the capacity to import 14.8 million tonnes per annum, around 20% of the UK's forecast gas demand.

During the year, approximately 645,000 new meters were installed by OnStream, our competitive metering business, comprising approximately 375,000 gas and 270,000 electricity meters.

We are undergoing a programme of land remediation at many of our brownfield sites, including legacy gas sites.

Key Facts

- Metering and meter reading services for around 20 million meters in the UK
- Property portfolio of over 800 sites comprising buildings and land of around 1,600 hectares
- Phase III Grain LNG completion anticipated in 2010

Adjusted operating profit

£65m

2007/08: £129m

Capital investment

£427m

2007/08: £383m

Employees

3,597*

2007/08: 3,155

LNG imported to the UK through Isle of Grain (tonnes)

1,229,000

2007/08: 590,000

* Excluding shared services employees

About our non-regulated businesses

Our non-regulated businesses and other activities 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 the external market and regulatory environment; current and future developments; business drivers; vision, strategy and objectives; and risks and opportunities set out on pages 20 to 27 and page 40.

Principal operations

Metering

National Grid Metering and OnStream provide installation and maintenance services to energy suppliers in the regulated and unregulated markets respectively. OnStream also provides meter reading services. Our metering businesses provide services for an asset base of about 20 million domestic, industrial and commercial meters.

Grain LNG

National Grid Grain LNG is the first new LNG importation terminal constructed in the UK for some 30 years, with construction divided into phases I, II and III.

UK Property

National Grid Property is responsible for managing our occupied properties in the UK, and for the management, clean up and disposal of surplus sites, most of which are former gasworks.

BritNed

BritNed is a joint venture between National Grid and TenneT, the Dutch transmission system operator, to build and operate a 1,000 MW, 260 kilometre subsea electricity link between The Netherlands and the UK.

US non-regulated businesses

Includes LNG storage, LNG road transportation, unregulated transmission pipelines, West Virginia gas fields and home energy service activities.

In addition to our 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 a leading provider of gas connections and associated design services in the UK. As an independent gas transporter, Fulcrum owns and operates gas distribution networks. Fulcrum also installs electricity and water distribution infrastructure.

Blue-NG

Blue-NG is a joint venture between National Grid and 2OC Ltd to construct and operate a new type of highly efficient power station that reduces the gas pressure in the grid as required and simultaneously generates renewable power and heat.

£300m

Grain LNG

Blue-NG

£427m

Planned investment in Grain LNG phase III

Largest ever delivery of LNG to the UK was imported at Grain in November 2008

New technology: one of the most efficient renewable energy sources in the world

Total capital investment in non-regulated businesses and other activities

Corporate activities and shared services function

Corporate activities comprise central overheads, insurance and expenditure incurred on business development.

Millennium pipeline

We own a 26% interest in the Millennium pipeline, a natural gas pipeline system in New York state.

Business drivers

The principal business drivers for our non-regulated businesses and other activities include the following:

Multi-year contractual arrangements

The majority of National Grid Metering's domestic meters are covered by long-term contracts with gas suppliers.

OnStream has a long-term contract with British Gas for the provision of gas and electricity meters, and a range of contracts with other suppliers.

Phase I of Grain LNG is underpinned by a long-term contract with BP/Sonatrach. Phase II, completed in December 2008, is underpinned by long-term contracts signed with Centrica, Gaz de France Suez and Sonatrach. Phase III, anticipated for completion in 2010, also has long-term contracts for all the capacity with E.ON, Iberdrola and Centrica.

Competition

OnStream operates in the competitive market for the provision of new meters and its revenues are therefore determined by how successful it is in obtaining business from customers.

Capital investment

OnStream are investing in technology such as smart metering capabilities to grow our metering business. There is also significant investment 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 activities either operate in markets related to those of our principal businesses or provide support to our own businesses.

With the exception of National Grid Metering and Fulcrum's independent gas transporter (IGT) business, our non-regulated businesses and other activities are only indirectly affected by the relevant regulatory regimes. National Grid Metering, in its capacity as National Grid Gas's service provider, is regulated by Ofgem and retains a large share of the legacy installed base of gas meters in the UK and it is subject to a tariff cap price control. Fulcrum's IGT business is regulated under the terms of its gas transporter licence.

OnStream operates in the competitive market for 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 for effective measures to allow third parties to access unused capacity and are similar in nature to those in place at other new UK gas supply projects.

Current and future developments

Metering competition investigation

An update on the ongoing metering competition investigation that was reported in last year's Annual Report and Accounts is provided on page 85.

British Gas metering insourcing programme

British Gas have reviewed their strategy with regard to their metering operations and have decided to take some of these activities in-house. British Gas is OnStream's most significant customer and this decision will adversely impact its metering operations in the future.

Performance against our objectives

Our progress against all National Grid's objectives is set out on pages 30 to 39. We include below further specific information with respect to the objectives that are closely aligned to the non-regulated businesses and other activities.

Driving improvements in our safety, customer and operational performance

Safety, reliability and customer service

Our objectives include zero employee lost time injuries and to operate reliably. We also aim to improve the quality of service to our customers.

There was an increase in the total number of employee lost time injuries in non-regulated businesses and other activities to 17 in 2008/09 compared with 15 in 2007/08. Data for 2007/08 has been restated as if the KeySpan acquisition had occurred at the beginning of the year.

National Grid Metering has met 17 out of 18 standards of service in the year ended 31 March 2009.

Modernising and extending our networks

Capital investment

Our objective is to deliver on our capital investment programme for non-regulated businesses and other activities.

During the year ended 31 March 2009, we invested £427 million in our non-regulated businesses and other activities, £44 million higher than in 2007/08, which had been £125 million higher than capital expenditure in 2006/07.

Non-regulated businesses and other continued

We invested £137 million (2007/08: £126 million, 2006/07: £149 million) in our metering businesses. OnStream continues to invest in new and replacement meters, and smart metering capabilities. National Grid Metering invested in new and replacement meters.

We continue to invest in our Grain LNG facility with capital expenditure of £213 million in 2008/09 compared with £221 million in 2007/08. The investment related to the completion of phase II of the facility during 2008/09 and the continued construction on phase III. Phase III involves construction of a second unloading jetty, an additional 190,000 cubic metre 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. The total planned investment in phase III is approximately £300 million, excluding capitalised interest and gas blending expenditure.

During 2008/09, we invested £77 million in the remaining non-regulated and other activities compared with £36 million in 2007/08. The 2008/09 investment principally consists of: £19 million on new software (SAP) licences; £25 million on leasehold improvements on our new Reservoir Woods office and information systems in the US; £9 million on our UK property business; and £6 million on both the US non-regulated and Fulcrum businesses.

In addition to the capital expenditure discussed above, we have invested a further £73 million (2007/08: £21 million, 2006/07: £nil) in joint venture arrangements. The majority of this expenditure relates to BritNed in which we invested £47 million. During the year, work has progressed well on the construction of the link. Preparation of the sites in the UK and The Netherlands for the building of the two converter stations at the ends of the link commenced in mid 2008; this work is progressing well and is on course for completion in the second half of 2010. Over 60% of the cable which will join the two converter stations has been manufactured and activity during 2009 will see the land cable and the in-shore sections of the subsea cable laid. The remaining subsea cable will be laid during 2010 in anticipation of the link being fully operational in the first quarter of 2011.

During 2008/09, £2.5 million was invested in the Blue-NG joint venture to enable finalisation of the development phase. In 2009, Blue-NG plans to sign a construction contract for the first two sites which should commission in 2011, generating renewable local energy using National Grid's assets.

In addition, we invested £24 million in relation to the completion of the Millennium pipeline.

Under our existing agreement with Elia, we have now concluded the initial feasibility study into the viability of an electricity interconnector to Belgium. The project is still at a development stage and, while initial results are encouraging, further work and approvals are required before construction can begin.

Becoming more efficient through transforming our operating model and increasingly aligning our processes

Key areas of focus

Driving efficiencies and reducing controllable costs.

In line with National Grid's objective to reduce controllable costs, our non-regulated businesses and other activities are reviewing their systems and processes to improve efficiency and reduce costs.

During 2008/09, we have finalised the process of allocating overall responsibility for each of these businesses to an Executive Director. The allocation process of the non-regulated business and other activities is determined by the markets in which they operate and the regulated business to which they are most closely aligned.

Efficiency is reflected in our financial performance, which is discussed below.

Financial performance

The results for non-regulated businesses and other activities for the years ended 31 March 2009, 2008 and 2007 were as follows:

	Years ended 31 March		
	2009	2008	2007
	£m	£m	£m
Revenue	719	642	567
Other operating income	31	67	71
Operating costs excluding exceptional items	(685)	(580)	(505)
Adjusted operating profit	65	129	133
Exceptional items	(64)	(57)	(1)
Operating profit	1	72	132

2008/09 compared with 2007/08

The principal movements between 2008/09 and 2007/08 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	709	(637)	72
Add back exceptional items	—	57	57
2007/08 adjusted results	709	(580)	129
Exchange movements	26	(26)	—
2007/08 constant currency results	735	(606)	129
Metering	7	22	29
Property	(49)	(43)	(92)
Grain LNG	33	(24)	9
US non-regulated businesses	42	(44)	(2)
Other activities	(18)	10	(8)
2008/09 adjusted results	750	(685)	65
Exceptional items	—	(64)	(64)
2008/09 results	750	(749)	1

£133m

Metering adjusted operating profit

£92mDecrease in UK Property
adjusted operating profit**£21m**

Grain LNG adjusted operating profit

£65mTotal adjusted operating profit
for our non-regulated businesses
and other activities

Revenue primarily increased due to a full year of contribution from the US non-regulated businesses acquired with KeySpan, a £33 million increase in revenue from Grain LNG at £74 million in 2008/09 compared with a £26 million increase in 2007/08 due to movements in exchange rates. The increased revenue from Grain LNG is due to a full year contribution from phase I of the facility and three months contribution from phase II. These increased revenues were partially offset by a decrease of £49 million in revenue and other operating income in our property business. This resulted from a decrease in the level of property sales in 2008/09. The reduction in property sales reflects the significant decrease in property prices during 2008/09. Due to the current state of the property market, we do not anticipate continuing sales of our non operational sites that are surplus to our requirements in the near-term and believe that at present we can derive greater shareholder value by their retention.

Operating costs excluding exceptional items increased by £105 million in 2008/09 compared with 2007/08 primarily reflecting an increase resulting from a full year of contribution from the US non-regulated businesses acquired with KeySpan. In addition, Property and Grain LNG were £43 million and £24 million higher respectively. This was partially offset by a fall in metering costs.

Contributions to adjusted operating profit include: £133 million (2007/08: £104 million) from Metering; £1 million (2007/08: £93 million) from Property; £21 million (2007/08: £12 million) from Grain LNG; and a loss of £4 million (2007/08: loss £2 million) from US non-regulated businesses.

Exceptional items of £64 million in 2008/09 primarily relates to our property business that recognised a £24 million exceptional charge relating to significant changes to our environmental provision, and £40 million relating to restructuring charges incurred in the US non-regulated businesses and corporate activities. The environmental charge arose as a result of an increase in estimated site remediation costs following changes in landfill tax legislation in the UK and the significant reduction in the discount rate driven by a fall in the risk free rates in light of the current instability in the financial markets. The real discount rate used in the UK decreased from 2.5% in 2007/08 to 2.0% in 2008/09.

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 £m	Operating profit £m
2006/07 results	638	(506)	132
Add back exceptional items	–	1	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 businesses	49	(51)	(2)
Fulcrum and other activities	42	(52)	(10)
2007/08 adjusted results	709	(580)	129
Exceptional items	–	(57)	(57)
2007/08 results	709	(637)	72

Revenue and other operating income from non-regulated businesses and other activities 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 businesses 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 businesses 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.

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.

Discontinued operations

Ravenswood

\$2.9bn

Non-core businesses sold

Sold

Ravenswood sale proceeds

Programme of planned disposals of our material non-core businesses is complete

About discontinued operations

Principal operations

During 2008/09, our discontinued operations comprised the Ravenswood generation station that was sold on 26 August 2008, KeySpan Communications that was sold on 25 July 2008 and the KeySpan engineering companies, one of which was sold on 11 July 2008 with another two sold subsequent to the year end. The Ravenswood generation station was sold to TransCanada for \$2.9 billion (£1.6 billion).

During 2007/08, in addition to the above activities, discontinued operations 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.

Ravenswood

The Ravenswood generation station, a 2,480 MW facility in Queens in New York, is primarily fuelled by natural gas, and provides more than 20% of New York City's electricity supply. The sale of Ravenswood was a condition of the New York Public Service Commission order approving the acquisition of KeySpan by National Grid.

KeySpan Communications and KeySpan engineering companies

KeySpan Communications operated a fibre optic telecommunications network that extended 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 had access to transatlantic cable systems linking Long Island with Paris and London.

The KeySpan engineering companies provided engineering, design and consulting services for commercial, institutional and industrial customers and operated within the northeastern US.

Performance against our objectives

Becoming more efficient through transforming our operating model and increasingly aligning processes

Our programme of disposals of material non-core businesses enables us to focus our operations on electricity and gas infrastructure and related businesses in the UK and the US.

Financial performance

The operating results for discontinued operations for the years ended 31 March 2009, 2008 and 2007 were as follows:

	Years ended 31 March		
	2009	2008	2007
	£m	£m	£m
Discontinued operations			
Revenue	97	201	383
Operating costs excluding exceptional items and remeasurements	(84)	(166)	(266)
Adjusted operating profit	13	35	117
Exceptional items and remeasurements	–	–	(55)
Operating profit	13	35	62
Net finance income before remeasurements	–	–	(2)
Remeasurement finance income	–	8	37
Profit before tax	13	43	97
Taxation	(4)	(7)	(11)
Profit after tax	9	36	86
Gains on disposal of operations	27	1,586	–
Taxation on gains	(11)	(4)	–
Total profit for the year	25	1,618	86

In 2008/09, revenue, operating costs and operating profit decreased compared with 2007/08 primarily due to a five month contribution of Basslink in 2007/08 prior to its disposal on 31 August 2008. The £27 million pre-tax gain on disposal of operations primarily related to our sale of the Ravenswood generation station.

In 2007/08, revenue, operating costs and operating profit decreased compared with 2006/07 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 the KeySpan engineering companies from 24 August 2007 onwards. The pre-tax exceptional gain on disposal of operations includes £1,506 million from our UK and US wireless disposals and an £80 million gain on disposal of Basslink.

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. More details of our liquidity position are provided under the heading Liquidity and treasury management on page 80 and in note 33(c) to the consolidated financial statements.

Financial position

Balance sheet

Our balance sheet at 31 March 2009 can be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment and non-current intangible assets	29,915	–	29,915
Goodwill and non-current investments	5,752	–	5,752
Current assets and liabilities	3,228	(3,466)	(238)
Other non-current assets and liabilities	106	(3,543)	(3,437)
Post-retirement obligations	269	(3,080)	(2,811)
Deferred tax	137	(2,661)	(2,524)
Total before net debt	39,407	(12,750)	26,657
Net debt	5,060	(27,733)	(22,673)
Total as at 31 March 2009	44,467	(40,483)	3,984
Total as at 31 March 2008	37,771	(32,397)	5,374

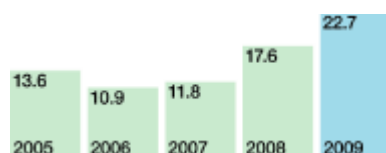
The decrease in net assets from £5,374 million at 31 March 2008 to £3,984 million at 31 March 2009 resulted from the profit for the year of £947 million, losses recognised directly in equity of £913 million, dividends payable of £838 million, movements in treasury shares of £597 million, and other items totalling £11 million.

Net debt

Net debt increased by £5,032 million from £17,641 million at 31 March 2008 to £22,673 million at 31 March 2009. Cash flow from operations (net of tax) of £3.4 billion and disposal proceeds (net of tax) from the sale of Ravenswood and KeySpan Communications of £1.0 billion provided £4.4 billion of funds, offset by capital expenditure of £3.3 billion, payment of dividends of £0.8 billion, share repurchases of £0.6 billion and interest paid of £1.1 billion, resulting in a net cash outflow of £1.4 billion. In addition, the impact of the movement in the US dollar exchange rate on our dollar denominated debt and other fair value movements, increased net debt by a further £3.6 billion.

Net debt at 31 March

£bn



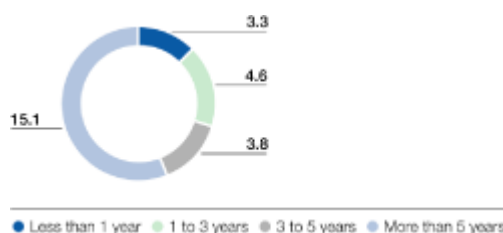
At 31 March 2009, net debt comprised borrowings of £26,793 million (2008: £21,003 million) including bank overdrafts of £17 million (2008: £10 million), less cash and cash equivalents

of £737 million (2008: £174 million), financial investments of £2,197 million (2008: £2,095 million) and derivative financial instruments with a net carrying value of £1,186 million (2008: £1,093 million).

The maturity of borrowings is provided in note 21 to the consolidated financial statements. At 31 March 2009 it can be summarised as follows:

Maturity of borrowings at 31 March 2009

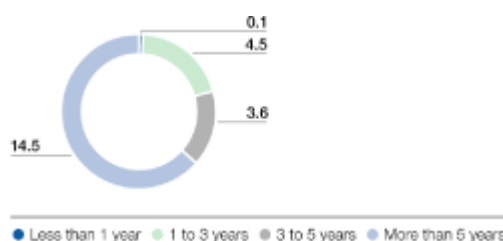
£bn



The maturity of net debt (defined as borrowings plus derivative financial liabilities, less cash and cash equivalents, financial investments and derivative financial assets) can be summarised as follows:

Maturity of net debt at 31 March 2009

£bn



Capital structure

The principal measure of our balance sheet efficiency is our interest cover ratio as described under Financial discipline on page 41. Our long-term target range for interest cover is between 3.0 and 3.5, which we believe is consistent with single A range long-term senior unsecured debt credit ratings within our main UK operating companies (National Grid Electricity Transmission plc and National Grid Gas plc), based on guidance from the rating agencies.

Interest cover for the year ended 31 March 2009 decreased to 3.1 from 3.2 for the year ended 31 March 2008. The decrease occurred primarily as a result of a full year's interest charge relating to the KeySpan acquisition debt partially offset by higher cash flows generated from continuing operations.

In addition, we monitor the regulatory asset value (RAV) gearing within each of National Grid Electricity Transmission plc (NGET plc) and the regulated transmission and distribution businesses within National Grid Gas plc (NGG plc). This is calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our UK regulated businesses. It is compared with the level of RAV gearing indicated by Ofgem as being

Financial position and financial management continued

appropriate for these businesses, at around 60%. The table below shows the RAV gearing for NGET plc and for the regulated transmission and distribution businesses within NGG plc as at 31 March 2009 (estimated) and 31 March 2008 (actual). To calculate RAV gearing for the regulated transmission and distribution businesses within NGG plc, we exclude an element of debt that is associated with funding the metering business within NGG plc.

	2009 %	2008 %
RAV gearing		
Regulated transmission and distribution businesses within National Grid Gas plc	60	55
National Grid Electricity Transmission plc	58	52

Some of our regulatory agreements impose lower limits for either the long-term credit ratings that certain companies within the group must hold or the amount of equity within their capital structures. These requirements are monitored on a regular basis in order to ensure compliance.

Gearing at 31 March 2009 and 31 March 2008, calculated as net debt expressed as a percentage of net debt plus net assets shown in the balance sheet, amounted to 85% and 77% respectively. We do not consider that this 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.

Liquidity and treasury management

Treasury policy

Funding and treasury risk management for National Grid is carried out by the Treasury function under policies and guidelines approved by the Finance Committee of the Board. The Finance Committee (for further details see page 94) has authority delegated from the Board, and is responsible for the regular review and monitoring of treasury activity and for the approval of specific transactions, the authority for which may be further delegated.

The primary objective of the Treasury function is to manage the funding and liquidity requirements of National Grid. A secondary objective is to manage the associated financial risks (in the form of interest rate risk and foreign exchange risk) to within acceptable boundaries. Further details of the management of funding and liquidity and the main risks arising from our financing activities are set out below, as are the policies for managing these risks including the use of financial derivatives, which are agreed and reviewed by the Board and the Finance Committee.

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.

Contracts and derivatives entered into in respect of gas and electricity commodities are used in support of the businesses' operational requirements and the policy regarding their use is explained on page 84.

Current condition of the financial markets

During 2008/09 there has been a deterioration in the world economic situation. In particular, we have seen a crisis in the banking system, the failure or near failure of individual banks and increased restrictions on lending across the capital and money markets. This has been accompanied by a significant widening in

credit spreads. However, with our low risk business model and cash flows that are largely stable over a period of years, we have been able to continue to access the markets and during 2008/09 have issued £4.9 billion of long-term debt. In addition, we have issued £2.9 billion of commercial paper and drawn down £943 million of uncommitted bank lines for short-term liquidity purposes, with £871 million of this still outstanding as at 31 March 2009, and remain confident of our ability to access the public debt markets going forward. Our effective interest rate has decreased from around 6.3% in 2007/08 to around 5.7% in 2008/09.

Cash flow and cash flow forecasting

Cash flows from our operations are largely stable over a period of years. Our electricity and gas transmission and distribution operations in the UK and US are subject to multi-year rate agreements with regulators. In the UK we have largely stable annual operating cash flows. However, in the US our operating cash flows are dependent on the price of gas and electricity and the timing of customer payments, and the regulatory mechanisms for recovering costs from customers can result in very significant cash flow swings from year to year. Significant changes in volumes in the US, 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.

Our capital investment programme is financed through a combination of internal cash flows and borrowings. During the year we incurred £3.2 billion of expenditure on capital investment, with a similar level of investment planned each year until 2012.

Our reported cash flows arising in the US are exposed to movements in the US dollar exchange rate, although our foreign exchange risk management policy aims to limit this exposure. Further detail is provided under the foreign exchange risk management section on page 82.

Both short- and long-term cash flow forecasts are produced regularly to assist the Treasury function in identifying short-term liquidity and long-term funding requirements, and we are undertaking a project to enhance our cash flow forecasting processes. Cash flow forecasts, supplemented by a financial headroom analysis, are supplied to the Finance Committee of the Board regularly to assess funding adequacy for at least a 12 month period.

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 make dividend payments, lend cash or levy charges between certain subsidiary companies. Our assessment of National Grid's liquidity takes into account these restrictions.

Funding and liquidity management

We maintain a number of medium-term note and commercial paper programmes in both the UK and the US companies to facilitate long- and short-term debt issuance into the capital and money markets. National Grid plc also has an SEC-registered debt shelf in place to facilitate long-term debt issuance specifically into the US capital markets. The table below shows the programmes that we had as at 31 March 2009, together with the level of utilisation of each:

£44.5bn

£4.0bn

£22.7bn

3.1x

Total assets	Net assets	Net debt	Interest cover
--------------	------------	----------	----------------

Programme	Amount	Status
National Grid plc		
US commercial paper programme	\$3.0 billion	Unutilised
US SEC-registered debt shelf	Unlimited	\$1.0 billion issued
Euro commercial paper programme	\$1.5 billion	£743 million (equivalent) issued
National Grid Electricity Transmission plc		
US commercial paper programme	\$1.0 billion	Unutilised
Euro commercial paper programme	\$1.0 billion	€30 million issued
National Grid plc and National Grid Electricity Transmission plc		
Euro medium-term note programme	€15.0 billion	€9.3 billion issued
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	€6.1 billion issued
National Grid USA		
US commercial paper programme	\$2.0 billion	Unutilised
Euro medium-term note programme	€4.0 billion	€0.1 billion issued
KeySpan Corporation		
US commercial paper programme	\$1.5 billion	Unutilised

In addition, we have both committed and uncommitted bank borrowing facilities that are available for general corporate purposes to support our liquidity requirements. The vast majority of our committed borrowing facilities are used to provide back up to our commercial paper programmes. To date these have never been drawn and there is currently no intention to draw them in the future.

During the year, the \$1.5 billion short-term committed facility within National Grid plc expired and was renewed at a reduced level and now stands at \$850 million. This was due to a number of reasons, including the economic situation affecting the banking industry, the merger of some banks within our relationship group, and the desire of certain banks to rebalance their commitments to us away from undrawn committed lines of credit in favour of drawn loans.

At 31 March 2009, we had the following undrawn committed and uncommitted facilities, providing liquidity support to the group.

Facility	Amount
National Grid plc	
Short-term committed facilities	\$850 million
National Grid Gas plc	
Long-term committed facilities	£755 million
National Grid Electricity Transmission plc	
Long-term committed facilities	£425 million
National Grid's US subsidiaries	
Committed facilities	\$1,730 million
National Grid plc and certain subsidiaries	
Uncommitted borrowing facilities	£528 million

The short-term committed facilities within National Grid plc include an option to extend these facilities for a further 364 days.

Note 35 to the consolidated financial statements shows the maturity

To facilitate debt issuance into the capital and money markets, many of the companies within National Grid maintain credit ratings. At 31 March 2009, 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 Ltd	A3	A*	A
National Grid USA	A3/P2	BBB+/A2	–
Niagara Mohawk Power Corp.	A3	A-/A2	–
Massachusetts Electric Co.	A3/P2	A-/A2	–
New England Power Co.	A3/P2	A-/A2	–
The Narragansett Electric Co.	A3^	A-/A2	–
KeySpan Corporation	Baa1/P2	A-/A2	A-
The Brooklyn Union Gas Company	–	A	A+
KeySpan Gas East Corporation	A3	A	A
Boston Gas Company	Baa1	A-	–
Colonial Gas Company	A3	A*	–
National Grid Generation LLC	Baa1^	A*	–

* Corporate credit rating

^ Issuer rating

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 which we expect to be resolved during the summer of 2009.

We invest surplus funds on the money markets, usually in the form of short-term fixed deposits and placements with money market funds that are invested in highly liquid instruments of high credit quality. Investment of surplus funds is subject to our counterparty risk management policy, and we continue to believe that our cash management and counterparty risk management policies provide appropriate liquidity and credit risk management in light of the current crisis in the financial markets. Details relating to cash, short-term investments and other financial assets at 31 March 2009 are shown in notes 15 and 20 to the consolidated financial statements.

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.

Use of derivative financial instruments

As part of our business operations, including our treasury activities, we are exposed to risks arising from fluctuations in interest rates and exchange rates. We use financial instruments, including derivative financial instruments, to manage exposures of this type. Our policy is not to use derivative financial instruments for trading purposes. Derivative positions are managed in a non speculative manner, such that all transactions in derivative financial instruments are matched to an underlying current or anticipated business requirement.

More details on derivative financial instruments are provided in note 17 to the consolidated financial statements.

profile of undrawn committed borrowing facilities in sterling at 31 March 2009.

Financial position and financial management continued

Refinancing risk management

The Board controls refinancing risk mainly by limiting the amount of debt maturities (both principal and interest) arising on borrowings in any financial year.

Note 21 to the consolidated financial statements sets out the contractual maturities of our borrowings over the next 5 years together with the total contracted borrowings, which mature over a period of 50 years. This shows that, at 31 March 2009, we have £3.3 billion of debt (including £1.8 billion of bonds, pre-derivatives) maturing in 2009/10, and no more than £2.6 billion of debt maturing in each of the next four financial years. We expect to be able to refinance this debt through the capital and money markets, as we have done during the year to 31 March 2009.

Interest rate risk management

Our interest rate exposure arising from borrowings and deposits is managed by the use of fixed-rate and floating-rate debt and derivative financial instruments, including 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 an extreme movement in interest rates, neither the interest cost nor the total financing cost is expected to exceed pre-set limits with a high degree of certainty.

Within these constraints, we actively manage our interest rate risk, with over 50% of our debt exposed to floating or index-linked interest rates in the longer term. In 2009/10 we expect our financing costs to benefit from lower inflation and interest rates, some of which have already been locked in using short-term interest rate derivatives.

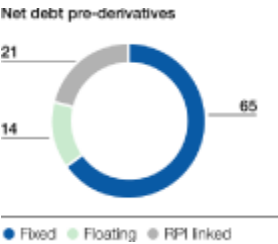
Some of the bonds in issue from NGET plc and NGG plc are index-linked, that is their cost is linked to changes in the UK retail price index (RPI). We believe that these bonds provide a good hedge for revenues and our regulatory asset values that are also RPI linked under our price control formulae in the UK.

The performance of the Treasury function in interest rate risk management is measured by comparing the actual total financing costs of its debt portfolio with those of a passively-managed benchmark portfolio with a constant ratio of fixed-rate to floating-rate debt, to identify the impact of actively managing National Grid's interest rate risk. This is monitored regularly by the Finance Committee.

The chart below shows the interest rate profile of our net debt before derivatives.

Interest rate profile pre-derivatives at 31 March 2009

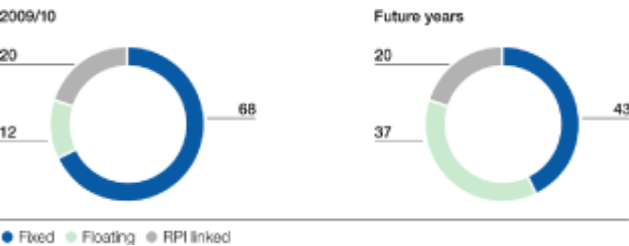
%



The following charts show the impact, as at 31 March 2009, of derivatives on our net debt for 2009/10 and for future years. The 2009/10 position reflects the use of derivatives, including forward rate agreements, to lock in interest rates in the short term. The future years' position excludes derivatives that mature within the next year.

Interest rate profile post-derivatives at 31 March 2009

%



More information on the interest rate profile of our debt is included in note 33 to the consolidated financial statements.

Foreign exchange risk management

The principal foreign exchange risk to which we are exposed is translation risk arising from assets and liabilities denominated in US dollars. In relation to these risks, our objective is to maintain the ratio of US dollar denominated financial liabilities to US dollar denominated gross assets between 85% and 95%, by using debt and foreign exchange derivatives, so as to provide an economic offset of our cash flows that arise in US dollars against the servicing of those liabilities. In addition, we maintain a small amount of euro denominated debt to provide a hedge against the translation risk arising from assets and liabilities denominated in euros relating to our BritNed investment.

We have a policy of managing our foreign exchange transaction risk by hedging contractually committed foreign exchange transactions occurring in currencies other than the US dollar over a prescribed minimum size. This covers a minimum of 75% of such transactions occurring in the next 6 months and a minimum of 50% of such transactions occurring between 6 and 12 months in the future. In addition, where foreign currency cash flow forecasts are uncertain and a judgement has to be made, our policy is to hedge a proportion of such cash flows based on the likelihood of them occurring, with the aim of hedging substantially all the cash flows without overhedging. Cover generally takes the form of forward sale or purchase of foreign currencies and must always relate to forecast underlying operational cash flows.

The result of this hedging activity is that National Grid's cash flow has limited exposure to foreign currencies.

In addition, we are exposed to currency movements on borrowings in currencies other than sterling and the US dollar, principally the euro. This currency exposure is managed through the use of cross-currency swaps so that, post-derivatives, the currency profile of our debt is almost entirely sterling/US dollar.

50 years

Longest maturity of our borrowings

58%

RAV gearing of NGET plc

60%

RAV gearing of the regulated transmission and distribution businesses within NGG plc

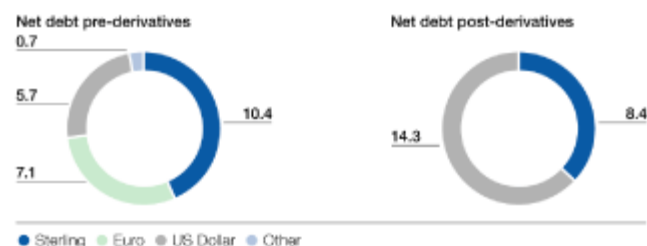
£4.9bn

New debt issuances

The currency compositions of net debt before and after derivatives is shown in the chart below. More details can be found in note 33 to the consolidated financial statements.

Currency profile at 31 March 2009

£bn



Counterparty risk management

Counterparty risk arises within Treasury from the investment of surplus funds and from the use of derivative instruments, and outside Treasury from commercial contracts entered into by the businesses, including commodity contracts. The Finance Committee has agreed a policy for managing such risk. This policy sets limits as to the exposure that National Grid can have with any one counterparty, based on that counterparty's credit rating from independent rating agencies. National Grid's exposure to individual counterparties is monitored on a frequent basis and counterparty limits are regularly updated for changes in credit ratings. Treasury is responsible for managing the policy. Where contracts are entered into outside Treasury, part of the relevant counterparty limit can be allocated to the business area involved. This ensures that National Grid's overall exposure is managed within the appropriate limit.

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. 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.

Further information on the management of counterparty risk is provided in note 33 to the consolidated financial statements.

Valuation and sensitivity analysis

We calculate the fair value of debt and derivative financial instruments by discounting all future cash flows by the market yield curve at the balance sheet date, and in the case of derivative financial instruments taking into account the credit quality of both parties. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates.

In the case of derivative instruments that include options (swaptions), the Black's variation of the Black-Scholes model is used to calculate fair value.

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.

	2008/09		2007/08	
	Income statement	Other equity reserves	Income statement	Other equity reserves
	£m	£m	£m	£m
UK retail price index $\pm 0.50\%$	17	—	16	—
UK interest rates $\pm 0.50\%$	67	77	46	57
US interest rates $\pm 0.50\%$	63	13	31	7
US dollar exchange rate $\pm 10\%$	55	880	38	590

Commodity contracts

We purchase electricity and gas in order to supply our customers in the US and also to meet our own energy requirements, primarily in the UK. We also enter into physical and financial derivative transactions to manage electricity and gas cost volatility on behalf of customers in the US. Substantially all our costs of purchasing electricity and gas for supply to customers are 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.

Our US operating companies participate in the physical and financial markets related only to those commodities for which we or our customers have a physical market requirement, and transact only within predefined risk parameters. These parameters are approved by the energy procurement risk management committee, which operates in accordance with authority delegated to it by the Finance Committee and Executive Committee of the Board.

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. We also purchase fuel for our vehicle fleets in the UK and the US.

In the US, we also had a management contract with Merrill Lynch Trading, under which we and Merrill Lynch Trading shared 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 allowed for both parties to employ derivative instruments to maximise the profitability of the portfolio of gas distribution assets. During the final year of the management contract, Bank of America announced a transaction to acquire Merrill Lynch. Upon that announcement, we decided to reduce our financial exposure significantly by recalling all the gas storage assets that were being managed by Merrill Lynch. Profits associated with these activities were shared between us, Merrill Lynch Trading and our customers in Massachusetts. This contract expired on 31 March 2009 and will be replaced by a similar contract with Conoco Phillips pending approval by the Massachusetts regulatory bodies.

In the US, we have a fuel management agreement with the Long Island Power Authority (LIPA), under which we are responsible for the procurement of gas and petroleum-based fuels for use at the Long Island power plants which we operate under contract with LIPA. We also sell gas produced by our West Virginia gas fields.

Financial position and financial management continued

In our UK gas transmission operation, we are obliged to offer for sale, through a series of auctions (both short- and long-term), 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 contracts, pursuant to the requirement to balance the electricity market in Great Britain through the operation of the British Electricity Trading and Transmission Arrangements (BETTA). The contracts 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 Great Britain System Operator role.

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.

Energy purchase contracts

The majority of our electricity contracts and certain of our gas contracts are entered into to meet our expected purchase, sale or 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 £3,645 million as at 31 March 2009 (2008: £2,061 million) of which £990 million is due within one year (2008: £794 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 own use exemption for accounting purposes and hence are accounted for as derivatives. Mark-to-market changes in the value of these contracts are reflected through earnings under the heading of commodity remeasurements. The fair value of these contracts includes contracts with a positive value of £35 million (2008: £43 million), recorded as assets in our balance sheet and contracts with a negative value of £155 million (2008: £89 million) recorded as liabilities.

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 £121 million liability at 31 March 2009 (2008: £47 million liability).

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 those related to our West Virginia gas fields that are designated as cash flow hedges.

In addition, we use NYMEX electricity and gas futures to reduce the cash flow variability associated with the purchase price for a portion of future electricity and gas purchases associated with certain of our electricity and gas distribution operations in the US. These had a negative fair value at 31 March 2009 of £59 million (2008: £19 million), but the liability on the balance sheet has been reduced by the amount of collateral paid to counterparties in respect of these contracts due to accounting netting requirements for such instruments.

We also utilise over-the-counter swaps and options to reduce the cash flow variability associated with the purchase price for a portion of future electricity and gas purchases associated with certain of our electricity and gas distribution operations in the US. These had a net negative fair value at 31 March 2009 of £190 million (2008: positive fair value of £39 million).

We also utilise over-the-counter gas swaps in the US to hedge the cash flow variability associated with forecasted sales of a portion of gas production from our West Virginia gas fields. At 31 March 2009, we had hedge positions in place for approximately 66% of our estimated 2009 gas production (2008: 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.

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.

	2008/09		2007/08	
	Income statement	Other equity reserves	Income statement	Other equity reserves
	£m	£m	£m	£m
10% increase in commodity prices	56	(1)	25	(1)
10% decrease in commodity prices	(72)	1	(22)	1

Baa1/BBB+

Moody's/S&P and Fitch senior unsecured credit ratings for National Grid plc

A3/A-/A

Moody's/S&P/Fitch senior unsecured credit ratings for NGG plc and NGET plc

A3/BBB+

Moody's/S&P senior unsecured credit ratings for National Grid USA

Baa1/A-/A-

Moody's/S&P/Fitch senior unsecured credit ratings for KeySpan Corporation

Commitments and contingencies

Commitments and contingencies outstanding at 31 March 2009 and 2008 are summarised in the table below:

	2009 £m	2008 £m
Future capital expenditure contracted but not provided for	1,493	1,097
Total operating lease commitments	946	737
Power commitments	3,645	2,061
Other commitments, contingencies and guarantees	1,666	1,387

Information regarding obligations under pension and other post-retirement benefits is given on page 86 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 above.

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.

Contractual obligations at 31 March 2009

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 2009 comprise commodity contracts carried at fair value and other creditors that represent contractual obligations falling due after more than one year.

Interest on borrowings is calculated based on borrowings at 31 March 2009 and does not reflect future debt issues. Floating-rate interest has been estimated using future interest rate curves at 31 March 2009.

	Less than 1 year £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m
Financial liabilities					
Borrowings	2,839	4,406	3,777	15,279	26,301
Interest payments on borrowings	1,031	1,885	1,578	7,878	12,372
Finance lease liabilities	46	110	38	124	318
Other non-interest bearing liabilities	2,303	396	—	—	2,699
Derivatives payments	598	2,477	975	1,179	5,229
Derivatives receipts	(1,057)	(2,795)	(490)	(1,184)	(5,526)
Commodity contracts	601	486	87	127	1,301
Other contractual obligations					
Capital commitments	1,167	287	33	6	1,493
Operating leases	82	152	163	549	946
Energy commitments	990	1,436	791	428	3,645
Total at 31 March 2009	8,600	8,840	6,952	24,386	48,778

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 2009

We were not party to litigation that we considered to be material as at 31 March 2009.

Metering competition investigation

In February 2008 the Gas and Electricity Markets Authority (GEMA) issued a decision to fine us £41.6 million for a breach of the UK Competition Act 1998 in respect of term contracts with gas suppliers entered into by our UK metering services business in 2004. We subsequently appealed this decision to the Competition Appeal Tribunal (the Tribunal). On 29 April 2009, the Tribunal overturned the decision in part and reduced the fine to £30 million but also upheld the original decision in part. We continue to review the Tribunal's ruling and are considering our legal position, including potential grounds for appeal.

Gas Distribution mains replacement investigation

In October 2008, we informed Ofgem that our mains replacement activity carried out within the UK's West Midlands Alliance partnership may have been misreported. National Grid and Ofgem have jointly appointed Ernst & Young to carry out a full investigation to determine the extent of the issue. At present it is too early to determine the likely outcome of the investigation and any potential consequences.

KeySpan Department of Justice investigation

As previously reported, 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 investigative 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. The investigation is ongoing and we continue to cooperate fully.

Related party transactions

We provide services to and receive services from related parties, principally joint ventures. In the year ended 31 March 2009, we charged £4 million and received charges of £44 million from related parties (other than Directors) compared with £3 million and £33 million in 2007/08 and £4 million and £26 million in 2006/07 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 102 to 112.

Financial position and financial management continued

Retirement arrangements

We operate pension arrangements on behalf of our employees in both the UK and the US and also provide post-retirement 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 section 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 benefits.

We also provide post-retirement benefits other than pensions to the majority of employees in the US. Benefits include healthcare 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 post-retirement obligations recorded in the consolidated financial statements:

Net plan asset/(liability)	UK £m	US £m	Total £m
As at 1 April 2008	415	(1,315)	(900)
Exchange movements	–	(549)	(549)
Pension service cost	(64)	(104)	(168)
Expected return less interest	25	(39)	(14)
Curtailments, settlements and other	(13)	(41)	(54)
Actuarial gains/(losses)			
– on plan assets	(2,477)	(1,475)	(3,952)
– on plan liabilities	1,472	462	1,934
Employer contributions	488	404	892
As at 31 March 2009	(154)	(2,657)	(2,811)
Plan assets	12,185	3,334	15,519
Plan liabilities	(12,339)	(5,991)	(18,330)
Net plan liability	(154)	(2,657)	(2,811)

Movement in net pension and other post-retirement obligations £m



The amounts recorded in the balance sheet are based on accounting standards which require pension obligations to be calculated on a different basis from that used by the actuaries to determine the funding we need to make into each arrangement.

The principal movements in net pension obligations during the year arose as a consequence of actuarial losses on plan assets, partly offset by actuarial gains on plan liabilities principally as a consequence of using higher real discount rates to calculate the

Actuarial position

The last completed full actuarial valuation of the National Grid UK Pension Scheme was as at 31 March 2007. This concluded that the pre-tax funding deficit was £442 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 32.6% of pensionable payroll.

The last completed full actuarial valuation of the 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 Company made deficit contributions of £295 million during 2008/09 and £59 million in April 2009 along with payments made in the previous year to ensure that the deficit reported at the 2007 valuation is paid in full; and
- National Grid Electricity Supply Pension Scheme: the Company made deficit contributions of £90 million during 2008/09 and £90 million in April 2009. The remaining deficit contributions will be payable monthly from April 2012 to March 2017.

The next valuations of these schemes are due as at 31 March 2010.

In accordance with our funding policy for US pension and other post-retirement benefit plans we expect to contribute approximately £445 million to these plans during 2009/10.

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 2009, plan assets totalled £15,519 million (2008: £17,273 million).

present value of these obligations.

Accounting policies

Basis of accounting

The consolidated financial statements present our results for the years ended 31 March 2009, 2008 and 2007 and our financial position as at 31 March 2009 and 2008. 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.

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 transition

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.

Cumulative translation differences

We chose to measure and present cumulative translation differences arising since 1 April 2004 only.

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 separately 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 reviews

Goodwill impairment reviews are carried out annually in the final quarter of the financial year.

Financial 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 accounts

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.

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 2009 and the external and regulatory environments in which we operate. Our business segments are Transmission UK, Transmission US, Gas Distribution UK, Gas Distribution US and Electricity Distribution & Generation US, with our non-regulated 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, sold on 26 August 2008, KeySpan Communications, sold on 25 July 2008 and our KeySpan engineering companies, one of which was sold on 11 July 2008. Subsequent to the year end two further engineering companies were sold.

Discontinued results in prior years also include the results of 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.

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 known.

Accounting policies continued

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 on pages 116 to 123.

Our critical accounting policies and accounting treatments are considered to be:

Estimated economic lives of property, plant and equipment

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 2008/09 for continuing operations amounted to £1,058 million and £69 million respectively (2007/08: £940 million and £54 million, 2006/07: £830 million and £41 million).

Carrying value of assets and potential for impairments

The carrying value of assets recorded in the consolidated balance sheet could be materially reduced if an impairment were to be assessed as being required. Our total assets at 31 March 2009 were £44,467 million, including £29,545 million of property, plant and equipment, £5,391 million of goodwill and £370 million of other intangible assets (31 March 2008: £37,771 million including £24,331 million, £3,904 million and £271 million 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 sheet.

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 flows.

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.

Unbilled revenues at 31 March 2009 are estimated at £522 million in the US and £315 million in the UK compared with £511 million and £243 million respectively at 31 March 2008.

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-retirement obligations

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 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 the KeySpan engineering companies in the US were considered operations that met the criteria to be classified as assets held for sale.

At 31 March 2007, our wireless infrastructure operations in the UK and the US and our interconnector in Australia were classified as assets held for sale.

The results of these operations have been classified as discontinued operations for all years presented.

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, the amount of depreciation and the classification of results as discontinued operations.

Exceptional items, remeasurements and stranded cost recoveries

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 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 significant. The costs and timing of cash flows relating to these liabilities are based on management estimates supported by external consultants.

At 31 March 2009, provisions totalled £1,699 million (2008: £1,397 million), including £1,104 million and £108 million (2008: £837 million and £87 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.

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 are not recognised in the financial statements.

If these commitments were deemed not to meet the exemption under IAS 39 they would have to be carried in the balance sheet at fair value as derivative instruments, with movements in their fair value shown in the income statement under remeasurements.

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 £35 million (pre-tax) and our annual amortisation charge on intangible assets by £7 million (pre-tax).

Revenue accruals

A 10% change in our estimate of unbilled revenues at 31 March 2009 would result in an increase or decrease in our recorded net assets and profit for the year by approximately £54 million net of tax.

Assets carried at fair value

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 £119 million and £(31) million respectively.

Hedge accounting

If using our derivative financial instruments, hedge accounting had not been achieved during the year ended 31 March 2009 then the profit for the year would have been £1,481 million lower than that reported net of tax, and net assets would have been £300 million lower.

Pensions and other post-retirement obligations

Our pension and post-retirement obligations 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 £233 million, £116 million and £541 million and a change in the annual pension cost of £4 million, £5 million and £5 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 our provisions of approximately £170 million.

Accounting developments

Accounting standards and interpretations adopted in 2008/09

In preparing our consolidated financial statements, we have complied with International Financial Reporting Standards, International Accounting Standards and interpretations applicable for 2008/09. The following amendments to standards and interpretations were adopted during 2008/09, none of which resulted in a material change to our consolidated results, assets or liabilities in 2008/09 or in those of previous periods:

Amendments to standards

An amendment to IAS 39 that permits reclassification of financial assets in certain circumstances.

New interpretations

IFRIC 12 and IFRIC 14 contain guidance on accounting for service concession arrangements and pension assets and minimum funding.

Accounting developments

New accounting standards and interpretations which have been issued but not yet adopted by National Grid are discussed in the financial statements on pages 124 and 125.

Corporate Governance

Chairman's foreword

At this time of global economic turbulence there are many questions being rightfully raised about the governance and effectiveness of boards. Good corporate governance, using the Combined Code as a guide to the components of good practice, is an integral part of the Company's drive to deliver unparalleled safety, reliability and efficiency vital to the well-being of our customers and communities. Delivering sustainable value depends on the trust and confidence of all our stakeholders, and this can only be earned by conducting our business responsibly. Good governance practices develop over time and we aim to be at the forefront of best practice in order to deliver the Company's vision and, by doing so, promote the success of the business for the benefit of shareholders.

While I, with assistance from the Company Secretary & General Counsel, lead the governance process, it is a matter which is reserved to the whole Board for consideration and I believe that the Board considers such matters in an holistic manner rather than as a separate compliance exercise. By doing so, I believe that the Board and the Company are well placed to face the challenges arising from this current economic environment.

Again this year, we have carried out an in depth review of the Board's effectiveness and have produced, as we have done for several years, an action plan to ensure constant improvement. However, an overriding acid test question for a Chairman to answer is – does the Board have the breadth of skills and experience to address and challenge adequately the key business decisions and risks that confront it? Related questions include: do the Non-executive Directors attend sufficient meetings and spend sufficient time overall on Company issues to fully understand the business and the risks it faces? Would each Non-executive Director be regarded as capable of challenging management and influencing outturns either in the Board or in its Committees? Would the Non-executive Directors as a body be capable of overturning proposals from the management which they did not consider were in the interests of shareholders or where they consider that the inherent risks were in excess of those assessed by management?

These questions have concerned us in our Nominations Committee over the past years as we have carefully recruited Non-executive and Executive Directors to build the Board we have today. I therefore believe we not only have the Board focused on good governance but we have the right Board composition and that the Board works effectively, allowing us to respond to the challenges of these difficult times.

Sir John Parker
Chairman

Governance framework

The Company is committed to operating our businesses in a sustainable and responsible manner. Our corporate governance framework forms an integral part of this approach in order to safeguard shareholder value. Our Company wide policies and procedures including risk management, which are referred to later in this report, are considered as part of the overall governance of the business; however, this report focuses on the Company's approach to corporate governance as provided in the Combined Code on Corporate Governance as revised in 2006, (the Code), applicable to UK listed companies. The Company also has regard to, and regularly reviews, developing corporate governance best practice including matters contained in the various investor guidelines.

The Board considers that it complied in full with the Code during the year.

During the year, the Board has reviewed its role and matters reserved for its consideration as part of a review of the Delegations of Authority. The Board's role includes: approval of the overall business strategy for National Grid; approval of the business plan and budget; approval of the financial policy; approval of acquisitions or divestments; oversight of governance including Policy and Procedure statements, Codes of Conduct, Delegations of Authority, the 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 16 and 17 together with details of Board Committee memberships. Attendance at Board meetings was as indicated from a total of 10 meetings held during the year (the March 2009 meeting being held on 1 April):

Name	Attendance*
Chairman	
Sir John Parker	10 of 10
Chief Executive	
Steve Holliday	10 of 10
Executive Directors	
Bob Catell (Deputy Chairman)	10 of 10
Steve Lucas	10 of 10
Nick Winsor	10 of 10
Tom King	10 of 10
Mark Fairbairn	10 of 10
Edward Astle (to 30 April 2008)	1 of 1
Non-executive Directors	
Ken Harvey (Senior Independent Director)	10 of 10
Linda Adamany	10 of 10
John Allan	8 of 10
Stephen Pettit	10 of 10
Maria Richter	10 of 10
George Rose	7 of 10
Philip Aiken	8 of 8

* 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 in order to ensure they are kept up to date with business and accordingly can contribute to meetings. Directors are informed of proposed meeting dates in advance in order to diarise these. Acknowledging that Non-executive Directors in particular will have other commitments, if they are unable to attend meetings, the Chairman is informed and the reasons recorded. Instances of non attendance during the year were considered and determined as being reasonable in each case due to the individual circumstances. Attendance at meetings is considered as part of the one-to-one Director performance evaluations conducted by the Chairman.

Directors are sent papers for meetings of the Board and those Committees of which they are a member. Should any Directors be unable to attend a meeting, they are encouraged to communicate their views and comments on the matters to be considered via the relevant Committee chairman or the Chairman of the Board.

In addition to the performance evaluation described on page 92, shareholders have the opportunity to consider formally the appointment and performance of each Director by voting in relation to their re-election as a Director. In accordance with the Articles of Association, Directors submit themselves for re-election by shareholders at the first Annual General Meeting (AGM) following their initial appointment to the Board and then at subsequent AGMs at least once every three years. Further details regarding those Directors due for re-election at the 2009 AGM can be found in the Notice of 2009 AGM.

In order to ensure transparency regarding the terms of their appointment, the service contracts (Executive Directors) and letters of appointment (Non-executive Directors) of Board members are available to our 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 102 to 112. In preparation for changes introduced in the Companies Act in October 2008, the Board conducted a thorough review of potential conflicts of interest that each Director may have. Guidance on the law and developing best practice, taking into account that provided by the GC100 group of FTSE100 General Counsel and Company Secretaries, was provided to each Director together with a questionnaire for completion and subsequent verification by the Company Secretary & General Counsel. The Board considered the results of the questionnaire, and, where appropriate, approved the potential conflict (the conflicted Director not voting on the matter). Directors are reminded of their continuing obligations in relation to conflicts at each Board meeting.

Non-executive Director independence

In order for the Non-executive Directors to contribute fully to the unitary Board, and in particular to challenge the Executive Directors over strategic matters where appropriate, it is important that the Non-executive Directors bring experience, probity and independence to the Board. Accordingly, the independence of the Non-executive Directors is considered at least annually as part of the performance evaluation. 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 in its deliberations specifically took into consideration the Code and examples of indicators of potential non independence including length of service on the Board of greater than nine years. 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

In order to avoid the potential for apparent concentration of power in one individual, 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. He chairs the Board meetings including, for example, ensuring that the forward agendas are appropriate, that relevant business is brought to the Board for consideration in accordance with the Matters Reserved for the Board, the Delegations of Authority and the Board's strategic remit, and that each Director has the opportunity to consider the matters brought to the meeting and to contribute accordingly. 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 outside their contracted hours. The number and perceived responsibility of

other directorships are considered as part of the performance evaluation to satisfy the Board that Directors do not have excessive commitments that could potentially restrict their commitment as a Director of the Company.

The Chief Executive, as leader of the Company's executive team, retains responsibility for the leadership and day-to-day management of the Company and the execution of its strategy as approved by the Board. In addition to the other Executive Directors, key corporate executives report directly to the Chief Executive.

The Senior Independent Director is Ken Harvey. He was appointed to this role in 2004 and his responsibilities include leading the Non-executive Directors' annual consideration of the Chairman's performance and holding discussions with Non-executive Directors without management present. 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 for the ongoing development of Directors. Upon appointment to the Board, new Non-executive Directors receive a tailored induction programme including the provision of recent Board materials and presentations, visits to businesses, one-to-one meetings with Executive Directors and other senior management, and a directors' information pack to provide background reference information on the Company's businesses and operations including issues relating to corporate responsibility. Board meetings are regularly held at the Company's sites and additional site visits are organised in order for the Directors to develop their understanding of the business.

Particular ongoing development attention is given to current issues including, for example, the economic and regulatory environment, the Company's businesses and governance best practice, emerging developments and director effectiveness. This includes, for Non-executive Directors:

- informing them at each Board meeting of the latest training courses which may be of interest;
- attendance at key site visits;
- informing Directors of legal and corporate governance updates and best practice; and
- management presentations.

For Executive Directors, coaching and development programmes include:

- internal and external mentoring;
- attendance at external courses and business schools; and
- experience of other boardrooms through non-executive appointments.

Accordingly as part of their development and with the agreement of the Board; the Chief Executive, Steve Holliday, is a Non-executive Director of Marks and Spencer Group plc, Steve Lucas, Finance Director, is a Non-executive Director of Compass Group plc and Nick Winsor, Executive Director, Transmission, is a Non-executive Director of Kier Group plc. As part of her development, the Company Secretary & General Counsel is a Non-executive Director of Aga Rangemaster Group plc. The fees for these positions are retained by the Directors and the Company Secretary & General Counsel respectively. Details are on page 106.

Corporate Governance continued

The Company Secretariat is available to provide assistance and information on governance, corporate administration and legal matters to Directors as appropriate. Directors may also seek advice on such matters, or on other business related matters, directly from independent professional advisors should they so wish. This is in addition to the advice provided by independent advisors to the Board Committees. No requests for external professional advice were received during the year.

Performance evaluation

Directors are encouraged to challenge Board and Committee processes and procedures as part of the continual development of best practice. As part of this process, 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. The Board considers annually whether to use an external body to manage the performance evaluation process. It concluded this year that the approach used by the Company remained appropriate and robust.

Accordingly, the Chairman, assisted by the Company Secretary & General Counsel, led the evaluation process, which was 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. In addition, meetings were held between the Chairman and each Director. Regular attendees at specific Committee meetings were also asked to complete surveys in relation to the relevant Committee.

The Company Secretary & General Counsel collated the evaluation results and these were considered by the Board and each Committee. Comparison was made to the prior year's report as a result of which a number of actions had been implemented including: 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 each of the Committees separately review the matters highlighted by the evaluation and a formal response and action plan is produced as appropriate and approved by the Board.

Overall the results showed an improvement from the previous year indicating that the Directors considered that no major changes were required to Board and Committee processes and procedures. The Chairman's performance was reviewed and his leadership and performance were considered to have been of a high standard. Areas highlighted by the Board and Committees for consideration following the latest review included:

- to review the agendas to include, for example, inclusion and diversity issues and strategic business trends analysis;
- to consider further development of the use of video conferencing for Committee meetings; and
- to provide a brief overview (including career history) of each presenter to the Board.

In addition, the meeting held by the Non-executive Directors further suggested:

- receipt of Board and Committee papers normally five business days in advance of the meeting in order to enable more opportunity for discussions with Executive Directors prior to the meeting;
- arranging for potential successors to the Executive Directors to receive sufficient visibility by the Board; and
- holding an additional meeting annually for Non-executive Directors chaired by the Senior Independent Director with the Chairman and Chief Executive to attend by invitation.

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 plan;
- 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, interim management statements and the Annual Report and Accounts.

In addition to the Matters Reserved for the Board, a full description of which is available on our website at www.nationalgrid.com, certain items of strategic or governance importance 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 governance of the Company and its businesses, and any legal or new risk issues that the Board ought to be aware of.

In order to have the opportunity to discuss matters, for example relating to governance, independently of management, 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. Ad hoc meetings may be held as required. In order to operate effectively and to give appropriate attention and consideration, the Board has delegated authority to its Committees to carry out certain tasks as defined in, and regulated by, the Committees' terms of reference, which are available on our website at www.nationalgrid.com.

These Committees comprise the Audit, Executive, Finance, Nominations, Remuneration and Risk & Responsibility Committees. The Board is kept apprised by the Committee chairmen through the provision of a summary of the issues discussed and decisions taken by the Committee. Minutes of Committee meetings are circulated to other Directors once available.

The following sections explain the areas that each Board Committee has responsibility for and the areas that they covered during the year.

Audit Committee

Key functions of the Audit Committee, whose members are all independent Non-executive Directors, include: review of the effectiveness of the Company's financial reporting and internal controls; the procedures for the identification, assessment and reporting of risks; the appropriateness of the auditors in carrying out certain non-audit work; and the level of audit and non-audit fees payable to the auditors.

The Committee considers 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, to answer questions and to challenge them as appropriate.

Accordingly, others invited to attend meetings include the Chairman, Chief Executive, Finance Director, head of internal audit, financial controller, Company Secretary & General Counsel and external auditors. Additionally, the Executive Directors, director of tax and treasury and risk & compliance manager are invited to attend Audit Committee meetings, as necessary, to provide updates and background information.

Meetings are held at least four times a year and membership and attendance at meetings was as follows during 2008/09 from a total of six meetings:

Name	Attendance*
George Rose (chairman)	6 of 6
Linda Adamany	6 of 6
John Allan	1 of 1
Maria Richter	5 of 5
Philip Aiken	4 of 5

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

Due to the technical nature of some of the financial and accounting issues that come before it, all of the Committee's members are required to have an understanding of financial matters and experience of dealing with such 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 in accordance with the Combined Code and deems him to be a suitably qualified financial expert as required by the Audit Committee's terms of reference and US requirements.

In accordance with its terms of reference and business and accounting developments during the year, matters considered by the Committee included:

In respect of auditors:-

- the level and constitution of external audit and non-audit fees;
- the independence and objectivity of the external auditors;
- an evaluation of the external audit process globally including the expertise of the audit firm;
- monitoring and reviewing the effectiveness of internal audit activities including discussions with the head of internal audit without management present; and
- reviewing Financial Reporting Council Guidance on Audit Committees.

In respect of internal controls and risk management:-

- reviewing the effectiveness of the Company's financial reporting, internal controls and compliance with applicable legal requirements;
- monitoring risk and compliance management procedures across the Company and reviewing specific risks (details of such risks can be found on pages 97 to 99);
- receiving reports from the business separation compliance officer, as required under National Grid Gas plc's gas transporter licences; and
- receiving reports and technical updates including from the director of tax and treasury.

In respect of financial matters:-

- reviewing the Company's results statements, interim management statements and Annual Report and Accounts before publication and making appropriate recommendations to the Board following review;

- reviewing accounting policies in light of international accounting developments;
- receiving reports where appropriate in accordance with its terms of reference on business conduct issues, including any instances of alleged fraud and actions taken as a result of investigations; and
- receiving reports from the Company's cross functional steering group that has been established to ensure appropriate awareness of and actions in relation to risks arising from the current economic climate.

The Committee works closely with both the internal and external auditors. In relation to internal audit, it receives, reviews and approves 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.

In relation to the external auditors, the Committee is solely and directly responsible for and approves the appointment, reappointment, fees and oversight of the external auditors, subject to the requirement for shareholder approval each year at the AGM. The Committee receives the external audit plan so that the external auditors have the opportunity to raise any matters in confidence, and meetings are held with the Committee at least annually without management present.

In order to ensure the external auditors remain objective and independent, in accordance with best practice, all non-audit work carried out by the external auditors is subject to Audit Committee pre-approval. The engagement of the external auditors for non-audit services is restricted by the Sarbanes-Oxley Act which prohibits them from providing certain services. Where a service is permissible, the Company's policy is that the external auditors will not be used for non-statutory audit work unless it can be demonstrated as part of the approval process that the engagement is a natural extension of their audit work or there are other overriding reasons that make them the most suitably qualified to undertake it. The non-audit services related primarily to tax and audit-related work. Details of the fees paid to the external auditors for non-audit work carried out during the year can be found in note 3e to the accounts on page 134.

A review is carried out annually of the service provided by the external auditors and, if it is determined that the audit might be provided more efficiently or effectively by an alternative audit firm, the Company may put the audit out to tender. Following the latest review, the service was considered satisfactory and the auditors will be recommended for reappointment to shareholders at the AGM. No auditor liability agreement has been entered into by the Company.

Executive Committee

The Committee oversees the financial, operational and safety performance of the Company and implements 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. In addition, the global directors of human resources, strategy, corporate affairs and IS are regular attendees of meetings. Senior management personnel are invited to attend meetings of the Executive Committee as necessary to keep it fully apprised of the Company's businesses.

Corporate Governance continued

Executive Committee membership and attendance at meetings was as follows during 2008/09 from a total of 11 meetings:

Name	Attendance*
Steve Holliday (chairman)	11 of 11
Bob Catell	11 of 11
Mark Fairbairn	10 of 11
Steve Lucas	11 of 11
Tom King	11 of 11
Nick Winsor	11 of 11
Edward Astle (to 30 April 2008)	1 of 1
Helen Mahy, Company Secretary & General Counsel	11 of 11

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

Particular examples of matters that the Committee considered during the year included:

- the financial, operational and safety performance of the Company and its businesses;
- strategic business development and implementation including updates on the integration of the KeySpan businesses;
- approving capital and operational expenditure under the specific authorities delegated to it by the Board;
- global outsourcing;
- 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.

Finance Committee

The Finance Committee is responsible for setting policy and granting authority for short- 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 three Non-executive Directors, one of whom is chairman of the Committee, and the Chief Executive and Finance Director. The director of tax and treasury is invited to attend Committee meetings on a regular basis.

Membership and attendance at meetings was as follows during 2008/09 from a total of four meetings:

Name	Attendance*
Maria Richter (chairman)	4 of 4
Steve Holliday	3 of 4
Steve Lucas	4 of 4
Stephen Pettit	4 of 4
John Allan	2 of 4

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

Examples of matters that the Committee considered during the year included:

- long-term funding requirements including consideration of matters affecting the Company arising out of the global economic downturn;
- setting and reviewing treasury management guidelines and policy in light of market conditions;
- taxation issues for the Company;
- treasury performance updates;
- insurance updates; and
- pensions updates.

Nominations Committee

The Nominations Committee, consisting of the Chairman and Non-executive Directors, is responsible for considering the structure, size and composition of the Board and for identifying and proposing individuals to be Directors and senior management. A key consideration is succession planning for the Board and senior management and the Committee considered this in detail during the year. External recruitment consultants are generally used as part of any appointments process. Changes to the Board require Board approval following recommendation from the Committee.

The Nominations Committee membership and attendance at meetings was as follows during 2008/09 from a total of five meetings:

Name	Attendance*
Sir John Parker (chairman)	5 of 5
Ken Harvey	5 of 5
Maria Richter	5 of 5
George Rose	3 of 5

* 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 human resources director and external advice is sought as appropriate.

Matters that the Committee considered during the year included:

- the size of the Board, its structure and composition;
- changes to the composition of Board Committees;
- succession planning for Board members; and
- development and succession plans for senior management, as developed by the Chief Executive and global human resources director.

Remuneration Committee

The Remuneration Committee, consisting of Non-executive Directors, is responsible for developing executive remuneration policy, including the composition and balance between salary and short- and long-term incentives 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.

Further details of the policy on remuneration and details of individual remuneration are available in the Directors' Remuneration Report on pages 102 to 112.

The Remuneration Committee membership and attendance at meetings was as follows during 2008/09 from a total of six meetings:

Name	Attendance*
John Allan (chairman)	4 of 6
Ken Harvey	6 of 6
Stephen Pettit	6 of 6
George Rose	3 of 6

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

The global human resources director and global head of compensation & benefits provide advice on remuneration policies and practices in the markets in which the Company operates and

are usually invited to attend meetings, along with the Chairman and the Chief Executive. External independent advisors are also utilised by the Committee.

Risk & Responsibility Committee

The Risk & Responsibility Committee, consisting of Non-executive Directors plus Bob Catell, is responsible for reviewing the strategies, policies, targets and performance of the Company within its Framework for Responsible Business (a copy of which is available on the National Grid website). The Committee reviews the Company's risks for which it has oversight and in this regard the Committee interfaces with and works closely with the Audit Committee.

Accordingly it reviews matters such as: safety – including public and process safety; the environment; employee occupational health; inclusion and diversity; security and human rights issues; and business ethics and conduct.

The Risk & Responsibility Committee membership and attendance at meetings was as follows during 2008/09 from a total of four meetings:

Name	Attendance*
Stephen Pettit (chairman)	4 of 4
Linda Adamany	4 of 4
Philip Aiken	3 of 4
Ken Harvey	3 of 4
Bob Catell	4 of 4

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

The Chief Executive, Company Secretary & General Counsel, director of UK safety, health and environment & corporate security and 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; and
- considered reports and updates from external advisors.

Disclosure Committee

National Grid has established disclosure committees that are tasked with various duties relating to the material disclosures made to the market by the Company and relevant subsidiaries. The Disclosure Committee of the Company is chaired by the Finance Director and its members are the Company Secretary & General Counsel, director of tax and treasury, financial controller, director of investor relations, head of internal audit and 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 Finance Director in fulfilling their responsibility for oversight of the accuracy and timeliness of the disclosures made by the Company. Accordingly, during the year the Committee reviewed the process and controls over external disclosures and key documents before release including the Annual Report and Accounts, preliminary and half year results statements, interim management statements and other material stock exchange announcements and presentations to analysts.

Shareholders

In accordance with the Schedule of Matters Reserved for the Board and the Code, the Board has responsibility for ensuring effective communication takes place with all shareholders and it considers carefully all major announcements to the market. Relations with shareholders are managed mainly by the Chief Executive, Finance Director and 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 with 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 and notes from a number of analysts in the energy sector are also circulated regularly to Directors.

Smaller shareholder issues are considered by the Board, including annual updates at Board meetings on matters relevant to smaller shareholders and initiatives by the Company. For example, during the year the Company initiated a dividend reunification programme, tracing 190,000 current and past shareholders who had not cashed dividends, some dating back in excess of 12 years. Additionally a low cost share dealing service was offered by which shareholders could buy or sell shares cheaply. Meetings were held during the year by the Chairman and the Chief Executive with the UK Shareholders Association and Directors met retail shareholders at shareholder networking events, details of which can be found in the Shareholder information section on page 198.

Change of control provisions

As at 31 March 2009, the Company had borrowing facilities with a number of its banks in the amounts of US\$2.35 billion (undrawn) and £1.7 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 continued

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards

As the Company has a US listing, it is required to disclose differences in corporate governance practices adopted by the Company as a UK listed company, compared to those of a US company. 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;
- 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.

Risk management and internal control

In order to understand the risks and potential control issues facing the Company, the following sections as well as page 40 in the Operating and Financial Review should be considered. The system of internal control and, in particular our risk management policies, 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) in this matter and, in addition, contributes toward our compliance with our obligations under the Sarbanes-Oxley Act as well as other internal assurance activities.

The Board considers that a sound system of internal control contributes to safeguarding the Company's assets and reputation, and, as a result, the interests of our shareholders. Effective operational and financial controls, including the maintenance of qualitative financial records, are an important element of internal control.

In accordance with the Combined Code and the Schedule of Matters Reserved for the Board, the Board retains overall responsibility for the Company's system of internal control and monitoring its effectiveness. There is an established system of internal control throughout the Company and its businesses. This system depends on thorough and systematic processes for the identification and assessment of business-critical risks and their management and monitoring over time. In depth reports are provided from both line managers and certain internal assurance providers such as Internal Audit and Risk & Compliance.

These reports are provided to Board Committees in relation to their specific areas of responsibility. The Board's Committees then provide reports to the Board in this regard.

The Board reviews the internal control process and its effectiveness 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 2009 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 Committee and Risk & Responsibility Committee on the reviews undertaken by them at their respective Committee meetings; and
- assurances in relation to the Certifications required to be given under the US Sarbanes-Oxley Act, required as a result of the Company's New York Stock Exchange listing.

Internal control – information assurance

The Board considers that it is imperative to have accurate and reliable information within the Company to enable informed decisions to be taken that further the Company's objectives. This is supported by a risk-based approach that deals with information assurance as a business critical function. Key elements in managing information assurance 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 s404 of the Sarbanes-Oxley Act 2002. 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 2009.

Risk management

Identifying, evaluating 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. An output from this process is information that provides assurance to management and thus helps safeguard our assets and reputation.

The Company has embedded risk management into its business decision making process. Within the business the risk management process continues to be based on both bottom-up and top-down assessments of operational, including safety, 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. Executive Directors and other senior management are closely involved at critical stages in the review process. Their review, challenge, and debate of the outputs of the bottom-up assessment against their top-down views produce an overall evaluation of the risks that are faced by National Grid. The Executive Committee, the Risk & Responsibility Committee and the Audit Committee review the risk profile and any changes, and the Audit Committee reviews the overall risk management process.

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. The compliance management process was also subject to a detailed review by internal audit during the year; the outcome was satisfactory.

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 200.

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, a decoupling of energy usage and revenue and other decisions relating to the implications of energy change, remuneration for stranded assets, the level of permitted revenues and dividend distributions for our businesses and in relation to 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 developments sections and the business description sections for each of our lines of business.

Breaches of, or changes in, environmental or health and safety laws or regulations could expose us to increased costs, 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 byproducts. 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 are increasingly subject to regulation in relation to climate change. 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.

Corporate Governance continued

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 reputation.

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. 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, 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 will be achieved. This could impact our ability to enter into other transactions.

For further details concerning transactions that we have undertaken over the period, see the performance against our objectives section of the Operating and Financial Review on page 33.

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 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.

Fluctuations in exchange rates (in particular in the US dollar exchange rate), interest rates and commodity price indices could have a significant impact on our results of operations.

We have significant operations in the US and we are therefore subject to the risks normally associated with non-domestic 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 financial performance 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 and adverse changes and volatility in the global credit markets.

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 business is partly financed through debt and the maturity and repayment profile of debt used to finance investments often does not correlate to cash flows from our assets. Accordingly, we rely on access to short-term commercial paper and money markets and longer-term bank and capital markets as sources of finance. The global financial markets are currently experiencing extreme

volatility and disruption. A shortage of liquidity, lack of funding, pressure on capital and extreme price volatility across a wide range of asset classes are putting financial institutions under considerable pressure and, in certain cases, placing downward pressure on share prices and credit availability for companies. If we are not able to access capital at competitive rates, our ability to finance our operations and implement our strategy will be adversely affected.

Our results of operations could be affected by deflation. Our income under our price controls in the UK is linked to the retail price index. Therefore, if the UK economy suffers from a prolonged period of deflation, our revenues may decrease, which may not be offset by reductions in operating costs.

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. Changes in law and accounting standards could increase our effective rate of tax.

The accounting treatment under International Financial Reporting Standards (IFRS), as adopted by the European Union, of, among other things, replacement expenditure, rate regulated entities, pension and post-retirement benefits, derivative financial instruments and commodity contracts, significantly affect the way we report our financial position and results of operations. New or revised standards and interpretations may be issued, which could have a significant impact on the financial results and financial position that we report. 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.

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 business's 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.

Directors' Report

for the year ended 31 March 2009

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 to be included in the Directors' Report that are incorporated by reference into this report, are set out below.

Directors

The biographies of the persons serving as Directors as at the date of this report are set out on pages 16 and 17. The names of all persons serving as Directors during the financial year are included on page 112, 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 2009, are set out in the Directors' Remuneration Report on pages 102 to 112. Directors' and Officers' liability insurance cover is arranged and qualifying third party indemnities are in place for each Director.

Code of Ethics

In accordance with US legal 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, significant contracts, business and principal risks and uncertainties, environmental, employee and social and community issues are contained in the Operating and Financial Review, on pages 18 to 89, and the Corporate Governance section, on pages 90 to 99, which are incorporated by reference into this report.

Dividends

The Directors are recommending a final dividend of 23.00 pence per ordinary share (\$1.7437 per American Depositary Share) to be paid on 19 August 2009 to shareholders on the Register at 5 June 2009. An ordinary resolution will be proposed at the Annual General Meeting to allow for a scrip dividend to be available. A scrip dividend allows a dividend to be taken in shares rather than cash with no dealing costs or stamp duty payable. Further details in respect of dividend payments can be found on page 41.

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 \$180,000 (£116,959) during the year to affiliated New York State political action committees (PACs). National Grid USA's federal and state PACs gave \$156,975 (£101,998) to political committees in 2008/09. National Grid USA's affiliated federal PACs were funded wholly by voluntary employee contributions. National Grid USA's affiliated New York State PACs were funded partly by contributions from National Grid USA and partly by employee contributions.

Charitable donations

During 2008/09, approximately £10 million (2007/08: £9.2 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 £1.4 million (2007/08: £0.6 million). In addition to our charitable donations, financial support was provided for our affordable warmth programme, education programme, university research and our Young Offenders Programme.

Financial instruments

Details on the use of financial instruments and financial risk management are included on pages 81 to 84 and on page 87 in the Operating and Financial Review.

Contractual arrangements

Details concerning our rate plans and price controls, which we consider to be our primary contractual arrangements, can be found in the Operating and Financial Review under current and future developments sections on pages 23, 52, 60 and 68.

Post balance sheet events

On 29 April 2009, the Competition Appeal Tribunal announced its decision not to uphold in full Ofgem's 2008 decision in relation to Metering contracts. Further information is provided in the Operating and Financial Review on page 85.

Change of control provisions

The significant agreements that are affected upon a change of control of the Company as detailed on page 95 of the Corporate Governance section are included by reference into this report. No compensation would be paid for loss of office of Directors on a change of control of the Company.

Future developments

Details of future developments are contained in the Operating and Financial Review.

Research and development

Expenditure on research and development during the year was £10 million (2007/08: £13 million).

Share capital

At the Company's 2008 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 AGM.

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 announced with the half year results for 2008/09, we have completed the return of £1.8 billion and the US stranded asset post tax cash flows for 2008/09. During 2008/09, the Company purchased 85,457,497 shares representing 3.3% of the issued ordinary share capital at an aggregate consideration of £593,545,263. In total, as at the date of this report, 307,992,296 ordinary shares (representing approximately 11.9% of our issued ordinary share capital) had been repurchased since November 2006 for an aggregate consideration of £2,270 million. Of the shares repurchased as at 12 May 2009, 149,276,986 were held in treasury and 9,509,217 have been transferred to employees under the employee share plans.

Shares and ADRs purchased on behalf of the Company by the Employee Share Trusts (see notes 25 and 26 to the consolidated financial statements on pages 154 and 155 of the accounts) are used for employee share incentive plans.

The share capital of the Company 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

The Company employs over 27,500 people. Communication is a key theme both at a corporate and business level. The Company wide internet based publication National Grid One 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 2009; 91.8% 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. The employee share schemes, available to encourage the involvement of employees in the Company's performance, are explained further on page 104.

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 2009 for National Grid's principal operations in the UK was 13 days (18 days at 31 March 2008).

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 92 to 95. In order to update for Companies Act 2006 changes, special resolutions will be put to the 2009 Annual General Meeting to adopt the Articles of Association with effect from the AGM, and to adopt new Articles of Association effective from 1 October 2009.

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	5.46
Fidelity	3.06

No further notifications have been received.

Annual General Meeting

National Grid's 2009 AGM will be held on Monday 27 July 2009 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
13 May 2009

National Grid plc, 1-3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Directors' Remuneration Report

We are pleased to present the Directors' Remuneration Report for 2008/09. 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.

We have made no changes to our arrangements this year and firmly believe the changes we have made over the last few years continue to provide an appropriate and balanced opportunity for executives. Our incentive plans remain aligned with the Company's strategic objectives and our shareholders' interests, while continuing to motivate and engage the team leading the Company to achieve stretching targets.

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.

Overall, Company performance has been strong for the last year and therefore Annual Performance Plan (bonus plan) awards to the Executive Directors and their teams reflect that strong performance.

In recognition of the external economic market conditions, the Executive Directors have decided voluntarily they will forego salary increases in June 2009. It is anticipated their salaries will next be reviewed in 2010.

Edward Astle left National Grid on 30 April 2008, following the sale of parts of the non-regulated portfolio, including National Grid Wireless which was sold for a price that was significantly in excess of market expectations at that time. Details of Edward's leaving arrangements follow later in this report.

Bob Catell retired as an Executive Director on 31 March 2009 and became a Non-executive Director as well as being Deputy Chairman and Non-executive Chairman of National Grid USA, which will be effective until the conclusion of the Company's Annual General Meeting on 27 July 2009 when Bob will leave the Company. Bob will not receive any payments on leaving, other than with respect to his contractual pension rights and an Annual Performance Plan award reflecting the performance year 2008/09 (details of this award can be found on page 107).

John Allan

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 2009, the following advisors provided services to the Remuneration Committee:

- Deloitte LLP, independent remuneration advisors. It also provides 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. It also provides 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:

- 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/CorporateGovernance/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 years.

Executive Directors' remuneration

Remuneration packages for Executive Directors consist of the following elements:

- salary;
- Annual Performance Plan including the Deferred Share Plan;
- long-term incentive, the Performance Share Plan;
- all-employee share plans;
- pension contributions; and
- non-cash benefits.

Salary

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 UK-based 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 together with salary practices prevailing for other employees in the Company.

Annual Performance Plan including the Deferred Share Plan (DSP)

The Annual Performance Plan (bonus plan) is 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 43 for further details; consolidated cash flow and return on equity. The main divisional measures are operating profit and line of business returns targets. Financial targets represent 70% of the plan. Individual targets, representing 30% of the plan, 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 also 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 following table:

Level of performance achieved in 2008/09 as determined by the Remuneration Committee		
Financial measures	Company targets	Divisional targets
Adjusted EPS	Between target and stretch	
Consolidated cash flow	Stretch	
Return on equity	Between target and stretch	
Operating profit		Varied performance (i) (ii) (iii)
Line of business returns targets		Varied performance (iv) (v) (vi)

- (i) Electricity Distribution & Generation between threshold and target.
- (ii) Gas Distribution between target and stretch.
- (iii) Transmission at stretch.
- (iv) Electricity Distribution & Generation below threshold.
- (v) Gas Distribution between target and stretch.
- (vi) Transmission between target and stretch.

In 2008/09, the maximum opportunity under the Annual Performance Plan for Executive Directors was 150% of base salary, with 40% of the plan (60% of salary) being paid for target performance. One half of any award 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 plan year 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. We believe the forfeiture provision serves as a strong retention tool.

The Remuneration Committee believes that requiring Executive Directors to invest a substantial amount of their Annual Performance Plan award in National Grid shares increases the proportion of rewards linked to both short-term performance and longer-term total shareholder returns (TSR). This practice also ensures that Executive Directors share a significant level of personal risk with the Company's shareholders. Awards for UK-based Executive Directors are not pensionable but, in line with current US market practice, US-based Executive Directors' awards are pensionable.

Long-term incentive – Performance Share Plan (PSP)

Executive Directors and approximately 400 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. Typically awards of 200% of salary have been awarded to Executive Directors. 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.

Shares vest after three years, conditional upon the satisfaction of the relevant performance criteria. Vested shares must then be held

Directors' Remuneration Report continued

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, in cash or shares, equivalent 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 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 43 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 pro rated 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 measure and the EPS measure 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.

Vested 2005 PSP award

The upper targets for both the EPS and TSR performance criteria were reached for the 2005 award, which has resulted in

100% vesting. The shares from this award will be transferred to participants in July 2009, following the completion of the retention period. The Remuneration Committee agreed to pay a cash amount equivalent in value to the net dividends (after taxes, commissions and any other charges) that would be paid during the retention period in respect of the shares comprised in the vested award. These payments were made in August 2008 and February 2009, to align broadly with dividend payments to our shareholders.

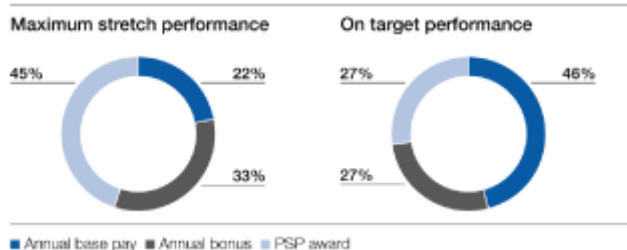
Recruitment Promise – Special Retention Award (SRA)

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 vests in equal tranches, over three years, on the anniversary of the award (November 2008 through to November 2010) subject to his continued employment. There are no performance conditions attached to this award. Details of the vested ADSs representing the first tranche of this award can be found on page 111.

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 Performance 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. All Executive Directors have the same proportion of fixed and variable remuneration in this respect.

Executive Directors' remuneration package 2008/09 UK & US



Note: Excludes Tom King's Special Retention Award.

All-employee share plans

- **Sharesave:** Employees resident in the UK, including UK-based 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 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 each 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, which are tax-advantaged

savings plans (commonly referred to as 401(k) plans). These are defined contribution pension plans that give participants the opportunity to invest up to applicable Federal salary limits ie a maximum of 50% of salary (pre-tax) limited to US\$15,500 for those under the age of 50 and US\$20,500 for those over 50 for calendar year 2008 and US\$16,500 and US\$22,000 respectively for 2009; and/or up to 15% of salary (post-tax) up to applicable limits (US\$230,000 for calendar year 2008 and US\$245,000 for 2009). 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. Legacy KeySpan employees who invest in National Grid shares do so with a 10% discount.

- **Employee Stock Purchase Plan (ESPP):** Employees of National Grid's US companies (including US-based Executive Directors) are eligible to participate in the ESPP (commonly referred to as a 423b plan). Eligible employees have the opportunity to purchase ADSs on a monthly basis at a 10% discounted price. Under the plan employees may contribute up to 20% of base pay each year up to a maximum annual contribution of US\$20,000 to purchase ADSs in National Grid. Any ADSs purchased through the ESPP may be sold at any time, however, there are tax advantages for ADSs held for at least two years from the offer date.

Pensions

Current UK-based Executive Directors are provided with final salary pension benefits. The pension provisions for the UK-based 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 death.

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 executive supplemental retirement 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, Annual Performance Plan awards and incentive share awards (DSP) but not share options or PSP awards. The normal retirement age under the qualified pension plan is 65. The executive supplemental retirement 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, 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. We have recently ceased the provision of fuel cards for senior employees to align with our climate change initiative. Buyout payments were made to any senior employees, including Executive Directors, who had previously chosen to retain a fuel card, details of these payments can be found in Table 1A on page 107.

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 107.

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 (when an Executive Director) were participants in such plans during the year.

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 after-tax 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 all-employee 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 3.77% and 5.62% respectively.

Executive Directors' service contracts

Service contracts for all Executive Directors provide for one year's notice by either party.

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 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.

Directors' Remuneration Report continued

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
Steve Lucas	13 June 2002	12 months
Nick Winser	28 April 2003	12 months
Mark Fairbairn	23 January 2007	12 months
Tom King	11 July 2007	12 months
Edward Astle (i)	27 July 2007	12 months
Bob Catell (ii)	26 October 2007	12 months

(i) Edward Astle left the Board on 30 April 2008.

(ii) Bob Catell ceased being an Executive Director on 31 March 2009. His employment agreement was terminated and replaced with a Non-executive Director contract for services and he will retire from the Board at the conclusion of the Company's AGM on 27 July 2009.

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 2009.

	Company	Retained fees (£)
Executive Directors		
Steve Holliday	Marks and Spencer Group plc	67,000
Steve Lucas	Compass Group PLC	82,500
Nick Winser (i)	Kier Group plc	3,400
Bob Catell (ii)	Keyera Energy Management Ltd (a), Sovereign Bancorp Inc Advisory Board (b) and JP Morgan Chase Inc Metropolitan Advisory Board (c)	56,374

(i) Reflects retained fees for the period 1 March 2009 to 31 March 2009 only.

(ii) The retained fees comprise the following: (a) £10,890, (b) £42,235 and (c) £3,249. The exchange rate used for (a) is Canadian\$1.9058:£1 and US\$1.539:£1 for (b) and (c).

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 any annual bonus plan or 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 of appointment ⁽ⁱ⁾	Date of next election
Non-executive Directors		
Sir John Parker	11 May 2009	2009 AGM
Ken Harvey	4 November 2004	2009 AGM
Linda Adamany	20 October 2006	2010 AGM
Philip Aiken (ii)	14 May 2008	2011 AGM
John Allan	27 April 2005	2011 AGM
Stephen Pettit	22 November 2004	2009 AGM
Maria Richter	25 June 2007	2010 AGM
George Rose	5 June 2003	2009 AGM

(i) Date of original appointment or most recent Non-executive role.

(ii) Philip Aiken joined the Board on 15 May 2008.

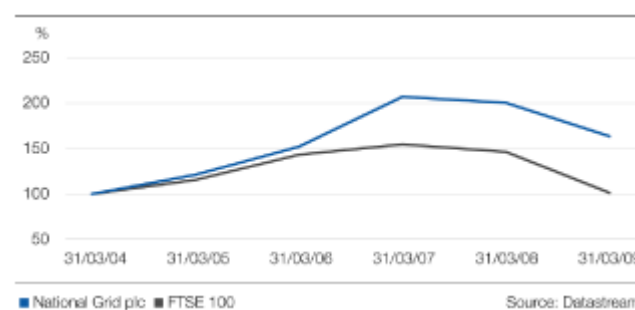
Performance graph

The graph below represents the comparative TSR performance of the Company from 31 March 2004 to 31 March 2009.

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.

National Grid plc TSR v FTSE 100



Remuneration outcomes during the year ended 31 March 2009

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 the pre-tax emoluments for the years ended 31 March 2009 and 2008, including bonuses but excluding pensions, for individual Directors who held office in National Grid during the year ended 31 March 2009.

Table 1A	Year ended 31 March 2009						Year ended 31 March 2008
	Salary(i) £000s	Annual Performance Plan (bonus) £000s	Benefits in kind(ii) (cash) £000s	Benefits in kind(ii) (non-cash) £000s	Other emoluments £000s	Total £000s	Total £000s
Executive Directors							
Steve Holliday	917	1,265	12	12	—	2,206	2,062
Steve Lucas (iii)	516	709	6	28	—	1,259	1,183
Nick Winsor	459	620	—	17	—	1,096	963
Mark Fairbairn (iii)	458	598	8	25	—	1,089	1,010
Tom King (iv)	677	704	5	10	—	1,396	1,149
Edward Astle (v)	37	—	1	—	440	478	1,070
Bob Catell (iv) (vi)	825	1,090	6	28	—	1,949	818
Total	3,889	4,986	38	120	440	9,473	8,255

- (i) The Executive Directors decided voluntarily to forego salary increases in 2009. It is anticipated their salaries will next be reviewed in 2010.
- (ii) Benefits in kind comprise benefits such as private medical insurance, life assurance, either a fully expensed car or cash in lieu of a car, use of a driver when required; and for this year a fuel card buyout.
- (iii) 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 £5,522 and Mark Fairbairn £786.
- (iv) For US-based Executive Directors, the exchange rate averaged over the year 1 April 2008 to 31 March 2009 to convert US dollars to UK pounds sterling is US\$1.539:£1.
- (v) Edward Astle left National Grid on 30 April 2008. He received a contractual entitlement of one year's additional salary, part of which was payable in 6 monthly instalments and was subject to mitigation had he taken employment during the period.
- (vi) Bob Catell ceased being an Executive Director on 31 March 2009. His employment agreement was terminated and replaced with a Non-executive Director contract for services and he will retire from the Board at the conclusion of the Company's AGM on 27 July 2009. He did not, nor will he, receive any termination payments.

Table 1B	Year ended 31 March 2009			Year ended 31 March 2008
	Fees £000s	Other emoluments £000s	Total £000s	Total £000s
Non-executive Directors				
Sir John Parker (i)	542	62	604	559
Ken Harvey	83	—	83	79
Linda Adamany	75	—	75	77
Philip Aiken (ii)	59	—	59	n/a
John Allan	76	—	76	71
Stephen Pettit	84	—	84	79
Maria Richter	92	—	92	92
George Rose	84	—	84	82
Total	1,095	62	1,157	1,039

- (i) Sir John Parker's other emoluments comprise a fully expensed car, private medical insurance and life assurance.
- (ii) Philip Aiken joined the Board on 15 May 2008.

Directors' Remuneration Report continued

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.

	Personal contributions made to the scheme during the year £000s	Additional benefit earned during year ended 31 March 2009 pension £000s	Accrued entitlement as at 31 March 2009 pension £000s	Transfer value of accrued benefits as at 31 March (i)		Increase in transfer value less Director's contributions (ii) £000s	Additional benefit earned in the year ended 31 March 2009 (excluding inflation) pension £000s	Transfer value of increase in accrued benefit in the year ended 31 March 2009 (excluding inflation & Director's contributions) £000s
				2009 £000s	2008 £000s			
Table 2								
Steve Holliday (iii)	18	49	280	4,740	4,730	(8)	37	591
Steve Lucas	31	25	250	4,877	3,680	1,165	17	293
Nick Winser (iv)	28	16	186	2,802	3,237	(463)	7	76
Mark Fairbairn (v)	28	26	186	3,084	3,340	(284)	18	249
Tom King (vi)	–	49	126	442	207	235	49	174
Edward Astle (vii)	19	16	112	2,939	1,997	924	15	385
Bob Catell (vi) (viii)	–	256	1,754	20,431	12,774	7,657	256	2,812

- (i) The transfer values shown at 31 March 2008 and 2009 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 at 31 March 2008 have been calculated in accordance with guidance note 'GN11'; transfer values for the UK Executive Directors at 31 March 2009 have been calculated in line with new transfer value bases agreed with the UK Pension Scheme Trustees. The transfer values for the US Executive Directors have been calculated using discount rates based on high quality US corporate bonds and associated yields at the relevant dates.
- (ii) Figures for the increase in transfer value less Director's contributions include the impact of changes during the year to the UK transfer value bases for UK Directors and exchange rate movements for US Directors. The figures excluding these impacts were Steve Holliday £625,000, Steve Lucas £464,000, Nick Winser £62,000, Mark Fairbairn £233,000, Tom King £114,000, Edward Astle £1,166,000 and Bob Catell £2,052,000.
- (iii) In addition to the pension above, there is an accrued lump sum entitlement of £107,000 as at 31 March 2009. The increase to the accumulated lump sum including inflation was £7,000 and excluding inflation was £3,000 in the year to 31 March 2009. The transfer value information above includes the value of the lump sum.
- (iv) In addition to the pension above, there is an accrued lump sum entitlement of £258,000 as at 31 March 2009. The increase to the accumulated lump sum including inflation was £8,000 and excluding inflation was nil in the year to 31 March 2009. The transfer value information above includes the value of the lump sum.
- (v) In addition to the pension above, there is an accrued lump sum entitlement of £278,000 as at 31 March 2009. The increase to the accumulated lump sum including inflation was £23,000 and excluding inflation was £11,000 in the year to 31 March 2009. The transfer value information above includes the value of the lump sum.
- (vi) The exchange rate as at 31 March 2009 was US\$1.4368:£1 and as at 31 March 2008 was US\$1.98:£1.
- (vii) It was agreed that £344,754, representing the value of 49,032 shares which Edward Astle would otherwise have received in respect of his PSP awards (see Table 4 on page 111), instead be transferred into his pension fund. This is equivalent to one additional year of pension credit and is included above. Edward received an immediate unreduced pension on cessation of employment under the standard redundancy terms of the Trust Deed and Rules of the Pension Scheme.
- (viii) Bob Catell retired as an Executive Director on 31 March 2009 and was eligible to draw immediate pension benefits. In addition to the pension quoted above, through participation in the Thrift Plan in the US, the Company made contributions worth £4,948 to a defined contribution arrangement.

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.

Table 3	Options held at 1 April 2008	Options exercised or lapsed during the year	Market price at exercise (pence)	Options granted during the year	Options held at 31 March 2009 or, if earlier, on retirement †	Exercise price per share (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(i)	9,983	663	–	–	nil	June 2008 to June 2015
Sharesave	4,692	4,692	660.5	–	–	350	Mar 2008 to Aug 2008
	2,564	2,564	–	–	–	655	Apr 2013 to Sep 2013
	–	–	–	3,432	3,432	488	Apr 2014 to Sep 2014
Total	127,882	17,239		3,432	114,075		
Steve Lucas							
ESOP	54,404	–	–	–	54,404	434.25	Dec 2005 to Dec 2012
Share Match	14,778(ii)	14,778	663	–	–	nil	June 2008 to June 2015
Sharesave	1,693	–	–	–	1,693	558	Apr 2010 to Sep 2010
Total	70,875	14,778		–	56,097		
Nick Winser							
ESOP	19,755	–	–	–	19,755	531.5	June 2003 to June 2010
Share Match	11,581(iii)	11,581	663	–	–	nil	June 2008 to June 2015
Total	31,336	11,581		–	19,755		
Mark Fairbairn							
ESOP	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	2,134(iv)	2,134	663	–	–	nil	June 2008 to June 2015
Sharesave	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	72,089	2,134		–	69,955		
Edward Astle							
ESOP (v)	67,497	–	–	–	67,497†	481.5	May 2008 to Apr 2009
Share Match (v)	6,553	–	–	–	6,553†	100 in total	May 2008 to Oct 2008
	13,812	–	–	–	13,812†	100 in total	May 2008 to Oct 2008
	15,716	–	–	–	15,716†	nil	May 2008 to Oct 2008
	14,637	–	–	–	14,637†	nil	May 2008 to Oct 2008
Total	118,215	–		–	118,215†		

- (i) Steve Holliday exercised a Share Match award over 9,983 shares. The market price at the date of exercise was 663p. He received £9,739 in respect of a cash payment in lieu of dividends. He also exercised, on its five year maturity, a Sharesave option over 4,692 shares with an option price of 350p. In addition, he cancelled an existing Sharesave contract over 2,564 shares with an option price of 655p in order to commence a Sharesave contract over 3,432 shares with an option price of 488p.
- (ii) Steve Lucas exercised a Share Match award over 14,778 shares. The market price at the date of exercise was 663p. He also received £17,761 in respect of a cash payment in lieu of dividends.
- (iii) Nick Winser exercised a Share Match award over 11,581 shares. The market price at the date of exercise was 663p. He also received £14,078 in respect of a cash payment in lieu of dividends.
- (iv) Mark Fairbairn exercised a Share Match award over 2,134 shares. The market price at the date of exercise was 663p. He also received £3,050 in respect of a cash payment in lieu of dividends.
- (v) On leaving, Edward Astle was permitted 12 months from his termination date in which to exercise his ESOP awards and 6 months for his Share Match awards. This aligns with normal practice for such leavers under the plan rules.

Directors' Remuneration Report continued

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 final re-test will be in March 2010 and if the performance criterion is not reached at that time the options will lapse in full.

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	

4. Directors' interests in the PSP, DSP and SRA

The table on page 111 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. Awards 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), see pages 103 and 104 for further information. 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 Annual Performance Plan award 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 vests in equal tranches, over three years, on the anniversary of the award (November 2008 through to November 2010) subject to continued employment. There are no performance conditions attached to the award.

4. Directors' interests in the PSP, DSP and SRA continued

Table 4	Type of award	PSP, DSP and SRA conditional awards at 1 April 2008	Awards lapsed during year	Awards vested in year	Awards granted during year	Market price at award (pence except#)	Date of award	Conditional awards at 31 March 2009 or, if earlier, on retirement†	Release date
Steve Holliday	PSP	100,801(i)	–	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	–	–	–	800.9919	Nov 2007	77,247	Nov 2011
	PSP	–	–	–	276,947	667.9967	June 2008	276,947	June 2012
	DSP	36,389	–	–	–	583.96	June 2006	36,389	June 2009
	DSP	42,435	–	–	–	726.87	June 2007	42,435	June 2010
	DSP	–	–	–	85,307	697.48	June 2008	85,307	June 2011
Total		522,877	–	100,801	362,254			885,131	
Steve Lucas	PSP	99,615(i)	–	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	–	–	–	800.9919	Nov 2007	47,125	Nov 2011
	PSP	–	–	–	157,186	667.9967	June 2008	157,186	June 2012
	DSP	34,882	–	–	–	583.96	June 2006	34,882	June 2009
	DSP	29,276	–	–	–	726.87	June 2007	29,276	June 2010
	DSP	–	–	–	47,263	697.48	June 2008	47,263	June 2011
Total		397,258	–	99,615	204,449			601,707	
Nick Winser	PSP	91,314(i)	–	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	–	–	–	800.9919	Nov 2007	41,620	Nov 2011
	PSP	–	–	–	138,413	667.9967	June 2008	138,413	June 2012
	DSP	31,316	–	–	–	583.96	June 2006	31,316	June 2009
	DSP	25,596	–	–	–	726.87	June 2007	25,596	June 2010
	DSP	–	–	–	36,008	697.48	June 2008	36,008	June 2011
Total		353,605	–	91,314	174,421			528,026	
Mark Fairbairn	PSP	40,225(i)	–	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	–	–	–	800.9919	Nov 2007	37,453	Nov 2011
	PSP	–	–	–	138,324	667.9967	June 2008	138,324	June 2012
	DSP	10,800	–	–	–	583.96	June 2006	10,800	June 2009
	DSP	13,867	–	–	–	726.87	June 2007	13,867	June 2010
	DSP	–	–	–	40,646	697.48	June 2008	40,646	June 2011
Total		210,416	–	40,225	178,970			389,386	
Tom King	PSP	ADSs 24,006	–	–	–	\$83.3121#	Nov 2007	ADSs 24,006	Nov 2011
	PSP	–	–	–	ADSs 32,099(ii)	\$65.4211#	June 2008	ADSs 32,099	June 2012
	SRA	ADSs 35,487	–	ADSs 11,829(iii)	–	\$84.5360#	Nov 2007	ADSs 23,658 to Nov 2010	Nov 2008
	DSP	–	–	–	ADSs 4,843(ii)	\$68.1174#	June 2008	ADSs 4,843	June 2011
Total ADSs		ADSs 59,493	–	ADSs 11,829	ADSs 36,942			ADSs 84,606	
Edward Astle	PSP	94,872(iv)	–	–	–	527.03	June 2005	94,872†	April 2008
	PSP	88,751(iv)	–	–	–	591.5382	June 2006	88,751†	April 2008
	PSP	74,249(iv)	–	–	–	740.75	June 2007	74,249†	April 2008
	PSP	41,198(iv)	–	–	–	800.9919	Nov 2007	41,198†	April 2008
	DSP	28,769	–	–	–	583.96	June 2006	28,769†	April 2008
	DSP	27,927	–	–	–	726.87	June 2007	27,927†	April 2008
Total		355,766	–	–	–			355,766†	
Bob Catell	PSP	ADSs 17,084(v)	–	–	–	\$83.3121#	Nov 2007	ADSs 17,084	Nov 2011
	PSP	–(v)	–	–	ADSs 39,146(ii)	\$65.4211#	June 2008	ADSs 39,146	June 2012
	DSP	–(v)	–	–	ADSs 7,225(ii)	\$68.1174#	June 2008	ADSs 7,225	June 2011
Total		ADSs 17,084	–	–	ADSs 46,371			ADSs 63,455	

Directors' Remuneration Report continued

- (i) The 2005 PSP award vested in full in June 2008 but the shares under this award are subject to a retention period in order that shares may only be transferred to participants on or after the fourth anniversary of the date of grant. The Remuneration Committee determined cash equivalent dividend payments would be made to participants whilst the shares were in the retention period, therefore, Steve Holliday received £23,856 in August 2008 and £14,157 in February 2009; Steve Lucas £23,576 and £13,990; Nick Winser £21,611 and £12,825 and Mark Fairbairn £9,520 and £5,649 respectively.
- (ii) Awards were made over ADSs and each ADS represents five ordinary shares.
- (iii) Tom King received a Special Retention Award as part of a contractual commitment made at the time of his recruitment. The award vests in three equal parts over three years, the first vesting for which was November 2008 for 11,829 ADSs. The ADS price on vesting for the first tranche was US\$47.4920.
- (iv) Shortly after leaving, Edward Astle received 207,905 PSP shares that vested as a result of the performance criteria having been met and taking into account his contribution and in particular the sale of National Grid Wireless being significantly in excess of market expectations. As outlined in Table 2 on page 108, it was also agreed that instead of Edward receiving a further 49,032 PSP shares an equivalent monetary value (using a share price of 705p) would be transferred into his pension fund. All remaining PSP shares shown in the table on page 111 lapsed.
- (v) As Bob Catell ceased being an Executive Director on 31 March 2009, his PSP award will be transferred to him from this date subject to performance criteria and following time pro ration. His DSP award will also be transferred to him. This treatment aligns with normal practice for such leavers under the plan rules.

5. Directors' beneficial interests

The Directors' beneficial interests (which include those of their families) in National Grid ordinary shares of 11¹⁷/₄₃ pence each are shown below.

	Ordinary shares at 31 March 2009 or, if earlier, on retirement†(i)	Ordinary shares at 1 April 2008 or, if later, on appointment*	Options/awards over ordinary shares at 31 March 2009 or, if earlier, on retirement†	Options/awards over ordinary shares at 1 April 2008 or, if later, on appointment*
Table 5				
Sir John Parker	81,337	77,115	–	–
Steve Holliday (ii) (iii)	39,285	28,488	999,206	650,759
Steve Lucas (ii) (iv)	88,192	79,438	657,804	468,133
Nick Winser (ii)	83,518	69,937	547,781	384,941
Mark Fairbairn (ii) (iii)	48,305	28,584	459,341	282,505
Tom King	59,145	–	423,030	297,465
Edward Astle	28,428†	28,428	473,981†	473,981
Bob Catell	40,000	15,000	317,275	85,420
Ken Harvey	3,740	3,740	–	–
Linda Adamany	2,000	2,000	–	–
Philip Aiken	2,000	–*	–	–*
John Allan	2,000	2,000	–	–
Stephen Pettit	2,632	2,632	–	–
Maria Richter	5,255	3,255	–	–
George Rose	4,852	4,852	–	–

- (i) There has been no other change in the beneficial interests of the Directors in ordinary shares between 1 April 2009 and 13 May 2009, 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; Steve Holliday, Steve Lucas, Nick Winser and Mark Fairbairn thereby have an interest in 264,878 and 160,696 ordinary shares in the aforementioned trusts respectively, as at 31 March 2009 (with the latter holding 6,294 ADSs in addition).
- (iii) Beneficial interest includes shares purchased under the monthly operation of the SIP in the year to 31 March 2009. In April and May 2009 a further 45 shares were purchased on behalf of Steve Holliday and a further 91 shares were purchased on behalf of Mark Fairbairn thereby increasing their beneficial interests.
- (iv) Steve Lucas was for Companies Act purposes deemed to be a potential beneficiary in 4,057 ordinary shares held by Lattice Group Trustees Limited as trustee of the Lattice Group Employee Share Ownership Trust as at 31 March 2009.

6. National Grid share price range

The closing price of a National Grid ordinary share on 31 March 2009 was 535.5p. The range during the year was 749.5p (high) and 515p (low). The Register of Directors' Interests contains full details of shareholdings and options/awards held by Directors as at 31 March 2009.

On behalf of the Board

Helen Mahy

Company Secretary & General Counsel
13 May 2009

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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 (IFRSs) 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, UK GAAP). 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 these 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, on a consolidated and individual basis, will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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.

Each of the Directors, whose names and functions are listed in the Business Overview section of the Annual Report and Accounts on pages 16 and 17, confirms that, to the best of their knowledge:

- the consolidated financial statements and the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union and UK GAAP respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Company on a consolidated and individual basis; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Helen Mahy

Company Secretary & General Counsel
13 May 2009

Independent Auditors' report to the Members of National Grid plc

We have audited the consolidated and Company financial statements (the 'financial statements') of National Grid plc for the year ended 31 March 2009, 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 (IFRSs) 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 and business review and Future developments sections 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 does not. We are not required to consider whether the Board's statements

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 2009 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 IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2009 and of its profit and cash flows for the year 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 2009;
- 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

Chartered Accountants and Registered Auditors
London
13 May 2009

Accounting policies

for the year ended 31 March 2009

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 United States. 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 13 May 2009.

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 IFRS 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 2009 and in accordance with the Companies Act 1985 applicable to companies reporting under IFRS and Article 4 of the European Union IAS Regulation. The 2008 and 2007 comparative financial information has also been prepared on this basis.

The November 2008 amendment to IAS 39 and IFRS 7 on the reclassification of financial assets, which is effective 1 July 2008, is still subject to endorsement by the European Union. The amendment relating to the reclassification of financial assets does not have an impact on consolidated results or assets and liabilities of the Company and therefore these consolidated financial statements comply with both IFRS as issued by the IASB and IFRS as adopted by the European Union.

The consolidated financial statements have been prepared on a historical cost basis, except for the recording of pension assets and liabilities, the revaluation of derivative financial instruments and certain commodity contracts and investments classified as available for sale.

These consolidated financial statements are presented in pounds sterling, which is the functional currency of the Company.

Our Ravenswood generation station, KeySpan Communications business and KeySpan engineering companies, which were either sold during the year ended 31 March 2009 or subsequent to it, were classified as held for sale in the consolidated balance sheet at 31 March 2008 and as discontinued operations in the consolidated income statement, in accordance with our accounting policy I.

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 applied under UK generally accepted accounting principles (UK GAAP), US generally accepted accounting principles (US GAAP) or other frameworks 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 the identifiable assets acquired and liabilities assumed 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 the 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 our 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.

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 – 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 the Company'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 trade and other 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 is 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
Motor vehicles and office equipment	up to 10

Following a review of the useful economic lives of property, plant and equipment, the depreciation periods of certain assets within the category Gas plant – mains, services and regulating equipment have been amended. This has resulted in a decrease in the depreciation charge and a corresponding increase in operating profit for the year ended 31 March 2009 of £43m.

Accounting policies continued

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. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax and investment tax credits

Deferred tax is provided for 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 of other assets and liabilities in a transaction (other than a business combination) 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 being met only when the sale is highly probable and the assets or businesses are available for immediate sale in their present condition or is a subsidiary acquired exclusively with a view to resale. 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 (calculated on a weighted average basis) 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.

The unwinding of the discount is included within the income statement as a financing charge.

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 intra-group 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 unbilled 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 over-recovery, 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 date.

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.

Accounting policies continued

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. 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.

Assets held under finance leases are depreciated over the shorter of their useful life and the lease term.

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, in the case of available-for-sale financial investments, 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 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 as 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.

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.

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. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted as a derivative financial instrument and recorded at fair value.

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 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.

Where contracts are traded on a recognised exchange and margin payments are made, the contract fair values are reported net of the associated margin payments.

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 financial statements. Disclosure of commitments under such contracts is made in the notes to the financial statements (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 the fair value of the derivative instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. 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 with 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.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the income statement as they arise, within finance costs (included in remeasurements – see accounting policy T).

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.

Accounting policies continued

Exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles are items of income and expense 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 include 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.

U. Other operating income

Other operating income relates to income which is considered to be part of normal recurring operating activities, but which does not represent revenue (see accounting policy L and note 2).

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 intangible assets within current assets and are initially recorded at cost and subsequently at the lower of cost and net realisable value. Where emission allowances are granted by 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, which is recognised in the income statement as the related charges for emissions are recognised or on impairment of the related intangible asset. A provision is recorded in respect of the obligation to deliver emission allowances and emission charges are recognised in the income statement in the period in which carbon dioxide emissions are made.

Income from emission allowances that are sold is reported as part of other operating income.

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 follows:

- 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 and note 29.

Key sources of estimation uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- 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 pensions and other post-retirement 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 24.
- Fair values of acquired assets and liabilities – note 28.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2008/09

During the year ended 31 March 2009, the Company adopted the following amendments to International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC). None of these had a material impact on the Company's consolidated results or assets and liabilities.

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 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.
Amendments to IAS 39 Financial Instruments: Recognition and measurement and IFRS 7 Financial Instruments: Disclosures on reclassification of financial assets	Permits reclassification of financial assets in certain circumstances.

New IFRS accounting standards and interpretations not yet adopted

The Company has yet to adopt the following standards and interpretations. The Company has a number of transactions that fall within the scope of IFRIC 18 'Transfer of assets from customers' and the impact of this interpretation is being considered. The other standards and interpretations listed below are not expected to have a material impact on the Company's consolidated results or assets and liabilities.

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 has been adopted by the Company with effect from 1 April 2009.
IAS 23 revised 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. IAS 23 revised has been adopted by the Company with effect from 1 April 2009.
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 has been adopted by the Company with effect from 1 April 2009.
IAS 1 revised 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. IAS 1 revised has been adopted by the Company with effect from 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. IFRS 3R will be adopted by the Company on 1 April 2010, subject to endorsement by the European Union.
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. IAS 27R will be adopted by the Company on 1 April 2010, subject to endorsement by the European Union.
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. The amendment to IFRS 2 has been adopted by the Company with effect from 1 April 2009.

New IFRS accounting standards and interpretations not yet adopted continued

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 of 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 have been adopted by the Company with effect from 1 April 2009.
Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements on the cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate	Permits investments to be recognised on first-time adoption of IFRS at cost or deemed cost (fair value or previous GAAP carrying amount) and removes the requirement to recognise dividends out of pre-acquisition profits as a reduction in the cost of the investment. The amendments to IFRS 1 and IAS 27 have been adopted by the Company with effect from 1 April 2009.
Improvements to IFRS 2008	Contains amendments to various existing standards. The amendments are effective, in most cases, from 1 January 2009, or otherwise for annual periods beginning on or after 1 July 2009.
IFRIC 15 on agreements for the construction of real estate	Addresses the timing of revenue recognition for entities engaged in the construction of real estate for their customers. IFRIC 15 will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
IFRIC 16 on hedges of a net investment in a foreign operation	Clarifies that a hedged risk may be designated at any level in a group and hedging instruments may be held by any company in a group (except the foreign entity being hedged), that net investment hedge accounting may not be adopted in respect of a presentation currency and that on disposal the amounts to be reclassified from equity to profit or loss are any cumulative gain or loss on the hedging instrument and the cumulative translation difference on the foreign operation disposed of. IFRIC 16 will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
Amendment to IAS 39 Financial Instruments: Recognition and measurement on eligible hedged items	Prohibits designating inflation as a hedgeable component of an instrument, unless cash flows relating to the separate inflation component are contractual and also prohibits the designation of a purchased option in its entirety as the hedge of a one-sided risk in a forecast transaction. The amendment to IAS 39 will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.
Amendment to IAS 39 Financial Instruments: Recognition and measurement: Reclassification of Financial Assets: Effective Date and Transition	Clarifies the effective date of the reclassification of financial assets. The amendment is effective under IFRS but has not yet been endorsed by the European Union and has therefore not been adopted by the Company. Adoption of the amendment would not have any impact on consolidated results or assets and liabilities.
Revised IFRS 1 on first-time adoption of IFRS	Changes the structure, while retaining the substance, of the previously issued version of IFRS 1. The revised version of IFRS 1 will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.
IFRIC 17 on distribution of non-cash assets to owners	Requires such a distribution to be measured at the fair value of the asset and any difference between the carrying amount of the asset and its fair value to be recognised in profit or loss. IFRIC 17 will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.
IFRIC 18 on transfers of assets from customers	Addresses arrangements whereby an entity receives items of property, plant and equipment or cash which the entity must use to connect customers to a network or provide access to a supply of goods or services, or both. IFRIC 18 will be adopted by the Company with effect from 1 July 2009, subject to endorsement by the European Union.
Amendment to IFRS 7 on improving disclosures about financial instruments	Enhances disclosures about fair value and liquidity risk. The amendment will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
Amendments to IAS 39 and IFRIC 9 on embedded derivatives	Requires reassessment of whether an embedded derivative should be separated out if a financial asset is reclassified out of the fair value through profit or loss category. The amendment will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
Improvements to IFRS 2009	Contains amendments to various existing standards. The amendments will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.

Consolidated income statement

for the years ended 31 March

	Notes	2009 £m	2009 £m	2008* £m	2008* £m	2007 £m	2007 £m
Revenue	1(a)		15,624		11,423		8,695
Other operating income	2		63		75		83
Operating costs	3		(13,064)		(8,534)		(6,265)
Operating profit							
Before exceptional items, remeasurements and stranded cost recoveries	1(b)		2,915	2,595		2,031	
Exceptional items, remeasurements and stranded cost recoveries	4		(292)	<u>369</u>		<u>482</u>	
Total operating profit	1(b)		2,623		2,964		2,513
Interest income and similar income	6		1,315		1,275		1,144
Interest expense and other finance costs Before exceptional items and remeasurements	6		(2,465)	(2,045)		(1,691)	
Exceptional items and remeasurements	4,6		(84)	<u>(16)</u>		<u>(217)</u>	
	6		(2,549)		(2,061)		(1,908)
Share of post-tax results of joint ventures and associates			5		4		2
Profit before taxation							
Before exceptional items, remeasurements and stranded cost recoveries			1,770	1,829		1,486	
Exceptional items, remeasurements and stranded cost recoveries	4		(376)	<u>353</u>		<u>265</u>	
Total profit before taxation			1,394		2,182		1,751
Taxation							
Before exceptional items, remeasurements and stranded cost recoveries	7		(517)	(579)		(442)	
Exceptional items, remeasurements and stranded cost recoveries	4,7		45	<u>(28)</u>		<u>1</u>	
Total taxation	7		(472)		(607)		(441)
Profit from continuing operations after taxation							
Before exceptional items, remeasurements and stranded cost recoveries			1,253	1,250		1,044	
Exceptional items, remeasurements and stranded cost recoveries	4		(331)	<u>325</u>		<u>266</u>	
Profit for the year from continuing operations			922		1,575		1,310
Profit for the year from discontinued operations							
Before exceptional items and remeasurements	8		9	28		104	
Exceptional items and remeasurements	8		16	<u>1,590</u>		<u>(18)</u>	
	8		25		1,618		86
Profit for the year			947		3,193		1,396
Attributable to:							
Equity shareholders of the parent			944		3,190		1,394
Minority interests			3		3		2
			947		3,193		1,396
Earnings per share from continuing operations							
Basic	10		37.4p		60.3p		48.1p
Diluted	10		37.1p		59.9p		47.8p
Earnings per share							
Basic	10		38.5p		122.3p		51.3p
Diluted	10		38.2p		121.6p		50.9p

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

The notes on pages 130 to 186 form part of the consolidated financial statements.

Consolidated balance sheet

at 31 March

	Notes	2009 £m	2008* £m
Non-current assets			
Goodwill	11	5,391	3,904
Other intangible assets	12	370	271
Property, plant and equipment	13	29,545	24,331
Deferred tax assets	16	137	–
Pension asset	5	269	846
Other non-current assets	14	106	164
Financial and other investments	15	361	251
Derivative financial assets	17	1,533	1,063
Total non-current assets		37,712	30,830
Current assets			
Inventories and current intangible assets	18	556	438
Trade and other receivables	19	2,672	2,265
Financial and other investments	15	2,197	2,095
Derivative financial assets	17	593	463
Cash and cash equivalents	20	737	174
Total current assets		6,755	5,435
Assets of businesses held for sale		–	1,506
Total assets	1(d)	44,467	37,771
Current liabilities			
Borrowings	21	(3,253)	(3,882)
Derivative financial liabilities	17	(307)	(114)
Trade and other payables	22	(2,835)	(2,480)
Current tax liabilities		(383)	(295)
Provisions	24	(248)	(375)
Total current liabilities		(7,026)	(7,146)
Non-current liabilities			
Borrowings	21	(23,540)	(17,121)
Derivative financial liabilities	17	(633)	(319)
Other non-current liabilities	23	(2,092)	(1,721)
Deferred tax liabilities	16	(2,661)	(3,259)
Pensions and other post-retirement benefit obligations	5	(3,080)	(1,746)
Provisions	24	(1,451)	(1,022)
Total non-current liabilities		(33,457)	(25,188)
Liabilities of businesses held for sale		–	(63)
Total liabilities	1(d)	(40,483)	(32,397)
Net assets		3,984	5,374
Equity			
Called up share capital	25	294	294
Share premium account	26	1,371	1,371
Retained earnings	26	7,135	8,943
Other equity reserves	26	(4,830)	(5,252)
Shareholders' equity		3,970	5,356
Minority interests	26	14	18
Total equity		3,984	5,374

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

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 13 May 2009 and were signed on its behalf by:

Sir John Parker Chairman
Steve Lucas Finance Director

Consolidated statement of recognised income and expense

for the years ended 31 March

	Notes	2009 £m	2008* £m	2007 £m
Exchange adjustments		464	(25)	(179)
Actuarial net (loss)/gain	5	(2,018)	432	365
Deferred tax on actuarial net gains and losses	7	678	(98)	(70)
Net (losses)/gains taken to equity in respect of cash flow hedges		(1)	(32)	47
Transferred to profit or loss on cash flow hedges		(53)	(7)	(45)
Deferred tax on cash flow hedges	7	19	2	(10)
Net gains/(losses) taken to equity on available-for-sale investments		9	6	(3)
Transferred to profit or loss on sale of available-for-sale investments		(18)	–	(1)
Deferred tax on available-for-sale investments	7	7	2	(1)
Net (expense)/income recognised directly in equity		(913)	280	103
Profit for the year		947	3,193	1,396
Total recognised income and expense for the year		34	3,473	1,499
Attributable to:				
Equity shareholders of the parent		26	3,470	1,498
Minority interests		8	3	1
		34	3,473	1,499

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

Consolidated cash flow statement

for the years ended 31 March

	Notes	2009 £m	2008 £m	2007 £m
Cash flows from operating activities				
Total operating profit		2,623	2,964	2,513
Adjustments for:				
Exceptional items, remeasurements and stranded cost recoveries		292	(369)	(482)
Depreciation and amortisation		1,122	994	871
Share-based payment charge		22	18	15
Changes in working capital		54	(150)	127
Changes in provisions		(99)	(5)	(31)
Changes in pensions and other post-retirement benefit obligations		(678)	(333)	(125)
Cash flows relating to exceptional items		(131)	(132)	(86)
Cash flows relating to stranded cost recoveries		359	278	288
Cash flows generated from continuing operations		3,564	3,265	3,090
Cash flows relating to discontinued operations (excluding tax)	27(a)	(8)	10	181
Cash generated from operations		3,556	3,275	3,271
Tax paid		(143)	(110)	(313)
Net cash inflow from operating activities		3,413	3,165	2,958
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired	28	–	(3,502)	(269)
Acquisition of other investments		(73)	(26)	–
Sale of investments in subsidiaries and other investments		–	55	19
Purchases of intangible assets		(78)	(45)	(33)
Purchases of property, plant and equipment		(3,107)	(2,832)	(2,185)
Disposals of property, plant and equipment		27	26	21
Interest received		85	206	216
Purchases of financial investments		(6,173)	(8,788)	(3,699)
Sales of financial investments		6,272	8,833	1,974
Cash flows used in continuing operations – investing activities		(3,047)	(6,073)	(3,956)
Cash flows relating to discontinued operations – investing activities (net of tax)	27(b)	1,049	3,050	(105)
Net cash flow used in investing activities		(1,998)	(3,023)	(4,061)
Cash flows from financing activities				
Proceeds from issue of share capital and sale of treasury shares		8	23	16
Proceeds from loans received		4,892	1,568	5,519
Repayment of loans		(2,618)	(650)	(2,311)
Net movements in short-term borrowings and derivatives		(633)	671	(163)
Interest paid		(1,061)	(900)	(813)
Exceptional finance costs on the repayment of debt		–	–	(45)
Dividends paid to shareholders		(838)	(780)	(730)
Cash paid to shareholders under B share scheme		–	(26)	(26)
Repurchase of share capital and purchase of treasury shares		(627)	(1,498)	(169)
Net cash flow (used in)/from financing activities		(877)	(1,592)	1,278
Net increase/(decrease) in cash and cash equivalents		538	(1,450)	175
Exchange movements		18	4	(14)
Cash included within assets of businesses held for sale		–	23	(23)
Net cash and cash equivalents at start of year		164	1,587	1,449
Net cash and cash equivalents at end of year (i)	20	720	164	1,587

(i) Net of bank overdrafts of £17m (2008: £10m; 2007: £6m).

Notes to the consolidated financial statements

– analysis of items in the primary statements

1. Segmental analysis

The following segmental analysis is presented in accordance with management responsibilities and economic characteristics, including consideration of the risks and returns, of our 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. 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 England.
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.
Electricity Distribution & Generation US	Electricity distribution in New York and New England, and electricity generation in New York.

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 energy services; US gas fields; together with corporate activities, including business development.

Discontinued operations comprise 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 Ravenswood generation station was sold on 26 August 2008, KeySpan Communications was sold on 25 July 2008 and one of our KeySpan engineering companies was sold on 11 July 2008. Subsequent to the year end, two further engineering companies were sold. For the year ended 31 March 2008, discontinued operations also include the wireless infrastructure and communications operations in the UK and the US and an electricity interconnector in Australia. 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.

Sales between businesses are priced having regard to the regulatory and legal requirements to which the businesses are subject.

(a) Revenue

	Total sales 2009 £m	Sales between businesses 2009 £m	Sales to third parties 2009 £m	Total sales 2008 £m	Sales between businesses 2008 £m	Sales to third parties 2008 £m	Total sales 2007 £m	Sales between businesses 2007 £m	Sales to third parties 2007 £m
Business segments – continuing operations									
Transmission UK	3,487	2	3,485	2,956	16	2,940	2,816	18	2,798
Transmission US	420	83	337	299	61	238	270	47	223
Gas Distribution UK	1,466	79	1,387	1,383	70	1,313	1,193	92	1,101
Gas Distribution US	4,786	3	4,783	2,845	2	2,843	638	–	638
Electricity Distribution & Generation US	4,972	1	4,971	3,508	2	3,506	3,430	2	3,428
Other activities	719	58	661	642	59	583	567	60	507
	15,850	226	15,624	11,633	210	11,423	8,914	219	8,695
Total excluding stranded cost recoveries			15,189			11,041			8,269
Stranded cost recoveries			435			382			426
			15,624			11,423			8,695
Geographical segments									
UK			5,334			4,787			4,397
US			10,290			6,636			4,298
			15,624			11,423			8,695

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.

1. Segmental analysis continued

Approximately 6% (2008: 9%; 2007: 9%) of revenue for the year ended 31 March 2009 amounting to approximately £1.0bn (2008: £1.0bn; 2007: £0.8bn) 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 £52m at 31 March 2009 (2008: £23m; 2007: £33m). In the US, under-recoveries and other regulatory entitlements to future revenue (including stranded cost recoveries) amounted to £2,289m at 31 March 2009 (2008: £1,652m 2007: £1,930m).

(b) Operating profit

	Before exceptional items, remeasurements and stranded			After exceptional items, remeasurements and stranded		
	2009 £m	2008 £m	2007 £m	2009 £m	2008 £m	2007 £m
Business segments – continuing operations						
Transmission UK	1,126	1,021	946	1,063	1,013	936
Transmission US	175	128	108	173	122	107
Gas Distribution UK	672	595	409	629	574	412
Gas Distribution US	612	392	71	226	487	67
Electricity Distribution & Generation US	265	330	364	531	696	859
Other activities	65	129	133	1	72	132
	2,915	2,595	2,031	2,623	2,964	2,513
Geographical segments						
UK	1,875	1,752	1,491	1,729	1,667	1,482
US	1,040	843	540	894	1,297	1,031
	2,915	2,595	2,031	2,623	2,964	2,513

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			Depreciation and amortisation		
	2009 £m	2008 £m	2007 £m	2009 £m	2008 £m	2007 £m
Business segments – continuing operations						
Transmission UK	1,259	1,600	1,235	353	372	352
Transmission US	182	111	108	56	40	41
Gas Distribution UK	598	514	490	177	181	170
Gas Distribution US	421	188	36	172	91	24
Electricity Distribution & Generation US	355	257	218	223	146	127
Other activities	427	383	258	146	164	157
	3,242	3,053	2,345	1,127	994	871
Discontinued operations	–	1	30	–	–	72
	3,242	3,054	2,375	1,127	994	943
Geographical segments						
UK	2,270	2,493	2,007	679	709	739
US	972	560	365	448	285	196
Rest of the world	–	1	3	–	–	8
	3,242	3,054	2,375	1,127	994	943

Capital expenditure comprises additions to property, plant and equipment and other non-current intangible assets amounting to £3,164m (2008: £3,009m; 2007: £2,343m) and £78m (2008: £45m; 2007: £32m) respectively.

Depreciation and amortisation includes expensed depreciation of property, plant and equipment and amortisation of other intangible assets amounting to £1,058m (2008: £940m; 2007: £889m) and £69m (2008: £54m; 2007: £54m) respectively.

Notes to the consolidated financial statements continued

1. Segmental analysis continued

(d) Total assets and total liabilities

	Total assets		Total liabilities	
	2009 £m	2008* £m	2009 £m	2008* £m
Business segments – continuing operations				
Transmission UK	10,451	10,076	(1,501)	(1,455)
Transmission US*	2,238	1,565	(190)	(83)
Gas Distribution UK	6,158	5,765	(1,279)	(1,222)
Gas Distribution US*	10,112	7,251	(2,024)	(1,612)
Electricity Distribution & Generation US*	7,854	5,674	(3,523)	(2,429)
Other activities*	2,289	2,068	(1,189)	(523)
	39,102	32,399	(9,706)	(7,324)
Discontinued operations*	–	1,506	–	(83)
	39,102	33,905	(9,706)	(7,407)
Joint ventures – continuing operations	168	71	–	–
Unallocated*	5,197	3,795	(30,777)	(24,990)
	44,467	37,771	(40,483)	(32,397)
Geographical segments				
UK	18,527	17,533	(3,602)	(3,365)
US*	20,743	16,443	(6,104)	(4,042)
Unallocated*	5,197	3,795	(30,777)	(24,990)
	44,467	37,771	(40,483)	(32,397)

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28) and adjusted to present comparatives on a basis consistent with 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 total derivative financial assets. Unallocated total liabilities comprise bank overdrafts, borrowings, derivative financial liabilities and taxation.

2. Other operating income

Other operating income includes: income on the disposal of property, plant and equipment, principally properties disposed of by our property management business; emissions trading income; pension deficit recovery; and income on the disposal of a telecoms business.

3. Operating costs

	Before exceptional items, remeasurements and stranded			Exceptional items, remeasurements and stranded			Total		
	2009 £m	2008 £m	2007 £m	2009 £m	2008* £m	2007 £m	2009 £m	2008* £m	2007 £m
Depreciation of property, plant and equipment	1,058	940	830	–	–	–	1,058	940	830
Amortisation of intangible assets	64	50	41	5	4	–	69	54	41
Payroll costs	1,415	1,071	794	34	108	26	1,449	1,179	820
Other operating charges:									
Purchases of electricity	2,199	1,589	1,680	28	(95)	(87)	2,227	1,494	1,593
Purchases of gas	3,228	2,011	544	334	(141)	–	3,562	1,870	544
Rates and property taxes	881	608	472	–	–	–	881	608	472
Electricity transmission services scheme direct costs	904	574	558	–	–	–	904	574	558
Payments to Scottish electricity transmission network owners	243	226	237	–	–	–	243	226	237
Other	2,345	1,452	1,165	326	137	5	2,671	1,589	1,170
	12,337	8,521	6,321	727	13	(56)	13,064	8,534	6,265
Operating costs include:									
Research expenditure							10	13	6
Operating lease rentals									
Plant and machinery							48	33	21
Other							33	30	63

* Comparatives have been adjusted to present items on a basis consistent with the current year classification

3. Operating costs continued

(a) Payroll costs

	2009 £m	2008 £m	2007 £m
Wages and salaries	1,615	1,169	819
Social security costs	118	84	65
Other pension costs	160	218	132
Share-based payments	22	18	15
Severance costs (excluding pension costs)	16	14	14
	1,931	1,503	1,045
Less: payroll costs capitalised	(482)	(324)	(225)
	1,449	1,179	820

Payroll costs above represent continuing operations only. Payroll costs of discontinued operations for the year ended 31 March 2009 were £11m (2008: £16m; 2007: £37m).

(b) Number of employees

	31 March 2009 Number	Average 2009 Number	31 March 2008 Number	Average 2008 Number
UK	10,457	10,456	10,223	10,093
US	17,429	17,669	18,098	14,288
Rest of the world	–	–	5	5
Continuing operations	27,886	28,125	28,326	24,386
Discontinued operations	–	83	204	119
	27,886	28,208	28,530	24,505

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 2009, 3,597 employees were employed in other operations, excluding shared services.

(c) Key management compensation

	2009 £m	2008 £m	2007 £m
Salaries and short-term employee benefits	11	9	8
Post-employment benefits	3	8	5
Termination benefits	–	–	1
Share-based payments	5	3	3
	19	20	17

Key management compensation relates to the Board of Directors, including the Executive Directors and Non-executive Directors for the years presented.

(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.

Notes to the consolidated financial statements continued

3. Operating costs continued

(e) Auditors' remuneration

	2009 £m	2008* £m	2007 £m
Audit services			
Audit of parent company and consolidated financial statements	1.5	1.4	1.2
Other services			
Audit of subsidiary financial statements pursuant to legislation	5.8	5.1	2.8
Other services supplied pursuant to legislation	2.4	2.4	2.2
Services relating to tax compliance	0.6	0.7	0.6
Services relating to tax advisory	0.3	0.5	0.7
Services relating to corporate finance transactions	0.1	0.7	1.4
All other services	0.8	0.4	1.3
Fees paid by associated pension schemes			
Audit of pension schemes of the Company pursuant to legislation	–	–	0.2
	11.5	11.2	10.4
Total services pursuant to legislation	9.7	8.9	6.4
Total other services	1.8	2.3	4.0
	11.5	11.2	10.4

* Comparatives have been restated to present items on a basis consistent with the current year classification

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.

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.

4. Exceptional items, remeasurements and stranded cost recoveries

	2009 £m	2008 £m	2007 £m
Exceptional items – restructuring costs (i)	(192)	(133)	(22)
Exceptional items – environmental related provisions (ii)	(78)	(92)	–
Exceptional items – gain on disposal of subsidiary	–	6	–
Exceptional items – other (iii)	(5)	(23)	–
Remeasurements – commodity contracts (iv)	(443)	232	81
Stranded cost recoveries (v)	426	379	423
Total exceptional items, remeasurements and stranded cost recoveries included within operating profit	(292)	369	482
Exceptional items – debt restructuring costs (vi)	–	–	(45)
Remeasurements – commodity contracts (iv)	(2)	(9)	(19)
Remeasurements – net (losses)/gains on derivative financial instruments (vii)	(82)	(7)	(153)
Total exceptional items and remeasurements included within finance costs	(84)	(16)	(217)
Total exceptional items, remeasurements and stranded cost recoveries before taxation	(376)	353	265
Exceptional tax item – deferred tax credit arising from the reduction in the UK tax rate (viii)	–	170	–
Exceptional tax item – deferred tax charge arising from change in UK industrial building allowance regime (ix)	(49)	–	–
Tax on exceptional items – restructuring costs (i)	59	49	12
Tax on exceptional items – environmental related provisions (ii)	16	20	–
Tax on exceptional items – gain on disposal of subsidiary	–	(4)	–
Tax on exceptional items – other (iii)	2	5	–
Tax on remeasurements – commodity contracts (iv)	179	(90)	(25)
Tax on exceptional items – debt restructuring costs (vi)	–	–	14
Tax on remeasurements – derivative financial instruments (vii)	8	(28)	169
Tax on stranded cost recoveries (v)	(170)	(150)	(169)
Tax on exceptional items, remeasurements and stranded cost recoveries	45	(28)	1
Total exceptional items, remeasurements and stranded cost recoveries	(331)	325	266
Total exceptional items after taxation	(247)	(2)	(41)
Total commodity contract remeasurements after taxation	(266)	133	37
Total derivative financial instrument remeasurements after taxation	(74)	(35)	16
Total stranded cost recoveries after taxation	256	229	254
Total exceptional items, remeasurements and stranded cost recoveries after taxation	(331)	325	266

(i) Restructuring costs include costs related to the integration of KeySpan (£53m), planned cost reduction programmes in our UK businesses (£21m), the restructuring of our liquefied natural gas (LNG) storage facilities (£50m), and transformation related initiatives (£68m). For the year ended 31 March 2008, restructuring costs included pension related costs of £83m arising as a result of actual and planned redundancies.

(ii) Environmental charges include £42m due to significant movements in discount rates arising from reductions in market risk free rates due to the current economic conditions together with £25m arising from changes in landfill tax legislation in the UK. For the year ended 31 March 2009, the UK charge was £37m and the US charge £41m. For 2008, the revision of cost estimates for environmental provisions resulted in a charge in the UK of £44m and a charge of £48m in the US. Costs incurred with respect to US environmental provisions are substantially recoverable from customers.

(iii) Other costs for the year ended 31 March 2009 include an amortisation charge on acquisition-related intangibles of £5m (2008: £4m).

(iv) Remeasurements – commodity contracts represent mark-to-market movements on certain physical and financial commodity contract obligations in the US. These contracts primarily relate to the forward purchase of energy for supply to customers, or to the economic hedging thereof, that are required to be measured at fair value and that do not qualify for hedge accounting. Under the existing rate plans in the US, commodity costs are recoverable from customers although the timing 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.

(v) Stranded cost recoveries include 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. Stranded cost recoveries on a pre-tax basis consist of revenue of £435m (2008: £382m; 2007: £426m) and operating costs of £9m (2008: £3m; 2007: £3m).

(vi) Debt restructuring costs in the year ended 31 March 2007 represent debt redemption costs related to the restructuring of our debt portfolio.

(vii) Remeasurements – net gains/(losses) on derivative financial instruments comprise gains/(losses) arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in equity or which are offset by adjustments to the carrying value of debt. At 31 March 2008, these remeasurements included a loss of £3m 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 2009 includes a £1m (2008: £11m) adjustment in respect of prior years. For the year ended 31 March 2007, remeasurements include a loss of £126m relating to pre-tax losses on investment related derivative financial instruments.

(viii) The exceptional tax credit in the prior period of £170m arose from a reduction in the UK corporation tax rate from 30% to 28% included in the 2007 Finance Act. This resulted in a reduction in deferred tax liabilities.

(ix) The exceptional tax charge of £49m in the period arose from a change in the UK industrial building allowance regime arising in the 2008 Finance Act. This resulted in an increase in deferred tax liabilities.

Notes to the consolidated financial statements continued

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 section 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 healthcare and life insurance benefits to eligible retired US employees. The fair value of plan assets and present value of defined benefit obligations as incorporated in these financial statements are updated annually. 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 post-retirement 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 post-retirement benefits		
	2009 £m	2008 £m	2007 £m	2009 £m	2008 £m	2007 £m
Defined contribution scheme costs	5	5	3	–	–	–
<i>Defined benefit scheme costs</i>						
Current service cost	134	125	113	32	21	15
Past service cost	–	5	–	7	5	7
Curtailment gain on redundancies	(4)	(16)	(10)	–	(4)	–
Settlements on redundancies	–	16	–	–	–	–
Special termination benefits on redundancies	19	80	23	–	1	–
Curtailment cost – augmentations	6	3	3	–	–	–
Total in payroll costs – continuing	160	218	132	39	23	22
Curtailment gain on sale of subsidiary undertaking	–	(12)	–	–	–	–
Interest cost	1,106	912	806	144	89	63
Expected return on plan assets	(1,163)	(1,014)	(885)	(73)	(50)	(41)
Total in finance costs – continuing	(57)	(102)	(79)	71	39	22
Current service cost	2	2	2	–	1	–
Interest cost	–	–	2	–	–	–
Expected return on plan assets	–	–	(2)	–	–	–
Total in discontinued operations	2	2	2	–	1	–

The amounts recognised in the statement of recognised income and expense are as follows:

	Pensions			US other post-retirement benefits		
	2009 £m	2008 £m	2007 £m	2009 £m	2008 £m	2007 £m
Actuarial net (loss)/gain during the year	(1,906)	497	357	(112)	(65)	8
Exchange differences	(141)	3	40	(408)	3	75
Total recognised for the year	(2,047)	500	397	(520)	(62)	83
Cumulative actuarial (loss)/gain	(584)	1,322	825	(203)	(91)	(26)

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			US other post-retirement benefits		
	2009 £m	2008 £m	2007 £m	2009 £m	2008 £m	2007 £m
Present value of funded obligations	(15,797)	(16,233)	(16,044)	(2,299)	(1,784)	(1,126)
Fair value of plan assets	14,797	16,536	15,468	722	737	531
	(1,000)	303	(576)	(1,577)	(1,047)	(595)
Present value of unfunded obligations	(203)	(158)	(83)	—	—	—
Other post-employment liabilities	—	—	—	(74)	(34)	(33)
Unrecognised past service cost	—	—	—	43	36	42
Net (liability)/asset in the balance sheet	(1,203)	145	(659)	(1,608)	(1,045)	(586)
Liabilities	(1,472)	(701)	(696)	(1,608)	(1,045)	(586)
Assets	269	846	37	—	—	—
Net (liability)/asset	(1,203)	145	(659)	(1,608)	(1,045)	(586)
Changes in the present value of the defined benefit obligations						
Opening defined benefit obligations (including unfunded obligations)	(16,391)	(16,127)	(16,616)	(1,784)	(1,126)	(1,223)
Current service cost	(136)	(127)	(115)	(32)	(22)	(15)
Interest cost	(1,106)	(912)	(808)	(144)	(89)	(63)
Actuarial gains/(losses)	1,719	1,335	450	215	8	(4)
Curtailment gain on redundancies	4	16	10	—	4	—
Curtailment gain on sale of subsidiary undertaking	—	12	—	—	—	—
Net transfers and disposals	3	8	(1)	—	—	—
Special termination benefits	(19)	(80)	(23)	—	(1)	—
Curtailment cost – augmentations	(6)	(3)	(3)	—	—	—
Acquisition of subsidiary undertakings	—	(1,362)	(89)	—	(639)	(19)
Plan amendments	—	(5)	—	—	—	(6)
Employee contributions	(13)	(15)	(14)	—	—	—
Benefits paid (including unfunded obligations)	1,003	875	845	116	78	62
Transferred to liabilities of businesses held for sale	—	—	48	—	—	—
Exchange adjustments	(1,058)	(6)	189	(670)	3	142
Closing defined benefit obligations (including unfunded obligations)	(16,000)	(16,391)	(16,127)	(2,299)	(1,784)	(1,126)
Changes in the fair value of plan assets						
Opening fair value of plan assets	16,536	15,468	15,341	737	531	568
Expected return on plan assets	1,163	1,014	887	73	50	41
Actuarial (losses)/gains	(3,625)	(838)	(93)	(327)	(73)	12
Assets distributed on settlements and transfers	—	(16)	—	—	—	—
Transfers (out)/in	(3)	(8)	1	—	—	—
Employer contributions	799	465	276	93	46	28
Employee contributions	13	15	14	—	—	—
Acquisition of subsidiary undertakings	—	1,302	82	—	259	7
Benefits paid	(1,003)	(875)	(845)	(116)	(76)	(58)
Transferred to liabilities of businesses held for sale	—	—	(46)	—	—	—
Exchange adjustments	917	9	(149)	262	—	(67)
Closing fair value of plan assets	14,797	16,536	15,468	722	737	531
Actual return on plan assets	(2,462)	176	794	(254)	(23)	53
Expected contributions to defined benefit plans in the following year	552	581	307	123	128	27

Notes to the consolidated financial statements continued

6. Finance income and costs

	2009 £m	2008* £m	2007 £m
Interest income and similar income			
Expected return on pension and other post-retirement benefit plan assets	1,236	1,064	926
Interest income on financial instruments:			
Interest income from bank deposits and other financial assets	60	209	214
Interest receivable on finance leases	1	2	3
Gains transferred from equity on disposal of available-for-sale investments	18	–	1
	1,315	1,275	1,144
Interest expense and other finance costs			
Before exceptional items and remeasurements	(2,465)	(2,045)	(1,691)
Exceptional items and remeasurements	(84)	(16)	(217)
	(2,549)	(2,061)	(1,908)
Net finance costs	(1,234)	(786)	(764)
<i>Interest expense and other finance costs comprise the following:</i>			
Interest on pension and other post-retirement benefit plan obligations	(1,250)	(1,001)	(869)
Interest expense on financial liabilities held at amortised cost:			
Interest on bank loans and overdrafts	(136)	(71)	(48)
Interest on other borrowings	(1,135)	(990)	(768)
Interest on finance leases	(14)	(11)	(1)
Exceptional debt redemption costs	–	–	(45)
Interest on derivatives	5	(46)	(54)
Unwinding of discounts on provisions	(68)	(45)	(21)
Less: Interest capitalised (i)	133	119	70
Interest expense and other finance costs before exceptional items and remeasurements	(2,465)	(2,045)	(1,736)
Net gains/(losses) on derivative financial instruments included in remeasurements:			
Ineffectiveness on derivatives designated as fair value hedges (ii)	(34)	1	18
Ineffectiveness on derivatives designated as cash flow hedges	(18)	13	–
Ineffectiveness on derivatives designated as net investment hedges	(2)	14	25
On undesignated forward rate risk relating to derivatives designated as net investment hedges	112	(53)	(82)
On derivatives not designated as hedges or ineligible for hedge accounting (iii)	(140)	18	(114)
Financial element of remeasurements on commodity contracts	(2)	(9)	(19)
Net losses on derivative financial instruments included in remeasurements (iv)	(84)	(16)	(172)
Interest expense and other finance costs after exceptional items and remeasurements	(2,549)	(2,061)	(1,908)

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 5.7% (2008: 6.3%; 2007: 5.6%).

(ii) Includes a net gain on instruments designated as fair value hedges of £382m (2008: £87m gain; 2007: £100m loss) less a net loss of £416m (2008: £86m loss; 2007: £118m gain) arising from fair value adjustments to the carrying value of debt.

(iii) Includes a loss of £nil (2008: £3m; 2007: £126m) 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 £1,500m (2008: £885m loss; 2007: £122m gain). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

7. Taxation

Taxation on items charged/(credited) to the income statement

	2009 £m	2008* £m	2007 £m
Taxation before exceptional items, remeasurements and stranded cost recoveries	517	579	442
Exceptional tax items (see note 4)	49	(170)	–
Taxation on other exceptional items, remeasurements and stranded cost recoveries	(94)	198	(1)
Taxation on total exceptional items, remeasurements and stranded cost recoveries (see note 4)	(45)	28	(1)
Total tax charge	472	607	441

Taxation as a percentage of profit before taxation

	2009 %	2008* %	2007 %
Before exceptional items, remeasurements and stranded cost recoveries	29.2	31.7	29.7
After exceptional items, remeasurements and stranded cost recoveries	33.9	27.8	25.2

The tax charge for the year can be analysed as follows:

	2009 £m	2008* £m	2007 £m
United Kingdom			
Corporation tax at 28% (2008: 30%; 2007: 30%)	37	214	66
Corporation tax adjustment in respect of prior years (i)	(54)	(156)	(28)
Deferred tax	339	42	168
Deferred tax adjustment in respect of prior years (ii)	–	67	9
	322	167	215
Overseas			
Corporate tax	105	209	109
Corporate tax adjustment in respect of prior years	38	31	(149)
Deferred tax	37	191	207
Deferred tax adjustment in respect of prior years	(30)	9	59
	150	440	226
Total tax charge	472	607	441

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

- (i) The UK corporation tax adjustment in respect of prior years includes a £2m credit (2008: £9m charge; 2007: £51m credit) that relates to exceptional items, remeasurements and stranded cost recoveries.
- (ii) The UK deferred tax adjustment in respect of prior years includes a £1m charge (2008: £2m charge; 2007: £5m credit) that relates to exceptional items, remeasurements and stranded cost recoveries.

Taxation on items (credited)/charged to equity

	2009 £m	2008 £m	2007 £m
Corporation tax credit on share-based payments	(2)	(7)	(2)
Deferred tax (credit)/charge on available-for-sale investments	(7)	(2)	1
Deferred tax (credit)/charge on revaluation of cash flow hedges	(19)	(2)	10
Deferred tax charge/(credit) on share-based payments	3	12	(11)
Deferred tax (credit)/charge on actuarial (losses)/gains	(678)	98	70
	(703)	99	68
Total tax (credit)/charge recognised in the consolidated statement of recognised income and expense	(704)	94	81
Total tax charge/(credit) relating to share-based payments recognised directly in equity	1	5	(13)
	(703)	99	68

Notes to the consolidated financial statements continued

7. Taxation continued

The tax charge for the year after exceptional items, remeasurements and stranded cost recoveries is higher (2008: lower; 2007: lower) than the standard rate of corporation tax in the UK of 28% (2008: 30%; 2007: 30%). The differences are explained below:

	Before exceptional items, remeasurements and stranded cost recoveries 2009 £m	After exceptional items, remeasurements and stranded cost recoveries 2009 £m	Before exceptional items, remeasurements and stranded cost recoveries 2008* £m	After exceptional items, remeasurements and stranded cost recoveries 2008* £m	Before exceptional items, remeasurements and stranded cost recoveries 2007 £m	After exceptional items, remeasurements and stranded cost recoveries 2007 £m
Profit before taxation						
Before exceptional items, remeasurements and stranded cost recoveries	1,770	1,770	1,829	1,829	1,486	1,486
Exceptional items, remeasurements and stranded cost recoveries	–	(376)	–	353	–	265
Profit before taxation from continuing operations	1,770	1,394	1,829	2,182	1,486	1,751
Profit from continuing operations multiplied by rate of corporation tax in the UK of 28% (2008: 30%; 2007: 30%)	496	390	549	655	446	525
Effects of:						
Adjustments in respect of prior years	(45)	(46)	(60)	(49)	(53)	(109)
Expenses not deductible for tax purposes	76	82	102	117	44	111
Non-taxable income	(35)	(34)	(75)	(51)	(61)	(154)
Adjustment in respect of foreign tax rates	38	32	25	67	22	70
Impact of share-based payments	1	1	2	2	9	9
Remeasurement of deferred tax – change in UK tax rate	–	–	–	(170)	–	–
Other	(14)	47	36	36	35	(11)
Total taxation from continuing operations	517	472	579	607	442	441
	%	%	%	%	%	%
Effective income tax rate	29.2	33.9	31.7	27.8	29.7	25.2

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

Factors that may affect future tax charges

A number of changes to the UK corporation tax system were announced in the April 2009 Budget Statement which are expected to be enacted in the Finance Act 2009.

The changes announced to the UK corporation tax system include temporary changes to the capital allowances regime and the introduction of a system for taxing foreign profits which is expected to bring in a dividend exemption and a worldwide debt cap.

The dividend exemption is likely to be available for both UK and foreign distributions, falling within an exempt classification, received on or after 1 July 2009. This is not expected to have a material effect on our future tax charge.

The worldwide debt cap is likely to restrict the amount of finance expense available for UK tax purposes, based on the consolidated finance expense, and is expected to apply for accounting periods ending 31 March 2011 onwards. We are in the process of evaluating the impact the worldwide debt cap will have on our future tax charge.

These changes have not been substantively enacted as at the balance sheet date and therefore have not been reflected in these financial statements.

In addition, a number of changes to the US tax system have also been signed into law as part of the US stimulus package. It is not expected that these changes will affect the Company's overall future tax charge but, similar to the UK's temporary changes to its capital allowances regime, they are expected to have a positive impact on the Company and its subsidiaries' tax cash flow.

8. Discontinued operations

Discontinued operations are businesses that have been sold, or which are held for sale. Discontinued operations comprise 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 Ravenswood generation station was sold on 26 August 2008, KeySpan Communications was sold on 25 July 2008 and one of our KeySpan engineering companies was sold on 11 July 2008. Subsequent to the year end two further engineering companies were sold.

For comparative periods, discontinued operations also include our former wireless infrastructure operations in the UK and US, and the Basslink electricity interconnector in Australia. 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.

Results of discontinued operations

	2009 £m	2008 £m	2007 £m
Revenue	97	201	383
Operating costs	(84)	(166)	(321)
Operating profit before exceptional items, remeasurements and stranded cost recoveries	13	35	117
Exceptional items (i)	–	–	(55)
Total operating profit from discontinued operations	13	35	62
Net finance costs before remeasurement finance income	–	–	(2)
Remeasurement finance income (ii)	–	8	37
Profit before tax from discontinued operations	13	43	97
Taxation	(4)	(7)	(11)
Profit after tax from discontinued operations	9	36	86
Gain on disposal of Ravenswood	27	–	–
Gain on disposal of UK and US wireless operations	–	1,506	–
Gain on disposal of Basslink	–	80	–
Gain on disposal of discontinued operations before tax	27	1,586	–
Taxation (iii)	(11)	(4)	–
Gain on disposal of discontinued operations	16	1,582	–
Total profit for the year from discontinued operations			
Before exceptional items, remeasurements and stranded cost recoveries	9	28	104
Exceptional items, remeasurements and stranded cost recoveries	16	1,590	(18)
	25	1,618	86

(i) The exceptional item for the year ended 31 March 2007 reflects an impairment of goodwill within the US wireless infrastructure operations.

(ii) 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.

(iii) The tax charge for the year ended 31 March 2009 includes a current tax charge of £564m offset by a deferred tax credit of £564m.

9. Dividends

The following table shows the dividends paid to equity shareholders:

	2009 pence (per ordinary share)	2009 £m	2008 pence (per ordinary share)	2008 £m	2007 pence (per ordinary share)	2007 £m
Ordinary dividends:						
Interim dividend for the year ended 31 March 2009	12.64	307	–	–	–	–
Final dividend for the year ended 31 March 2008	21.30	531	–	–	–	–
Interim dividend for the year ended 31 March 2008	–	–	11.70	300	–	–
Final dividend for the year ended 31 March 2007	–	–	17.80	480	–	–
Interim dividend for the year ended 31 March 2007	–	–	–	–	10.90	297
Final dividend for the year ended 31 March 2006	–	–	–	–	15.90	433
	33.94	838	29.50	780	26.80	730

In addition, the Directors are proposing a final dividend for 2009 of 23.00p per share that will absorb approximately £560m of shareholders' equity (assuming all amounts are settled in cash). It will be paid on 19 August 2009 to shareholders who are on the register of members at 5 June 2009. A scrip dividend alternative (ie shares in lieu of cash) will be offered subject to shareholders' approval at the Annual General Meeting.

Notes to the consolidated financial statements continued

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 2009 £m	Earnings per share 2009 pence	Earnings 2008* £m	Earnings per share 2008* pence	Earnings 2007 £m	Earnings per share 2007 pence
Adjusted earnings – continuing operations	1,250	50.9	1,247	47.8	1,042	38.3
Exceptional items after taxation	(247)	(10.1)	(2)	(0.1)	(41)	(1.5)
Commodity contract remeasurements after taxation	(266)	(10.8)	133	5.1	37	1.3
Derivative financial instrument remeasurements after taxation	(74)	(3.0)	(35)	(1.3)	16	0.6
Stranded cost recoveries after taxation	256	10.4	229	8.8	254	9.4
Earnings – continuing operations	919	37.4	1,572	60.3	1,308	48.1
Adjusted earnings – discontinued operations	9	0.4	28	1.1	104	3.8
Gain on disposal of operations after taxation	16	0.7	1,582	60.6	–	–
Other exceptional items and remeasurements	–	–	8	0.3	(18)	(0.6)
Earnings – discontinued operations	25	1.1	1,618	62.0	86	3.2
Earnings	944	38.5	3,190	122.3	1,394	51.3
		2009 millions		2008 millions		2007 millions
Weighted average number of shares – basic		2,455		2,609		2,719

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(b) Diluted earnings per share

	Earnings 2009 £m	Earnings per share 2009 pence	Earnings 2008* £m	Earnings per share 2008* pence	Earnings 2007 £m	Earnings per share 2007 pence
Adjusted diluted earnings – continuing operations	1,250	50.6	1,247	47.5	1,042	38.1
Exceptional items after taxation	(247)	(10.1)	(2)	(0.1)	(41)	(1.5)
Commodity contract remeasurements after taxation	(266)	(10.8)	133	5.1	37	1.3
Derivative financial instrument remeasurements after taxation	(74)	(3.0)	(35)	(1.3)	16	0.6
Stranded cost recoveries after taxation	256	10.4	229	8.7	254	9.3
Diluted earnings – continuing operations	919	37.1	1,572	59.9	1,308	47.8
Adjusted diluted earnings – discontinued operations	9	0.4	28	1.1	104	3.8
Gain on disposal of operations after taxation	16	0.7	1,582	60.3	–	–
Other exceptional items and remeasurements	–	–	8	0.3	(18)	(0.7)
Diluted earnings – discontinued operations	25	1.1	1,618	61.7	86	3.1
Diluted earnings	944	38.2	3,190	121.6	1,394	50.9
		2009 millions		2008 millions		2007 millions
Weighted average number of shares – diluted		2,472		2,624		2,737

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(c) Reconciliation of basic to diluted average number of shares

	2009	2008	2007
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	millions	millions	millions
Weighted average number of ordinary shares – basic	2,455	2,609	2,719
Effect of dilutive potential ordinary shares – employee share plan	17	15	18
Weighted average number of ordinary shares – diluted	2,472	2,624	2,737

11. Goodwill

	£m
Cost at 1 April 2007	1,480
Exchange adjustments	23
Acquisition of subsidiary undertakings (see note 28)*	2,401
Cost at 31 March 2008*	3,904
Exchange adjustments	1,487
Cost at 31 March 2009	5,391
Net book value at 31 March 2009	5,391
Net book value at 31 March 2008*	3,904

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

The amounts disclosed above as at 31 March 2009 include balances relating to our US gas operations of £3,251m (2008: £2,355m), our New England electricity distribution operations of £931m (2008: £674m), our operations run by our subsidiary Niagara Mohawk Power Corporation (NIMO) of £949m (2008: £687m) and our New England transmission operations of £260m (2008: £188m).

Goodwill is reviewed annually for impairment.

The recoverability of goodwill at 31 March 2009 has been assessed by comparing the carrying amount of our operations described above (our cash generating units) with the expected recoverable amount on a value-in-use basis. In each assessment the value-in-use has been calculated based on our five year plan projections that incorporate our best estimates of future cash flows, customer rates, costs, future prices and growth. Such projections reflect our current regulatory rate plans taking into account regulatory arrangements to allow for future rate plan filings and recovery of investment. For much of the five year plan period our regulatory rate plans have been agreed with regulators. Our five year plans have proved to be reliable guides in the past and the Directors believe the estimates are appropriate.

Projections for the next five years are extrapolated into the future by using a growth rate of 3%. The growth rate has been determined having regard to long-term historical data on growth in US real gross domestic product (GDP). Based on our business's place in the underlying US economy, it is appropriate for the terminal growth rate to be based upon the overall growth in real GDP and, given the nature of our operations, to extend over a long period of time.

Cash flow projections have been discounted to reflect the time value of money, using an effective pre-tax discount rate of 10% (2008: 9%). The discount rate represents the estimated weighted average cost of capital of these operations.

While it is conceivable that a key assumption in the calculation could change, the Directors believe that no reasonably foreseeable changes to key assumptions would result in an impairment of goodwill, such is the margin by which the estimated fair value exceeds the carrying amount.

Notes to the consolidated financial statements continued

12. Other intangible assets

	Software £m	Acquisition- related £m	Other £m	Total £m
Non-current				
Cost at 1 April 2007	286	–	24	310
Exchange adjustments	2	–	2	4
Acquisition of subsidiary undertakings (see note 28)*	42	92	–	134
Additions	44	–	1	45
Disposals	(1)	–	–	(1)
Cost at 31 March 2008*	373	92	27	492
Exchange adjustments	32	37	1	70
Additions	78	–	–	78
Reclassifications (i)	50	–	(12)	38
Disposals	(8)	–	–	(8)
Cost at 31 March 2009	525	129	16	670
Amortisation at 1 April 2007	165	–	1	166
Exchange adjustments	1	–	–	1
Amortisation charge for the year	48	4	2	54
Amortisation at 31 March 2008	214	4	3	221
Exchange adjustments	12	1	1	14
Amortisation charge for the year	59	5	5	69
Reclassifications (i)	5	–	(1)	4
Disposals	(8)	–	–	(8)
Amortisation at 31 March 2009	282	10	8	300
Net book value at 31 March 2009	243	119	8	370
Net book value at 31 March 2008*	159	88	24	271

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(i) Primarily represents reclassifications from other receivables and between categories.

13. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 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 (see note 28)*	347	2,797	129	7	3,280
Disposals	(40)	(135)	—	(56)	(231)
Reclassifications (i)	25	1,840	(1,783)	57	139
Cost at 31 March 2008*	1,152	30,584	2,626	843	35,205
Exchange adjustments	280	3,903	107	2	4,292
Additions	43	2,026	1,005	90	3,164
Disposals	(20)	(204)	(12)	(31)	(267)
Reclassifications	49	1,207	(1,241)	(15)	—
Cost at 31 March 2009	1,504	37,516	2,485	889	42,394
Depreciation at 1 April 2007	192	9,433	—	467	10,092
Exchange adjustments	1	6	—	—	7
Depreciation charge for the year (ii)	26	853	—	75	954
Disposals	(17)	(113)	—	(49)	(179)
Depreciation at 31 March 2008	202	10,179	—	493	10,874
Exchange adjustments	18	1,050	—	3	1,071
Depreciation charge for the year (ii)	36	958	—	83	1,077
Impairment charge for the year	—	29	—	—	29
Disposals	(19)	(157)	—	(26)	(202)
Reclassifications	5	25	—	(30)	—
Depreciation at 31 March 2009	242	12,084	—	523	12,849
Net book value at 31 March 2009	1,262	25,432	2,485	366	29,545
Net book value at 31 March 2008*	950	20,405	2,626	350	24,331

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(i) Reclassifications included an amount of £139m transferred to trade and other payables, and other non-current liabilities.

(ii) Includes amounts in respect of capitalised depreciation of £19m (2008: £14m).

The net book value of land and buildings comprised:

	2009 £m	2008* £m
Freehold	1,191	904
Long leasehold (over 50 years)	5	5
Short leasehold (under 50 years)	66	41
	1,262	950

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

The cost of property, plant and equipment at 31 March 2009 included £822m (2008: £674m) relating to interest capitalised.

Included within trade and other payables and other non-current liabilities at 31 March 2009 are contributions to the cost of property, plant and equipment amounting to £37m (2008: £31m) and £1,449m (2008: £1,228m) respectively.

The carrying value of property, plant and equipment held under finance leases at 31 March 2009 was £240m (2008: £193m). Additions during the year included £19m (2008: £26m) of property, plant and equipment held under finance leases.

Notes to the consolidated financial statements continued

14. Other non-current assets

	2009 £m	2008* £m
Lease receivables	–	4
Prepayments	6	7
Other receivables	92	95
Commodity contract assets	8	58
	106	164

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

There is no material difference between the fair value and the carrying value of other non-current assets.

For further information on commodity contract assets, refer to note 34. Other receivables include a £61m (2008: £65m) receivable from the Long Island Power Authority.

15. Financial and other investments

	2009 £m	2008 £m
Non-current		
Available-for-sale investments	193	180
Investments in joint ventures and associates	168	71
	361	251
Current		
Available-for-sale investments	2,038	2,062
Loans and receivables	159	33
	2,197	2,095
Total financial and other investments	2,558	2,346
Financial and other investments include the following:		
Investments in short-term money funds	1,758	1,803
UK managed investments in equity and bonds	240	224
US managed investments in equity and bonds	123	107
Restricted cash balances		
Collateral	159	17
Other	–	10
Cash surrender value of life insurance policies	102	101
Investment in joint ventures and associates	168	71
Other investments	8	13
	2,558	2,346

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 are 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

	Accelerated tax depreciation £m	Share- based payments £m	Pensions and other post- retirement benefits £m	Financial instruments £m	Other net temporary differences £m	Total £m
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)*	389	—	(250)	(1)	305	443
Other	(2)	1	2	—	2	3
At 31 March 2008*	3,795	(16)	(626)	14	92	3,259
Deferred tax assets at 31 March 2008*	(2)	(16)	(875)	(17)	(382)	(1,292)
Deferred tax liabilities at 31 March 2008*	3,797	—	249	31	474	4,551
At 1 April 2008*	3,795	(16)	(626)	14	92	3,259
Exchange adjustments	471	—	(303)	3	7	178
(Credited)/charged to income statement (i)	(257)	(1)	219	5	(184)	(218)
Charged/(credited) to equity	—	3	(678)	(26)	—	(701)
Other	288	1	—	—	(283)	6
At 31 March 2009	4,297	(13)	(1,388)	(4)	(368)	2,524
Deferred tax assets at 31 March 2009	(2)	(13)	(1,457)	(33)	(504)	(2,009)
Deferred tax liabilities at 31 March 2009	4,299	—	69	29	136	4,533
	4,297	(13)	(1,388)	(4)	(368)	2,524

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(i) Deferred tax credited to the income statement includes a £564m tax credit (2008: £1m tax credit) 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. The following is an analysis of the deferred tax balances (after offset) for balance sheet purposes:

	2009 £m	2008* £m
Deferred tax liabilities	2,661	3,259
Deferred tax assets	(137)	—
	2,524	3,259

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

At the balance sheet date there were no material current deferred tax assets or liabilities (2008: £nil).

Deferred tax assets in respect of capital losses, trading 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:

	2009 £m	2008 £m
Capital losses	214	220
Non-trade deficits	2	10
Trading losses	4	—

The trading losses arise overseas and are available to carry forward for nine years and set off against future overseas profits and will expire on 31 March 2017. In addition, the capital losses and non-trade deficits arise in the UK and are available to carry forward indefinitely. However, the capital losses can only be offset against specific types of future capital gains and non-trade deficits 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 £1,137m (2008: £930m). 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.

Notes to the consolidated financial statements continued

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:

	2009			2008		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Fair value hedges						
Interest rate swaps	193	–	193	23	(8)	15
Cross-currency interest rate swaps	899	(26)	873	271	(43)	228
	1,092	(26)	1,066	294	(51)	243
Cash flow hedges						
Interest rate swaps	5	(94)	(89)	49	(76)	(27)
Cross-currency interest rate swaps	1,056	(5)	1,051	609	(8)	601
Foreign exchange forward contracts	–	–	–	16	(7)	9
	1,061	(99)	962	674	(91)	583
Net investment hedges						
Cross-currency interest rate swaps	55	(1,033)	(978)	362	(49)	313
Foreign exchange forward contracts	62	–	62	–	(20)	(20)
	117	(1,033)	(916)	362	(69)	293
Derivatives not in a formal hedge relationship						
Interest rate swaps	247	(257)	(10)	76	(100)	(24)
Interest rate swaptions	–	–	–	–	(6)	(6)
Cross-currency interest rate swaps	67	(9)	58	4	–	4
Foreign exchange forward contracts	32	(1)	31	–	–	–
Forward rate agreements	–	(16)	(16)	–	–	–
Other	11	–	11	–	–	–
	357	(283)	74	80	(106)	(26)
	2,627	(1,441)	1,186	1,410	(317)	1,093
Hedge positions offset within derivative instruments	(501)	501	–	116	(116)	–
Total	2,126	(940)	1,186	1,526	(433)	1,093

The maturity of derivative financial instruments is as follows:

	2009			2008		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
In one year or less	593	(307)	286	463	(114)	349
Current	593	(307)	286	463	(114)	349
In more than one year, but not more than two years	44	(28)	16	104	(3)	101
In more than two years, but not more than three years	259	(229)	30	113	(21)	92
In more than three years, but not more than four years	128	(48)	80	358	(68)	290
In more than four years, but not more than five years	281	(113)	168	170	(36)	134
In more than five years	821	(215)	606	318	(191)	127
Non-current	1,533	(633)	900	1,063	(319)	744
	2,126	(940)	1,186	1,526	(433)	1,093

For each class of derivative the sterling equivalent notional value of the pay leg is as follows:

	2009 £m	2008 £m
Interest rate swaps	(12,382)	(10,105)
Interest rate swaptions	–	(202)
Cross-currency interest rate swaps	(10,701)	(7,120)
Foreign exchange forward contracts	(2,802)	(2,020)
Forward rate agreements	(10,388)	–
Other	(758)	–
Total	(37,031)	(19,447)

18. Inventories and current intangible assets

	2009 £m	2008* £m
Raw materials and consumables	163	116
Work in progress	13	16
Fuel stocks	341	178
Current intangible assets – emission allowances	39	128
	556	438

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

The amount of inventories consumed and recognised within operating costs during the year was £1,068m (2008: £446m; 2007: £97m). The above table includes a £15m provision for obsolescence as at 31 March 2009 (2008: £4m).

19. Trade and other receivables

	2009 £m	2008* £m
Trade receivables	1,569	1,158
Other receivables	47	80
Commodity contract assets	41	78
Prepayments and accrued income	1,015	949
	2,672	2,265

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

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

	2009 £m	2008* £m
At 1 April	159	102
Exchange adjustments	72	(1)
Charge for the year, net of recoveries	206	108
Acquisition of subsidiary undertaking	–	41
Uncollectable amounts written off against receivables	(134)	(91)
At 31 March	303	159

* Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

As at 31 March 2009, trade receivables of £283m (2008: £188m) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2009 £m	2008 £m
Up to 3 months past due	160	100
3 to 6 months past due	45	36
Over 6 months past due	78	52
	283	188

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.

Notes to the consolidated financial statements continued

20. Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank	87	93
Short-term deposits	650	81
Cash and cash equivalents excluding bank overdrafts	737	174
Bank overdrafts	(17)	(10)
Net cash and cash equivalents	720	164

The carrying amounts of cash and cash equivalents and bank overdrafts approximate 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.

At 31 March 2009, £52m (2008: £61m) of cash and cash equivalents were restricted. This primarily relates to cash held in insurance captive companies.

21. Borrowings

The following table analyses borrowings, including bank overdrafts:

	2009 £m	2008 £m
Current		
Bank loans	604	502
Bonds	1,826	2,545
Commercial paper	766	562
Finance leases	33	256
Other loans	7	7
Bank overdrafts	17	10
	3,253	3,882
Non-current		
Bank loans	3,140	1,541
Bonds	20,002	15,287
Finance leases	205	165
Other loans	193	128
	23,540	17,121
Total borrowings	26,793	21,003

Total borrowings are repayable as follows:

	2009 £m	2008 £m
In one year or less	3,253	3,882
In more than one year, but not more than two years	2,014	1,386
In more than two years, but not more than three years	2,543	1,413
In more than three years, but not more than four years	1,400	1,700
In more than four years, but not more than five years	2,457	1,302
In more than five years:		
by instalments	76	78
other than by instalments	15,050	11,242
	26,793	21,003

The fair value of borrowings at 31 March 2009 was £25,230m (2008: £20,208m). 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. The notional amount outstanding of the debt portfolio at 31 March 2009 was £26,619m (2008: £21,143m).

21. Borrowings continued

Charges over property, plant and other assets were provided as collateral over borrowings totalling £493m at 31 March 2009 (2008: £388m).

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 £473m (2008: £345m) 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:

	2009 £m	2008 £m
Gross finance lease liabilities repayable as follows:		
In one year or less	46	266
In more than one year, but not more than five years	148	120
In more than five years	124	99
	318	485
Less: finance charges allocated to future periods	(80)	(64)
	238	421
The present value of finance lease liabilities is as follows:		
In one year or less	33	256
In more than one year, but not more than five years	117	94
In more than five years	88	71
	238	421

For further details of our bonds in issue and borrowing facilities, refer to note 35.

22. Trade and other payables

	2009 £m	2008* £m
Trade payables	1,653	1,708
Commodity contract liabilities	203	36
Social security and other taxes	111	114
Other payables	650	518
Deferred income	218	104
	2,835	2,480

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

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

	2009 £m	2008 £m
Commodity contract liabilities	156	88
Other payables	396	347
Deferred income	1,540	1,286
	2,092	1,721

Commodity contract liabilities are recorded at fair value. For further details of commodity risk, refer to note 34. All other non-current liabilities are recorded at amortised cost. There is no material difference between the fair value and the carrying value of other non-current liabilities.

Notes to the consolidated financial statements continued

24. Provisions

	Decom- missioning £m	Environ- mental £m	Emissions £m	Restructuring £m	Other £m	Total provisions £m
At 1 April 2007	70	372	1	56	95	594
Exchange adjustments	–	3	2	–	1	6
Acquisition of subsidiary undertakings*	23	390	111	–	180	704
Additions	5	124	5	25	17	176
Unused amounts reversed	(4)	(14)	(1)	–	(5)	(24)
Unwinding of discount*	6	31	–	–	8	45
Utilised	(13)	(69)	(4)	(15)	(3)	(104)
At 31 March 2008*	87	837	114	66	293	1,397
Exchange adjustments	33	240	33	–	73	379
Additions	4	101	6	43	28	182
Unused amounts reversed	(3)	(23)	(9)	–	–	(35)
Unwinding of discount	2	58	–	–	8	68
Utilised	(15)	(109)	(119)	(9)	(40)	(292)
At 31 March 2009	108	1,104	25	100	362	1,699

Provisions have been analysed as current and non-current as follows:

	2009 £m	2008* £m
Current	248	375
Non-current	1,451	1,022
	1,699	1,397

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

Decommissioning provision

The decommissioning provision of £108m at 31 March 2009 (2008: £87m) 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 £47m (2008: £33m) relating to other asset retirement obligations. Expenditure is expected to be incurred between financial years 2010 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:

	2009		2008		Nominal discount rate
	Discounted £m	Undiscounted £m	Discounted £m	Undiscounted £m	
UK gas site decontamination (i)	226	317	192	280	5.0%
US sites (ii)	876	1,272	643	963	5.5%
Other (iii)	2	2	2	2	n/a
	1,104	1,591	837	1,245	

(i) 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 2010 to 2058 with some 50% of the spend over the next six 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 statement.

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 2010 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.

(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.

24. Provisions continued

Emissions provision

The provision for emission costs is expected to be settled using emissions allowances granted.

Restructuring provision

At 31 March 2009, £30m of the total restructuring provision (2008: £32m) 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 during 2009 and 2010.

Other provisions

Other provisions at 31 March 2009 included £61m (2008: £52m) 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 2009 also included £12m (2008: £17m) in respect of the sales of four UK gas distribution networks relating to property transfer costs; and £13m (2008: £11m) in respect of obligations associated with investments in joint ventures.

As at 31 March 2009 other provisions also included a £219m (2008: £165m) onerous lease provision. The associated operating lease related to the Ravenswood generation station but the lease commitment remained with National Grid following the sale of Ravenswood.

25. Share capital

	Allotted, called up and fully paid	
	millions	£m
Ordinary shares		
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 ended 31 March 2008 (ii)	8	1
Repurchased during the year ended 31 March 2008 (iii)	(127)	(15)
At 31 March 2008 and 31 March 2009	2,582	294

- (i) 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 had a nominal value of £2m and represented approximately 1% of the ordinary shares in issue as at 31 March 2007. The consideration was charged against retained earnings.
- (ii) Included within issued share capital are 3,705,193 ordinary shares that were issued following the conversion of the Company's B shares to ordinary shares on 28 September 2007.
- (iii) 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 had a nominal value of £15m and represented approximately 5% of the ordinary shares in issue as at 31 March 2008. The consideration was charged against retained earnings.

The share capital of the Company consists of ordinary shares of 11¹⁷/₄₃ pence nominal value each and American Depositary Shares. 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.

B shares

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 29 January 2008.

Notes to the consolidated financial statements continued

25. Share capital continued

Treasury shares

At 31 March 2009, the Company held 153m (2008: 67m; 2007: nil) of its own shares. The market value of these shares as at 31 March 2009 was £821m (2008: £462m; 2007: £nil).

The Company made the following transactions in respect of its own shares during the year ended 31 March 2009:

- (i) From 1 April 2008 to 24 September 2008 the Company repurchased, under its share repurchase programme 85m ordinary shares for aggregate consideration of £597m, including transaction costs. The shares repurchased have a nominal value of £10m and represented approximately 3% of the ordinary shares in issue as at 31 March 2009.
- (ii) During the year, 1m treasury shares were gifted to a National Grid Employee Share Trust and 2m 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 2009. The nominal value of these shares was £0.3m and the total proceeds received were £8m.
- (iii) During the year the Company made gifts totalling £5m 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 154m ordinary shares (2008: 67m; 2007: nil) representing approximately 6% of the ordinary shares in issue as at 31 March 2009 and having a nominal value of £18m.

Additional information in respect of share capital

	2009 millions	2009 £m	2008 millions	2008 £m	2007 millions	2007 £m
Consideration received in respect of ordinary shares issued during the year	–	–	8	23	4	16
Authorised share capital Ordinary shares (i)	4,392	501	4,392	501	4,388	500
Non-cumulative B shares	–	–	–	–	3,150	315
	4,392	501	4,392	501	7,538	815

- (i) On 28 September 2007, the Company increased its authorised ordinary share capital by 3,705,193 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 capital £m	Share premium account £m	Retained earnings £m	Other equity reserves £m	Total shareholders' equity £m	Minority interests £m	Total equity £m
At 1 April 2006	310	1,316	6,817	(4,961)	3,482	11	3,493
Total recognised income and expense for the year	–	–	1,689	(191)	1,498	1	1,499
Equity dividends	–	–	(730)	–	(730)	–	(730)
Issue of ordinary share capital	–	16	–	–	16	–	16
Repurchase of shares	(2)	–	(169)	2	(169)	–	(169)
Other movements in minority interests	–	–	–	–	–	(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*	–	–	3,524	(54)	3,470	3	3,473
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	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	8,943	(5,252)	5,356	18	5,374
Total recognised income and expense for the year	–	–	(396)	422	26	8	34
Equity dividends	–	–	(838)	–	(838)	–	(838)
Repurchase of share capital and purchase of treasury shares (i)	–	–	(603)	–	(603)	–	(603)
Other movements in minority interests	–	–	–	–	–	(12)	(12)
Share-based payment	–	–	22	–	22	–	22
Issue of treasury shares	–	–	8	–	8	–	8
Tax on share-based payment	–	–	(1)	–	(1)	–	(1)
At 31 March 2009	294	1,371	7,135	(4,830)	3,970	14	3,984

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(i) From 1 April 2008 to 24 September 2008, the Company repurchased under its share repurchase programme 85 million ordinary shares (year ended 31 March 2008: 200 million; year ended 31 March 2007: 22 million) for aggregate consideration of £597m (2008: £1,516m; 2007: £169m) including transaction costs. The shares repurchased have a nominal value of 11¹⁷/₄₃ pence each and represented 3% of the ordinary shares in issue as at 31 March 2009. Included within total equity is a deduction of £1,173m for treasury shares (2008: £570m; 2007: £nil). Further purchases of shares relating to employee share schemes were made for an aggregate consideration of £6m (2008: £6m; 2007: £nil).

Notes to the consolidated financial statements continued

26. Reconciliation of movements in total equity continued

Other equity reserves

	Translation £m	Cash flow hedge £m	Available- for-sale £m	Capital redemption £m	Merger £m	Total £m
At 1 April 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)
Net income/(expense) recognised directly in equity	457	(30)	(5)	—	—	422
At 31 March 2009	384	(72)	4	19	(5,165)	(4,830)

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.

During the year ended 31 March 2008, 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 2009 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 £12m, 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.

The amount of the cash flow hedge reserve transferred against the cost of purchasing property, plant and equipment during the year was £8m, with £nil expected to be transferred within the next year.

27. Consolidated cash flow statement

(a) Cash flow from operating activities – discontinued operations

	2009 £m	2008 £m	2007 £m
Operating profit	13	35	62
Adjustments for:			
Exceptional items	—	—	55
Depreciation and amortisation	—	—	72
Changes in working capital, provisions and pensions	(21)	(25)	(8)
Cash flow relating to discontinued operations	(8)	10	181

(b) Cash flow from investing activities – discontinued operations

	2009 £m	2008 £m	2007 £m
Disposal proceeds (i)	1,617	3,064	27
Tax arising on disposal	(564)	—	—
Acquisition of subsidiaries, net of cash acquired	—	—	(85)
Other investing activities	(4)	(14)	(47)
Cash flow relating to discontinued operations	1,049	3,050	(105)

(i) Disposal proceeds are in respect of the sale of assets and liabilities classified as held for sale.

27. Consolidated cash flow statement continued
(c) Reconciliation of net cash flow to movement in net debt

	2009 £m	2008 £m	2007 £m
Movement in cash and cash equivalents	538	(1,450)	175
(Decrease)/increase in financial investments	(99)	(45)	1,725
Increase in borrowings and derivatives	(1,641)	(1,589)	(3,045)
Cash paid to shareholders under B share scheme	–	26	26
Net interest paid	956	694	597
Change in net debt resulting from cash flows	(246)	(2,364)	(522)
Changes in fair value of financial assets and liabilities and exchange movements	(3,625)	(133)	331
Net interest charge on the components of net debt	(1,161)	(901)	(655)
Borrowings of subsidiary undertaking acquired	–	(2,446)	(48)
Amounts reclassified to businesses held for sale	–	17	(42)
Other non-cash movements	–	(26)	(2)
Movement in net debt (net of related derivative financial instruments) in the year	(5,032)	(5,853)	(938)
Net debt at start of year	(17,641)	(11,788)	(10,850)
Net debt (net of related derivative financial instruments) at end of year	(22,673)	(17,641)	(11,788)

(d) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments ⁽ⁱ⁾ £m	Borrowings ⁽ⁱ⁾ £m	Derivatives ⁽ⁱ⁾ £m	Total £m
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 and exchange movements	(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 and exchange movements	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)
Cash flow	545	(7)	538	(184)	(1,316)	716	(246)
Fair value gains and losses and exchange movements	18	–	18	207	(3,222)	(628)	(3,625)
Interest charges	–	–	–	79	(1,245)	5	(1,161)
At 31 March 2009	737	(17)	720	2,197	(26,776)	1,186	(22,673)

(i) Includes interest. Accrued interest at 31 March 2009 was £258m (2008: £225m).

Notes to the consolidated financial statements – supplementary information

28. Acquisitions

On 24 August 2007 the acquisition of KeySpan Corporation 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 recorded on the acquisition was £2.3bn based on the provisional fair values that were presented in our financial statements for the year ended 31 March 2008. The fair value exercise has now been completed and the provisional fair values reported in our financial statements for the year ended 31 March 2008 have been updated and are reported in the table below. As a result of the fair value adjustments the final goodwill arising on the acquisition was £2.4bn. 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 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.

The Ravenswood merchant electricity generation business in New York City was sold on 26 August 2008 for consideration of \$2.9bn, KeySpan Communications was sold on 25 July 2008 for consideration of \$35m, and one of our KeySpan engineering companies was sold on 11 July 2008 for consideration of \$7m. The assets and liabilities related to these businesses are included in the 'Assets of businesses held for sale' category in the table below and the results of these discontinued operations are reported in note 8.

	Provisional fair values (as previously reported) £m	Changes to fair values £m	Final fair value £m
Other intangible assets	135	(1)	134
Property, plant and equipment	3,282	(2)	3,280
Financial and other investments – non-current	129	–	129
Other non-current assets	271	(91)	180
Inventories and current intangibles	505	(17)	488
Trade and other receivables	477	(4)	473
Financial and other investments – current	33	–	33
Cash and cash equivalents	260	–	260
Assets of businesses held for sale	1,487	(2)	1,485
Borrowings – current	(545)	–	(545)
Trade and other payables	(654)	(35)	(689)
Current tax liabilities	(95)	(1)	(96)
Borrowings – non-current	(1,934)	–	(1,934)
Other non-current liabilities	(169)	–	(169)
Deferred tax liabilities	(591)	148	(443)
Pensions and other post-retirement benefit obligations	(440)	–	(440)
Provisions	(643)	(61)	(704)
Liabilities of businesses held for sale	(73)	–	(73)
Minority interest	(8)	–	(8)
Net assets acquired	1,427	(66)	1,361
Goodwill arising on acquisition	2,335	66	2,401
Total consideration	3,762	–	3,762

The total consideration net of cash acquired (£260m) was £3,502m.

As required under IFRS 3 'Business Combinations' the comparative amounts presented within the financial statements have been restated for the finalisation of the fair values. The changes made to the comparative balance sheet represent the movements between the provisional fair values in the consolidated balance sheet at 31 March 2008 and final fair values, together with any associated reclassification adjustments. In addition, the consolidated income statement for the year ended 31 March 2008 has been adjusted to reflect an increase in interest expense of £10m and a decrease in taxation of £4m resulting from the finalisation of the fair values.

For the period from 24 August 2007 to 31 March 2008, the KeySpan acquired activities contributed revenue of £2,498m to our continuing operations; contributed a profit from continuing operations after taxation of £219m; and reported an adjusted profit (before exceptional items, remeasurements and stranded cost recoveries) from continuing operations after taxation of £168m. 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

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 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* Actual £m	2008* Pro forma £m
Continuing operations		
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		
Before exceptional items, remeasurements and stranded cost recoveries	1,250	1,165
Exceptional items, remeasurements and stranded cost recoveries	325	268
Profit for the year – continuing operations	1,575	1,433
Attributable to:		
Equity shareholders of the parent	1,572	1,430
Minority interests	3	3
Profit for the year – continuing operations	1,575	1,433
	Earnings per share pence	Earnings per share pence
Adjusted earnings – continuing operations	47.8p	44.5p
Earnings – continuing operations	60.3p	54.8p

*Restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation

29. Commitments and contingencies

(a) Future capital expenditure

	2009 £m	2008 £m
Contracted for but not provided	1,493	1,097

(b) Lease commitments

Total commitments under non-cancellable operating leases were as follows:

	2009 £m	2008 £m
In one year or less	82	83
In more than one year, but not more than two years	79	83
In more than two years, but not more than three years	73	80
In more than three years, but not more than four years	72	69
In more than four years, but not more than five years	91	66
In more than five years	549	356
	946	737

The majority of the leases were in respect of properties.

Notes to the consolidated financial statements continued

29. Commitments and contingencies continued

(c) Energy purchase commitments

At 31 March 2009, there were obligations under contracts for the forward purchase of energy. The following table analyses these commitments, excluding commodity contracts carried at fair value.

	2009 £m	2008* £m
In one year or less	990	794
In more than one year, but not more than two years	816	491
In more than two years, but not more than three years	620	380
In more than three years, but not more than four years	412	205
In more than four years, but not more than five years	379	43
In more than five years	428	148
	3,645	2,061

*Comparatives have been restated to present items on a basis consistent with the current year classification

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 for 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.

(d) Other commitments, contingencies and guarantees

The value of other commitments, contingencies and guarantees at 31 March 2009 amounted to £1,666m (2008: £1,387m), including guarantees amounting to £1,022m (2008: £925m) and commitments largely relating to gas purchasing and property remediation of £615m (2008: £432m).

Details of the guarantees entered into by the Company or its subsidiary undertakings at 31 March 2009 are shown below:

- (i) a guarantee in respect of Ravenswood Unit 40 financing amounting to approximately £268m. This expires in 2040;
- (ii) a letter of support of obligations under a shareholders' agreement relating to the interconnector project between Britain and the Netherlands amounting to approximately £264m. This expires in 2010;
- (iii) guarantees of certain obligations in respect of the UK Grain LNG Import Terminal amounting to approximately £188m. These run for varying lengths of time, expiring between now and 2028;
- (iv) a guarantee amounting to approximately £122m of half of the obligations of the interconnector project between Britain and the Netherlands. This expires in 2010;
- (v) guarantees of the liabilities of a metering subsidiary under meter operating contracts amounting to £53m. These are ongoing;
- (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;
- (vii) letters of credit in support of gas balancing obligations amounting to £21m, lasting for less than one year;
- (viii) guarantees of £15m relating to certain property obligations. The bulk of these expire by December 2025;
- (ix) collateral of £15m to secure syndicate insurance obligations which are evergreen;
- (x) guarantees in respect of a former associate amounting to £14m, the bulk of which relates to its obligations to supply telecommunications services. These are open-ended; and
- (xi) 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.

For a portion of our customers in New England, the Company has entered into fixed price electricity requirement contracts with various counterparties. The contracts do not contain a determinable notional value as they are dependent on future customer demand. The contracts range in term from 3 to 6 months with monthly prices per megawatt-hour ranging from \$58 to \$123. These do not represent onerous contracts as actual prices incurred are recovered from our customers.

29. Commitments and contingencies continued

(e) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £28m (2008: £35m).

(f) Litigation and claims

In last year's Annual Report and Accounts we reported a decision by the Gas and Electricity Markets Authority (GEMA) (the 'Decision') to levy on us a fine of £41.6m for a breach of the UK Competition Act 1998 in respect of term contracts with gas suppliers entered into by our UK metering services business in 2004. We also noted that we had appealed the Decision to the Competition Appeal Tribunal (the 'Tribunal'). On 29 April 2009, the Tribunal overturned the Decision in part and reduced the fine to £30m but upheld the original Decision in part.

At the date of signing of these accounts, 13 May 2009, we continue to review the Tribunal's ruling and are considering our legal position including potential grounds for appeal, together with assessing the potential financial and other impacts of the ruling. As at this date therefore, we remain of the view that an outflow of economic benefits is not probable, and as a result, no provision has been made in these accounts either for the reduced fine of £30m, or for any other possible financial impact of the ruling.

In October 2008, we informed Ofgem that our mains replacement activity carried out within the UK's West Midlands Alliance partnership may have been misreported. National Grid and Ofgem have jointly appointed Ernst & Young to carry out a full investigation to determine the extent of the issue. At present it is too early to determine the likely outcome of the investigation and any potential consequences.

As previously reported, 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 investigative 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. The investigation is ongoing and we continue to cooperate fully.

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:

	2009 £m	2008 £m	2007 £m
Sales: Services supplied to a pension plan	4	3	4
Purchases: Services received from joint ventures and associates	44	33	26

At 31 March 2009, there were amounts receivable and payable from and to related parties amounting to £nil (2008: £nil; 2007: £nil) and £6m (2008: £2m; 2007: £2m) 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

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 as at 31 March 2007. The market value of the scheme's assets was £12,923m 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 2007 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £442m (£318m net of tax) on the valuation date in the light of which the Company agreed a recovery plan with the trustees.

The actuarial valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 32.4% of pensionable earnings (29.4% employers and 3% employees). In addition, the employers pay an allowance for administration expenses which was 3.2% of pensionable earnings for 2008/09, giving a total Company rate of 32.6% of pensionable earnings. These contribution rates will be reviewed at the next valuation on 31 March 2010.

In accordance with the recovery plan agreed with the trustees at the 2007 valuation, the Company paid contributions of £295m (£212m net of tax) in the year to 31 March 2009 and a further payment of £59m (£42m net of tax) in April 2009 along with payments made in the previous year to ensure that the deficit reported at the 2007 valuation is paid in full.

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 was carried out by Hewitt Associates as at 31 March 2007. The market value of the scheme's assets 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 (£292m net of tax) on the valuation date in the light of which the Company agreed a recovery plan with the trustees.

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). These contribution rates will be reviewed at the next valuation on 31 March 2010.

Following the 2007 actuarial valuation, the Company and the trustees agreed a recovery plan which will see the remaining deficit paid off by March 2017. The Company paid deficit repair contributions of £90m (£65m net of tax) in the year to 31 March 2009 and a further payment of £90m (£65m net of tax) in April 2009.

As part of the 2007 valuation, National Grid arranged for banks to provide the trustees with letters of credit, including triggers to bring forward payment of the outstanding deficit plus interest. 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.

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, employees are provided with matched 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.

31. Actuarial information on pensions and other post-retirement benefits continued

US retiree healthcare and life insurance plans

National Grid provides 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 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 £445m to the US pension and post-retirement benefit plans from 1 April 2009 to 31 March 2010, 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		
	2009 %	2008 %	2007 %	2009 %	2008 %	2007 %	2009 %	2008 %	2007 %
Equities (i)	35.2	35.9	35.8	50.4	60.6	63.7	63.7	63.1	68.5
Corporate bonds (ii)	32.7	25.0	18.6	42.3	33.6	33.5	34.2	32.3	31.1
Gilts	22.2	29.8	33.9	—	—	—	—	—	—
Property	5.4	6.7	8.5	—	—	—	—	—	—
Other	4.5	2.6	3.2	7.3	5.8	2.8	2.1	4.6	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 2009 were ordinary shares of National Grid plc with a value of £17m (2008: £24m; 2007: £24m).

(ii) Included within corporate bonds at 31 March 2008 was an investment in a bond issued by a subsidiary undertaking with a value of £20m.

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 55% equities, 38% 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 60% equities, 40% bonds and cash. The long-term target asset allocation for other National Grid US post-retirement benefit plans is 67% equities and 33% bonds. The long-term target asset allocation for other KeySpan post-retirement benefit plans is 70% equities and 30% bonds and cash.

The principal actuarial assumptions used were:

	UK pensions			US pensions			US other post-retirement benefits		
	2009 %	2008 %	2007 %	2009 %	2008 %	2007 %	2009 %	2008 %	2007 %
Discount rate (i)	6.8	6.6	5.4	7.3	6.5	5.8	7.3	6.5	5.8
Expected return on plan assets	6.2	6.4	6.1	7.8	7.9	8.3	7.4	7.6	8.3
Rate of increase in salaries (ii)	3.8	4.6	4.2	3.5	4.0	4.1	3.5	4.0	4.1
Rate of increase in pensions in payment	3.0	3.8	3.3	—	—	—	n/a	n/a	n/a
Rate of increase in pensions in deferment	2.9	3.7	3.2	—	—	—	n/a	n/a	n/a
Rate of increase in retail price index or equivalent	2.9	3.7	3.2	2.3	3.0	2.5	n/a	n/a	n/a
Initial healthcare cost trend rate	n/a	n/a	n/a	n/a	n/a	n/a	9.0	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 on high quality corporate bonds prevailing in the UK and US debt markets at the balance sheet date.

(ii) A promotional age related scale has also been used where appropriate.

Notes to the consolidated financial statements continued

31. Actuarial information on pensions and other post-retirement benefits continued

The assumed life expectations for a retiree at age 65 are:

	2009		2008	
	UK years	US years	UK years	US years
Today:				
Males	21.0	18.2	20.9	18.2
Females	23.3	20.5	23.1	20.5
In 20 years:				
Males	23.3	18.2	23.2	18.2
Females	25.6	20.5	25.4	20.5

Sensitivities analysed – all other assumptions held constant:

	Change in pensions and other post-retirement obligation		Change in annual pension cost	
	2009 £m	2008 £m	2009 £m	2008 £m
0.1% increase in discount rate	233	251	4	4
0.5% increase in long-term rate of increase in salaries	116	131	5	5
Increase of one year to life expectations at age 60	541	588	5	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:

	2009 £m	2008 £m	2007 £m
<i>Increase</i>			
Effect on the aggregate of the service costs and interest costs	29	16	14
Effect on defined benefit obligations	294	251	170
<i>Decrease</i>			
Effect on the aggregate of the service costs and interest costs	(24)	(13)	(12)
Effect on defined benefit obligations	(254)	(214)	(147)

The history of experience adjustments is as follows:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Details of experience gains/(losses) for all plans					
Present value of funded and unfunded obligations	(18,299)	(18,175)	(17,253)	(17,839)	(16,837)
Fair value of plan assets	15,519	17,273	15,999	15,909	14,565
	(2,780)	(902)	(1,254)	(1,930)	(2,272)
Difference between the expected and actual return on plan assets	(3,952)	(911)	(81)	1,521	405
Experience (losses)/gains on plan liabilities	(125)	152	9	192	42
Actuarial gains/(losses) on plan liabilities	1,934	1,343	446	(1,340)	(152)

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 financing 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 life of the hedged item.

Cash flow hedges

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

Notes to the consolidated financial statements continued

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 price 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 cooperation 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 non-derivative financial instruments, and investment of excess liquidity as discussed further in our treasury policy, described on pages 80 to 83.

(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, with a further small euro exposure in respect to a joint venture investment.

During 2009 and 2008, derivative financial instruments were used to manage foreign currency risk as follows:

	2009					2008				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Cash and cash equivalents	632	4	101	–	737	168	6	–	–	174
Financial investments	1,377	132	617	71	2,197	1,063	92	898	42	2,095
Borrowings (i)	(12,424)	(7,214)	(6,435)	(720)	(26,793)	(9,111)	(5,342)	(5,769)	(781)	(21,003)
Pre-derivative position	(10,415)	(7,078)	(5,717)	(649)	(23,859)	(7,880)	(5,244)	(4,871)	(739)	(18,734)
Derivative effect	2,040	7,116	(8,622)	652	1,186	1,069	5,301	(6,016)	739	1,093
Net debt position	(8,375)	38	(14,339)	3	(22,673)	(6,811)	57	(10,887)	–	(17,641)

(i) 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:

	2009					2008				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m	Sterling £m	Euro £m	US dollar* £m	Other £m	Total* £m
Trade and other receivables	138	–	1,519	–	1,657	182	–	1,134	–	1,316
Trade and other payables	(1,196)	–	(1,421)	–	(2,617)	(1,290)	–	(1,086)	–	(2,376)
Other non-current liabilities	1	–	(553)	–	(552)	(18)	–	(417)	–	(435)

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

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 balances.

33. Financial 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 82 is to minimise the finance costs (being interest costs and changes in the market value of debt). Some of our borrowings issued are inflation-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 our 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:

	2009 £m	2008 £m
Fixed interest rate borrowings		
In one year or less	(2,103)	(2,620)
In more than one year, but not more than two years	(809)	(906)
In more than two years, but not more than three years	(1,398)	(642)
In more than three years, but not more than four years	(981)	(1,008)
In more than four years, but not more than five years	(1,821)	(900)
In more than five years	(8,637)	(5,579)
	(15,749)	(11,655)
Floating interest rate borrowings (including inflation-linked)	(11,044)	(9,348)
Total borrowings	(26,793)	(21,003)

During 2009 and 2008, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2009					2008				
	Fixed- rate £m	Floating- rate £m	Inflation- linked ⁽ⁱ⁾ £m	Other ⁽ⁱⁱ⁾ £m	Total £m	Fixed- rate £m	Floating- rate £m	Inflation- linked ⁽ⁱ⁾ £m	Other ⁽ⁱⁱ⁾ £m	Total £m
Cash and cash equivalents	–	737	–	–	737	–	174	–	–	174
Financial investments	217	1,922	–	58	2,197	223	1,835	–	37	2,095
Borrowings (iii)	(15,749)	(6,001)	(5,043)	–	(26,793)	(11,655)	(4,825)	(4,523)	–	(21,003)
Pre-derivative position	(15,532)	(3,342)	(5,043)	58	(23,859)	(11,432)	(2,816)	(4,523)	37	(18,734)
Derivative effect (iv)	148	589	345	104	1,186	1,814	(708)	(2)	(11)	1,093
Net debt position	(15,384)	(2,753)	(4,698)	162	(22,673)	(9,618)	(3,524)	(4,525)	26	(17,641)

(i) The post derivative impact represents financial instruments linked to the UK RPI.

(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.

(iii) Includes bank overdrafts.

(iv) The impact of 2009/10 maturing short-dated interest rate derivatives is included.

Notes to the consolidated financial statements continued

33. Financial risk continued

(b) Credit risk

Credit risk is the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in the Company's commercial business activities and 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 2009 the following limits were in place for investments held with banks and financial institutions:

	Maximum limit £m	Long-term limit £m
Rating		
AAA rated G8 sovereign entities	Unlimited	Unlimited
Triple 'A' vehicles	265	225
Triple 'A' range institutions (AAA)	905 to 1,365	455 to 715
Double 'A' range institutions (AA)	540 to 680	275 to 340
Single 'A' range institutions (A)	185 to 265	95 to 135

As at 31 March 2009 and 2008, 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 £2,126m (2008: £1,526m); after netting agreements it was £1,674m (2008: £1,277m). This exposure is further reduced by collateral received as shown in note 21. Additional information for commodity contract credit risk is in note 34.

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 £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
At 31 March 2009					
Non derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(2,839)	(1,946)	(2,460)	(19,056)	(26,301)
Interest payments on borrowings (i)	(1,031)	(982)	(903)	(9,456)	(12,372)
Finance lease liabilities	(46)	(60)	(50)	(162)	(318)
Other non interest-bearing liabilities	(2,303)	(396)	–	–	(2,699)
Derivative financial liabilities					
Derivative contracts – receipts	1,057	1,109	1,686	1,674	5,526
Derivative contracts – payments	(598)	(889)	(1,588)	(2,154)	(5,229)
Commodity contracts	(601)	(314)	(172)	(214)	(1,301)
Total at 31 March 2009	(6,361)	(3,478)	(3,487)	(29,368)	(42,694)
At 31 March 2008					
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*	(2,226)	(347)	–	–	(2,573)
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	(6,840)	(2,584)	(2,142)	(23,207)	(34,773)

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(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 forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the Company can be required to settle.

(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 post-retirement 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 2009 and 31 March 2008, 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.

Notes to the consolidated financial statements continued

33. Financial risk continued

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.

	2009		2008	
	Income statement +/- £m	Other equity reserves +/- £m	Income statement +/- £m	Other equity reserves +/- £m
UK retail price index +/- 0.50%	17	–	16	–
UK interest rates +/- 0.50%	67	77	46	57
US interest rates +/- 0.50%	63	13	31	7
US dollar exchange rate +/- 10% (i)	55	880	38	590

(i) Prior year comparatives have been restated for US dollar exchange rate +/- 10% impact on the income statement to present on a basis consistent with current year.

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 net assets which it is estimated would change by £964m (2008: £718m) 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 maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and maintain or adjust the capital structure as appropriate in order to achieve these objectives.

The principal measure of our balance sheet efficiency is our interest cover ratio. Interest cover for the year ended 31 March 2009 decreased to 3.1 from 3.2 for the year ended 31 March 2008. Our long-term target range for interest cover is between 3.0 and 3.5, which we believe is consistent with single A range long-term senior unsecured debt credit ratings within our main UK operating companies, National Grid Electricity Transmission plc and National Grid Gas plc, based on guidance from the rating agencies.

In addition, we monitor the regulatory asset value (RAV) gearing within each of National Grid Electricity Transmission plc and the regulated transmission and distribution businesses within National Grid Gas plc. This is calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our UK regulated businesses. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for these businesses, at around 60%.

Some of our regulatory and bank loan agreements impose lower limits for either the long-term credit ratings that certain companies within the group must hold or the amount of equity within their capital structures. These requirements are monitored on a regular basis in order to ensure compliance.

34. Commodity risk

We purchase electricity and gas in order to supply our customers in the US and also to meet our own energy requirements. We also engage in the sale of gas that is produced primarily by our West Virginia gas fields.

Substantially all of our costs of purchasing electricity and gas for supply to customers are 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.

We enter into forward contracts for the purchase of commodities; some of which do not meet the own use exemption for accounting purposes and hence are accounted for as derivatives. We also enter into derivative financial instruments linked to commodity prices, including index-linked swaps and futures contracts. These derivative financial instruments manage market price volatility and are carried at fair value on the balance sheet. The mark-to-market changes in these contracts are reflected through earnings with the exception of those related to our West Virginia gas fields that 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 this policy is to ensure we transact within pre-defined risk parameters and only in the physical and financial markets that we or our customers have a physical market requirement.

The credit policy for commodity transactions is owned and monitored by the energy procurement risk management committee and establishes controls and procedures to determine, monitor and minimise the credit risk of counterparties. The valuation of our commodity contracts considers the risk of credit by utilising the most current default probabilities and the most current published credit ratings. We also use internal analysis to guide us in setting credit and risk levels and use contractual arrangements including netting agreements as applicable.

The counterparty exposure for our commodity derivatives as shown below is £49m (2008: £136m), and after netting agreements it was £43m (2008: £114m).

The fair value of our commodity contracts by type can be analysed as follows:

	2009			2008		
	Assets £m	Liabilities £m	Total £m	Assets* £m	Liabilities* £m	Total* £m
Commodity purchase contracts accounted for as derivative contracts						
Forward purchases of electricity	–	(121)	(121)	–	(47)	(47)
Forward purchases/sales of gas	35	(34)	1	42	(30)	12
Forward purchases of electricity capacity	–	–	–	1	(12)	(11)
Derivative financial instruments linked to commodity prices						
Electricity swaps	–	(30)	(30)	–	(26)	(26)
Gas swaps	14	(173)	(159)	73	(9)	64
Gas options	–	(1)	(1)	1	–	1
NYMEX gas and electricity futures	–	–	–	19	–	19
	49	(359)	(310)	136	(124)	12

*Comparatives have been adjusted to present items on a basis consistent with the current year categories

Notes to the consolidated financial statements continued

34. Commodity risk continued

The maturity of commodity contracts measured at fair value can be analysed as follows:

	2009			2008		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
In one year or less	41	(203)	(162)	78	(36)	42
Current	41	(203)	(162)	78	(36)	42
In more than one year, but less than two years	6	(41)	(35)	40	(36)	4
In more than two years, but less than three years	2	(27)	(25)	14	(12)	2
In more than three years, but less than four years	–	(17)	(17)	4	(18)	(14)
In more than four years, but less than five years	–	(16)	(16)	–	(12)	(12)
In more than five years	–	(55)	(55)	–	(10)	(10)
Non-current	8	(156)	(148)	58	(88)	(30)
Total	49	(359)	(310)	136	(124)	12

For each class of commodity contract, our exposure, based on the notional quantities is as follows:

	2009	2008*
Forward purchases of electricity (i)	4,524 GWh	5,467 GWh
Forward purchases/sales of gas (ii)	298m Dth	110m Dth
Forward purchases of electricity capacity	–	23 GWh
Electricity swaps	4,090 GWh	879 GWh
Gas swaps	88m Dth	85m Dth
Gas options	1m Dth	2m Dth
NYMEX electricity futures	18 GWh	581 GWh
NYMEX gas futures (iii)	30m Dth	19m Dth

*Comparatives have been adjusted to present items on a basis consistent with the current year categories

(i) Forward electricity purchases have terms up to 12 years. The contractual obligations of these contracts are £348m (2008: £316m).

(ii) Forward gas purchases have terms up to 7 years. The contractual obligations of these contracts are £700m (2008: £873m).

(iii) In 2009 NYMEX futures have been offset with related margin accounts.

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:

	2009		2008	
	Income statement £m	Other equity reserves £m	Income statement £m	Other equity reserves £m
10% increase in commodity prices	56	(1)	25	(1)
10% reduction in commodity prices	(72)	1	(22)	1

The income statement impact illustrated above would affect the commodity remeasurements.

35. Bonds and facilities

The table below shows our significant bonds in issue, being £100m equivalent notional value or greater. Unless otherwise indicated, these instruments were outstanding at both 31 March 2009 and 31 March 2008.

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	USD 153m	NYSERDA 4.7% GFRB's Series 1996	2021
	USD 400m	KEDNY 5.6% Senior Unsecured Note	2016
KeySpan Corporation	USD 700m	KeySpan MTN 7.625%	2010
	USD 250m	KeySpan MTN 8.00%	2030
	USD 160m	KeySpan 4.9% Notes (i)	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 (National Grid Energy Delivery Long Island)	USD 400m	KeySpan 7.875% Gas East MTN Program	2010
KeySpan Ravenswood LLC	USD 412m	Ravenswood Master Lease Notes (i)	2009
National Grid Electricity Transmission plc	EUR 600m	4.125% Fixed Rate (i)	2008
	EUR 600m	6.625% Fixed Rate (ii)	2014
	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 200m	1.6449% Retail Price Index-Linked	2036
	GBP 150m	1.823% Retail Price Index-Linked	2056
	GBP 150m	1.8575% Index-Linked	2039
	GBP 379m	7.375% Fixed Rate (ii)	2031
	GBP 379m	7.375% Fixed Rate (ii)	2031
National Grid Gas plc	GBP 250m	8.875% Fixed Rate (i)	2008
	AUD 500m	7.0% Fixed Rate (i)	2008
	GBP 300m	5.375% Fixed Rate	2009
	GBP 300m	6.0% Fixed Rate	2017
	GBP 275m	8.75% Fixed Rate	2025
	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 100m	1.9158% Index-Linked	2037
	GBP 100m	1.7762% Index-Linked	2037
	GBP 100m	1.7744% Index-Linked	2039
	GBP 100m	1.8625% Index-Linked	2039
	GBP 484m	6.375% Fixed Rate	2020
	GBP 503m	Floating Rate	2009
	GBP 503m	4.1875% Index-Linked	2022
	GBP 503m	7.0% Fixed Rate	2024
	EUR 800m	5.125% Fixed Rate (ii)	2013
	EUR 163m	4.36% EUR-HICP Linked (ii)	2018
	GBP 444m	6.0% Fixed Rate (ii)	2038

Notes to the consolidated financial statements continued

35. Bonds and facilities continued

Issuer	Original Notional Value	Description of instrument	Due
National Grid plc	CAD 200m	4.98% Fixed Rate	2011
	EUR 500m	3.75% Fixed Rate (i)	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 750m	Floating Rate	2012
	EUR 300m	Floating Rate	2009
	EUR 450m	Floating Rate (i)	2008
	GBP 300m	5.25% Fixed Rate	2011
	GBP 310m	5.5% Fixed Rate	2013
	USD 1,000m	6.3% Fixed Rate	2016
	EUR 578m	6.5% Fixed Rate (ii)	2014
	GBP 400m	6.125% Fixed Rate (ii)	2014
NGG Finance plc	EUR 750m	6.125% Fixed Rate	2011
Niagara Mohawk Power Corporation	USD 600m	7.75% Senior Notes (i)	2008
Bank loans and other loans			
National Grid plc	USD 250m	Floating Rate (ii)	2011
	USD 150m	Floating Rate (ii)	2011
	USD 150m	Floating Rate	2011
	USD 200m	Floating Rate (ii)	2010
National Grid Grain LNG Limited	GBP 120m	Floating Rate	2014
	GBP 140m	Floating Rate	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	2022
National Grid USA	USD 150m	Floating Rate	2011
National Grid Holdings Limited	GBP 250m	4.13794% Fixed Rate (ii)	2011
NGT Five Limited	GBP 500m	5.917% Index-Linked (ii)	2013

(i) Matured during the year ended 31 March 2009.

(ii) Issued during the year ended 31 March 2009.

No significant bonds have been announced to the market or issued subsequent to 31 March 2009, up to the date of the signing of the accounts.

Borrowing facilities

At 31 March 2009, there were bilateral committed credit facilities of £1,273m (2008: £1,315m), of which £1,180m (2008: £1,235m) were undrawn. In addition, there were committed credit facilities from syndicates of banks of £1,796m at 31 March 2009 (2008: £1,628m), of which £1,796m (2008: £1,628m) were undrawn. An analysis of the maturity of these undrawn committed facilities is shown below:

Undrawn committed borrowing facilities

	2009 £m	2008 £m
Expiring:		
In one year or less	1,155	756
In more than one year, but not more than two years	1,820	408
In more than two years	–	1,699
	2,975	2,863

At 31 March 2009, of the unused facilities £2,816m (2008: £2,747m) 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 ten 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.

Active share plans

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 400 senior employees. Awards made from 2005, have a criteria of 50% based on the Company's total shareholder return (TSR) performance when compared to the FTSE 100 and 50% 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 (ADSs for US participants).

Under the Deferred Share Plan, one half of any bonus earned by Executive Directors and a predetermined part of any bonus earned by senior employees is automatically deferred into National Grid shares (ADSs for US participants). The shares/ADSs 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.

Additional information in respect of active share plans

	2009 millions	2008 millions	2007 millions
Performance Share Plan			
Awards of ordinary share equivalents at 1 April	7.5	8.0	9.2
Awards made	3.5	3.1	2.6
Lapses/forfeits	(0.7)	(3.4)	(3.8)
Awards vested	(0.8)	(0.2)	–
Awards of ordinary share equivalents at 31 March	9.5	7.5	8.0
Conditional awards available for release at 31 March	1.8	–	–
Deferred Share Plan			
Awards of ordinary share equivalents at 1 April	0.5	0.4	–
Awards made	0.6	0.2	0.4
Awards vested	(0.1)	(0.1)	–
Awards of ordinary share equivalents at 31 March	1.0	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	0.8	–	–
Awards made	–	0.8	–
Awards vested	(0.3)	–	–
Awards of ordinary share equivalents at 31 March	0.5	0.8	–
Conditional awards available for release at 31 March	–	–	–

Notes to the consolidated financial statements continued

36. Share options and reward plans continued

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 subject to a final retest in 2010 after which they will lapse if the performance criterion is not met. 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.

Additional information in respect of non-active share plans

	2009 000s	2008 000s	2007 000s
Share Matching Plan			
Awards at 1 April	202	384	436
Dividend reinvestment shares	–	1	–
Awards exercised	(113)	(183)	(52)
Awards at 31 March	89	202	384
Options exercisable at 31 March	89	109	164
Transitional Share Awards/Special Share Awards			
Awards of ordinary share equivalents at 1 April	3	77	133
Lapses/forfeits	–	(1)	(6)
Awards vested	(3)	(73)	(50)
Awards of ordinary share equivalents at 31 March	–	3	77
Conditional awards available for release at 31 March	–	3	1

Share options

Movement in options to subscribe for ordinary shares under the Company's various options schemes for the three years ended 31 March 2009 is shown below and includes those options related to shares issued by employee benefit trusts:

	Sharesave scheme options		Executive Plan options		Total options millions
	Weighted average price £	millions	Weighted average price £	millions	
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
Granted	4.88	7.4	–	–	7.4
Lapsed – expired	6.07	(2.2)	4.16	(0.1)	(2.3)
Exercised	3.81	(2.0)	4.81	(0.4)	(2.4)
At 31 March 2009	4.74	20.1	4.95	1.5	21.6

Included within options outstanding at 31 March 2009, 31 March 2008 and 31 March 2007 were the following options that were exercisable:

At 31 March 2009	4.57	0.1	4.81	1.0	1.1
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

36. Share options and reward plans continued

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2009 was 2 years and 5 months. These options have exercise prices between £3.17 and £6.55 per ordinary share.

The weighted average share price at the exercise dates was as follows:

	2009 £	2008 £	2007 £
Sharesave scheme options	6.99	7.79	6.50
Executive Plan options	6.81	7.68	6.68

Additional information in respect of share options

	2009 £m	2008 £m	2007 £m
Share options exercised			
Cash received on exercise of all share options during the year	8	23	16
Tax benefits realised from share options exercised during the year	4	10	5

Options outstanding and exercisable and their weighted average exercise prices for the respective ranges of exercise prices and years at 31 March 2009 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 options	5.33	0.1	5.33	0.1	424.0-566.5	2003-2010
	5.27	0.1	5.26	0.6	526.0-623.0	2004-2011
	4.68	0.8	4.68	0.8	434.5-481.5	2006-2013
	4.81	1.0	4.95	1.5		

The aggregate intrinsic value of all options outstanding and exercisable at 31 March 2009 amounted to £16m and £1m respectively.

Share-based payment charges

The charge to the income statement for the year ended 31 March 2009 was £22m (2008: £18m; 2007: £15m). The related tax credit recognised in the income statement was £1m (2008: £1m charge; 2007: £9m charge).

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:

	2009	2008	2007
Average share price	684.0p	846.0p	746.0p
Average exercise price	488.0p	655.0p	558.0p
Average fair value	153.7p	190.0p	166.8p

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:

	2009	2008	2007
Dividend yield (%)	5.0	4.5	4.5
Volatility (%)	22.4-26.1	15.6-18.9	15.6-18.9
Risk-free investment rate (%)	2.5	4.2	4.2
Average life (years)	4.2	4.1	3.9

Notes to the consolidated financial statements continued

36. Share options and reward plans continued

The fair values of awards under the Sharesave scheme have been calculated using the Black-Scholes European model. This is considered appropriate given the short exercise window of Sharesave options. The fair values of awards made in 2007 and 2008 have been calculated by reference to the 2006 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:

- (i) implied volatility in traded options over the Company's shares;
- (ii) historical volatility of the Company's shares over a term commensurate with the expected life of each option; and
- (iii) implied volatility of comparator companies where options in their shares are traded.

Awards under other share 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:

	2009	2008	2007
Average share price	670.1p	766.9p	594.0p
Average fair value	458.1p	522.8p	403.1p

The fair values of the awards granted were estimated using the following principal assumptions:

	2009	2008	2007
Dividend yield (%)	4.4	4.4	4.4
Risk-free investment rate (%)	2.5	4.1	4.1

Fair values have been calculated using a Monte Carlo simulation model for awards with total shareholder return performance conditions. The fair value of awards made in 2008 and 2007 have been calculated by reference to the 2006 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.

37. Subsidiary undertakings, joint ventures and associates

Principal subsidiary undertakings

The principal subsidiary undertakings included in the consolidated financial statements at 31 March 2009 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 importation 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
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 BV (incorporated in The Netherlands) (i)	Financing
National Grid Property Limited (i)	Property services
National Grid Holdings One plc (ii)	Holding company
Lattice 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 Limited (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 associated undertakings included in the financial statements at 31 March 2009 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 the UK and The 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.

Notes to the consolidated financial statements continued

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 2008/09 Annual Report and Accounts.

Summary income statements are presented, on a consolidating basis, for the three years ended 31 March 2009. 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 'Financial and other 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.

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued
Summary income statements for the year ended 31 March 2009 – 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	–	2,708	–	2,605	10,549	(238)	15,624
Other operating income	–	–	–	27	36	–	63
Operating costs							
Depreciation and amortisation	–	(135)	–	(413)	(579)	–	(1,127)
Payroll costs	–	(269)	–	(239)	(941)	–	(1,449)
Purchases of electricity	–	(735)	–	–	(1,492)	–	(2,227)
Purchases of gas	–	(374)	–	(168)	(3,020)	–	(3,562)
Rates and property taxes	–	(132)	–	(236)	(513)	–	(881)
Electricity transmission services scheme direct costs	–	–	–	–	(904)	–	(904)
Payments to Scottish electricity transmission network owners	–	–	–	–	(243)	–	(243)
Other operating charges	–	(438)	–	(818)	(1,653)	238	(2,671)
	–	(2,083)	–	(1,874)	(9,345)	238	(13,064)
Operating profit	–	625	–	758	1,240	–	2,623
Net finance costs	(213)	(115)	–	(400)	(506)	–	(1,234)
Dividends receivable	592	–	–	–	300	(892)	–
Interest in equity accounted affiliates	551	–	–	(3)	5	(548)	5
Profit before taxation	930	510	–	355	1,039	(1,440)	1,394
Taxation	(8)	(185)	–	(307)	28	–	(472)
Profit for the year from continuing operations	922	325	–	48	1,067	(1,440)	922
Profit for the year from discontinued operations	25	–	–	–	25	(25)	25
Profit for the year	947	325	–⁽ⁱ⁾	48	1,092	(1,465)	947
Attributable to:							
Equity shareholders	944	325	–	48	1,092	(1,465)	944
Minority interests	3	–	–	–	–	–	3
	947	325	–⁽ⁱ⁾	48	1,092	(1,465)	947

(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.

Notes to the consolidated financial statements continued

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Summary income statements for the year ended 31 March 2008 – 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	—	—	—	—	(226)	—	(226)
Other operating charges	—	(248)	—	(514)	(1,075)	248	(1,589)
	—	(1,549)	—	(1,509)	(5,724)	248	(8,534)
Operating profit	—	559	—	958	1,447	—	2,964
Net finance costs*	(116)	(116)	—	(298)	(256)	—	(786)
Dividends receivable	—	—	—	—	500	(500)	—
Interest in equity accounted affiliates*	1,705	—	—	(27)	(7)	(1,667)	4
Profit before taxation*	1,589	443	—	633	1,684	(2,167)	2,182
Taxation	(14)	(194)	—	(141)	(258)	—	(607)
Profit for the year from continuing operations*	1,575	249	—	492	1,426	(2,167)	1,575
Profit for the year from discontinued operations	1,618	—	—	3	1,615	(1,618)	1,618
Profit for the year*	3,193	249	— ⁽ⁱ⁾	495	3,041	(3,785)	3,193
Attributable to:							
Equity shareholders	3,190	249	—	495	3,038	(3,782)	3,190
Minority interests	3	—	—	—	3	(3)	3
	3,193	249	— ⁽ⁱ⁾	495	3,041	(3,785)	3,193

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(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 statements 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							
Depreciation and amortisation	—	(102)	—	(389)	(380)	—	(871)
Payroll costs	—	(209)	—	(228)	(383)	—	(820)
Purchases of electricity	—	(633)	—	—	(960)	—	(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 income/(costs)	18	(131)	—	(280)	(371)	—	(764)
Dividends receivable	—	—	—	—	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	—	(441)
Profit for the year from continuing operations	1,310	309	—	261	2,578	(3,148)	1,310
Profit for the year from discontinued operations	86	—	—	13	73	(86)	86
Profit for the year	1,396	309	— ⁽ⁱ⁾	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.

Notes to the consolidated financial statements continued

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Balance sheets as at 31 March 2009 – 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
Non-current assets							
Goodwill	–	779	–	–	4,612	–	5,391
Other intangible assets	–	12	–	73	285	–	370
Property, plant and equipment	–	3,941	–	10,370	15,234	–	29,545
Deferred tax assets	3	145	–	–	–	(11)	137
Other non-current assets	–	4	–	6	365	–	375
Amounts owed by subsidiary undertakings	1,796	–	–	5,611	1,911	(9,318)	–
Financial and other investments (i)	6,398	23	–	15	9,606	(15,681)	361
Derivative financial assets	558	–	–	688	287	–	1,533
Total non-current assets	8,755	4,904	–	16,763	32,300	(25,010)	37,712
Current assets							
Inventories and current intangible assets	–	52	–	34	470	–	556
Trade and other receivables	4	511	–	264	1,893	–	2,672
Amounts owed by subsidiary undertakings	11,153	–	213	225	9,099	(20,690)	–
Financial and other investments	275	17	–	989	916	–	2,197
Derivative financial assets	329	–	–	122	142	–	593
Cash and cash equivalents	235	4	–	–	498	–	737
Total current assets	11,996	584	213	1,634	13,018	(20,690)	6,755
Total assets	20,751	5,488	213	18,397	45,318	(45,700)	44,467
Current liabilities							
Borrowings	(1,422)	(64)	(5)	(913)	(849)	–	(3,253)
Derivative financial liabilities	(209)	–	–	(67)	(31)	–	(307)
Trade and other payables	(28)	(263)	–	(580)	(1,964)	–	(2,835)
Amounts owed to subsidiary undertakings	(7,064)	(491)	–	(1,551)	(11,584)	20,690	–
Current tax liabilities	–	(122)	–	(31)	(230)	–	(383)
Provisions	–	(21)	–	(52)	(175)	–	(248)
Total current liabilities	(8,723)	(961)	(5)	(3,194)	(14,833)	20,690	(7,026)
Non-current liabilities							
Borrowings	(6,471)	(573)	(208)	(6,413)	(9,875)	–	(23,540)
Derivative financial liabilities	(511)	–	–	(41)	(81)	–	(633)
Other non-current liabilities	–	(273)	–	(1,103)	(716)	–	(2,092)
Amounts owed to subsidiary undertakings	(1,062)	(849)	–	–	(7,407)	9,318	–
Deferred tax liabilities	–	–	–	(1,778)	(894)	11	(2,661)
Pensions and other post-retirement benefit obligations	–	(1,217)	–	–	(1,863)	–	(3,080)
Provisions	–	(238)	–	(98)	(1,115)	–	(1,451)
Total non-current liabilities	(8,044)	(3,150)	(208)	(9,433)	(21,951)	9,329	(33,457)
Total liabilities	(16,767)	(4,111)	(213)	(12,627)	(36,784)	30,019	(40,483)
Net assets (i)	3,984	1,377	–	5,770	8,534	(15,681)	3,984
Equity							
Called up share capital	294	130	–	45	182	(357)	294
Share premium account	1,371	2,053	–	204	7,183	(9,440)	1,371
Retained earnings	7,135	(805)	–	4,184	7,471	(10,850)	7,135
Other equity reserves	(4,830)	(1)	–	1,336	(6,301)	4,966	(4,830)
Total shareholders' equity (i)	3,970	1,377	–	5,769	8,535	(15,681)	3,970
Minority interests	14	–	–	1	(1)	–	14
Total equity (i)	3,984	1,377	–	5,770	8,534	(15,681)	3,984

(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 sheets as at 31 March 2008 – 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
Non-current assets							
Goodwill	–	564	–	–	3,340	–	3,904
Other intangible assets	–	12	–	56	203	–	271
Property, plant and equipment	–	2,756	–	9,761	11,814	–	24,331
Deferred tax assets	3	67	–	–	–	(70)	–
Other non-current assets	–	–	–	–	1,010	–	1,010
Amounts owed by subsidiary undertakings	–	–	–	5,630	1,067	(6,697)	–
Financial and other investments (i)	3,183	20	–	19	11,082	(14,053)	251
Derivative financial assets	751	–	–	101	211	–	1,063
Total non-current assets	3,937	3,419	–	15,567	28,727	(20,820)	30,830
Current assets							
Inventories and current intangible assets	–	18	–	31	389	–	438
Trade and other receivables	3	401	–	254	1,607	–	2,265
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	9,475	(18,094)	5,435
Assets of businesses held for sale	–	–	–	–	1,506	–	1,506
Total assets	16,418	3,845	154	16,560	39,708	(38,914)	37,771
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)	(1,618)	–	(2,480)
Amounts owed to subsidiary undertakings	(4,804)	(170)	–	(1,490)	(11,630)	18,094	–
Current tax liabilities	–	(41)	–	(27)	(227)	–	(295)
Provisions	–	(16)	–	(50)	(309)	–	(375)
Total current liabilities	(5,953)	(809)	(3)	(2,854)	(15,621)	18,094	(7,146)
Non-current liabilities							
Borrowings	(4,460)	(417)	(151)	(4,906)	(7,187)	–	(17,121)
Derivative financial liabilities	(179)	–	–	(83)	(57)	–	(319)
Other non-current liabilities	–	(188)	–	(1,043)	(490)	–	(1,721)
Amounts owed to subsidiary undertakings	(452)	(615)	–	–	(5,630)	6,697	–
Deferred tax liabilities	–	–	–	(1,630)	(1,699)	70	(3,259)
Pensions and other post-retirement benefit obligations	–	(784)	–	–	(962)	–	(1,746)
Provisions	–	(166)	–	(64)	(792)	–	(1,022)
Total non-current liabilities	(5,091)	(2,170)	(151)	(7,726)	(16,817)	6,767	(25,188)
Liabilities of businesses held for sale	–	–	–	–	(63)	–	(63)
Total liabilities	(11,044)	(2,979)	(154)	(10,580)	(32,501)	24,861	(32,397)
Net assets (i)	5,374	866	–	5,980	7,207	(14,053)	5,374
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	8,943	(723)	–	4,433	10,049	(13,759)	8,943
Other equity reserves	(5,252)	9	–	1,298	(6,666)	5,359	(5,252)
Total shareholders' equity (i)	5,356	866	–	5,980	7,207	(14,053)	5,356
Minority interests	18	–	–	–	–	–	18
Total equity (i)	5,374	866	–	5,980	7,207	(14,053)	5,374

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(i) Includes parent Company's subsidiaries, associates and joint ventures presented on an equity accounted basis.

Notes to the consolidated financial statements continued

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Cash flow statements

	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
Year ended 31 March 2009							
Net cash provided by operating activities – continuing operations	–	419	–	1,277	1,725	–	3,421
Net cash used in operating activities – discontinued operations	–	–	–	–	(8)	–	(8)
Net cash provided by operating activities	–	419	–	1,277	1,717	–	3,413
Net cash (used in)/provided by investing activities – continuing operations	(2,426)	(265)	–	(1,569)	(4,974)	6,187	(3,047)
Net cash provided by/(used in) investing activities – discontinued operations	–	–	–	(6)	1,055	–	1,049
Net cash (used in)/provided by investing activities	(2,426)	(265)	–	(1,575)	(3,919)	6,187	(1,998)
Net cash (used in)/provided by financing activities	2,663	(157)	–	291	2,513	(6,187)	(877)
Increase/(decrease) in cash and cash equivalents in the year	237	(3)	–	(7)	311	–	538
Year ended 31 March 2008							
Net cash provided by operating activities – continuing operations	4	316	–	1,552	1,283	–	3,155
Net cash provided by operating activities – discontinued operations	–	–	–	–	10	–	10
Net cash provided by operating activities	4	316	–	1,552	1,293	–	3,165
Net cash (used in)/provided by investing activities – continuing operations	1,547	(209)	–	(1,630)	(3,658)	(2,123)	(6,073)
Net cash provided by/(used in) investing activities – discontinued operations	–	–	–	(4)	3,054	–	3,050
Net cash (used in)/provided by 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
Net cash provided by operating activities	1	374	–	1,341	1,242	–	2,958
Net cash used in investing activities – continuing operations	(1,225)	(140)	–	(1,381)	(403)	(807)	(3,956)
Net cash (used in)/provided by investing activities – 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
Increase/(decrease) in cash and cash equivalents in the year	(284)	2	–	(55)	512	–	175

Cash dividends were received by National Grid plc from subsidiary undertakings amounting to £592m during the year ended 31 March 2009 (2008: £2,500m; 2007: £220m).

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 1985.

These individual financial statements of the Company have been prepared on a historical cost basis, except for the revaluation of financial instruments.

These individual 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 statements.

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, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

Loans receivable are carried at amortised cost using the effective interest 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 available-for-sale is recognised in the profit and loss account as it accrues.

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 ('derivatives') are recorded at fair value, and where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a liability. Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis.

Company accounting policies continued

Gains and losses arising from changes in fair value are included in the profit and loss account in the period they arise.

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

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

F. Hedge accounting

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

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 return of a capital contribution and credited against the Company's investments in subsidiaries.

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

at 31 March

	Notes	2009 £m	2008 £m
Fixed assets			
Investments	2	7,840	4,276
Current assets			
Debtors (amounts falling due within one year)	3	11,157	8,545
Debtors (amounts falling due after more than one year)	3	1,799	2,811
Derivative financial instruments (amounts falling due within one year)	5	329	341
Derivative financial instruments (amounts falling due after more than one year)	5	558	751
Current asset investments	6	509	787
Cash at bank		1	–
		14,353	13,235
Creditors (amounts falling due within one year)			
Borrowings	7	(1,422)	(1,019)
Derivative financial instruments	5	(375)	(79)
Other creditors	4	(6,926)	(4,855)
		(8,723)	(5,953)
Net current assets		5,630	7,282
Total assets less current liabilities		13,470	11,558
Creditors (amounts falling due after more than one year)			
Borrowings	7	(6,471)	(4,460)
Derivative financial instruments	5	(511)	(179)
Amounts owed to subsidiary undertakings		(1,062)	(452)
		(8,044)	(5,091)
Net assets employed		5,426	6,467
Capital and reserves			
Called up share capital	8	294	294
Share premium account	9	1,371	1,371
Cash flow hedge reserve	9	12	14
Other equity reserves	9	146	124
Profit and loss account	9	3,603	4,664
Total shareholders' funds	10	5,426	6,467

Commitments and contingencies are shown in note 11 to the Company financial statements on page 193.

The notes on pages 190 to 193 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 13 May 2009 and were signed on its behalf by:

Sir John Parker Chairman

Steve Lucas Finance Director

Notes to the Company financial statements

1. Adoption of new accounting standards

New financial reporting standards (FRS) and abstracts adopted in 2008/09

During the year the Company has adopted the following amendments to FRSs. None of these had a material impact on the Company's results or assets and liabilities.

Amendments to FRS 26 and FRS 29 on reclassification of financial assets	Permits reclassification of financial assets in certain circumstances.
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New FRSs not yet adopted

The Company has yet to adopt the following FRSs, however, they are not expected to have a material impact on the Company's results or assets and liabilities.

Amendment to FRS 20 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. The amendment to FRS 20 has been adopted with effect from 1 April 2009.
Amendments to FRS 25 on puttable financial instruments and obligations arising on liquidation	Addresses the classification as a liability or as equity of 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 FRS 25 will be adopted on 1 April 2010.
Amendment to FRS 26 Financial Instruments: Recognition and measurement on eligible hedged items	Prohibits designating inflation as a hedgeable component of an instrument, unless cash flows relating to the separate inflation component are contractual and also prohibits the designation of a purchased option in its entirety as the hedge of a one-sided risk in a forecast transaction. The amendment to FRS 26 will be adopted on 1 April 2010.
Amendment to FRS 8 on related party disclosures	Changes the definition of related party to be the same as that in law and provides an exemption only in respect of wholly-owned subsidiaries, rather than 90% subsidiaries as previously permitted. The amendment to FRS 8 will be adopted on 1 April 2010.
Improvements to FRS 2008	Contains amendments to various existing standards. The amendments are effective, in most cases, from 1 January 2009, or otherwise for annual periods beginning on or after 1 July 2009.
UITF 46 on hedges of a net investment in a foreign operation	Clarifies that hedged risk may be designated at any level in a group and hedging instruments may be held by any company in a group (except the foreign entity being hedged), that net investment hedge accounting may not be adopted in respect of a presentation currency and that on disposal the amounts to be reclassified from equity to profit or loss are any cumulative gain or loss on the hedging instrument and the cumulative translation difference on the foreign operation disposed of. UITF 46 has been adopted by the Company with effect from 1 April 2009.

2. Fixed asset investments

	Shares in subsidiary undertakings £m	Loan to subsidiary undertaking £m	Total £m
At 31 March 2007	3,380	327	3,707
Additions	896	–	896
Reclassification of loan as amounts owed by subsidiary undertakings	–	(327)	(327)
At 31 March 2008	4,276	–	4,276
Additions	7,103	–	7,103
Disposals	(3,539)	–	(3,539)
At 31 March 2009	7,840	–	7,840

On 31 March 2009, the Company was allotted 127,111,218 ordinary shares of \$40 each in NG Luxembourg 3 Sarl for a total consideration of £3,539m. On the same day, the Company sold this investment to National Grid (US) Holdings Limited as part of a group reorganisation, for consideration of £3,539m settled through the allotment of 300,050 ordinary shares of £1 each.

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

	2009 £m	2008 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	11,153	8,542
Prepayments and accrued income	4	3
	11,157	8,545
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	1,796	2,808
Deferred taxation	3	3
	1,799	2,811

	Deferred taxation £m
At 1 April 2007	3
Credited to equity	4
Charged to the profit and loss account (i)	(4)
At 1 April 2008	3
Credited to equity	1
Charged to the profit and loss account	(1)
At 31 March 2009	3

(i) Included is a deferred tax charge of £2m in respect of prior years.

4. Creditors (amounts falling due within one year)

	2009 £m	2008 £m
Borrowings (note 7)	1,422	1,019
Derivative financial instruments	375	79
Amounts owed to subsidiary undertakings	6,898	4,804
Other creditors	28	51
	8,723	5,953

5. Derivative financial instruments

The fair value of derivative financial instruments shown on the balance sheet is as follows:

	2009			2008		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Current	329	(375)	(46)	341	(79)	262
Non-current	558	(511)	47	751	(179)	572
	887	(886)	1	1,092	(258)	834

For each class of derivative financial instruments, our exposure, based on the sterling equivalent notional value of the pay leg is as follows:

	2009 £m	2008 £m
Interest rate swaps	(6,343)	(4,952)
Interest rate swaptions	–	(202)
Cross-currency interest rate swaps	(7,612)	(4,919)
Foreign exchange forward contracts	(9,013)	(5,721)
Forward rate agreements	(5,063)	–
Total	(28,031)	(15,794)

Notes to the Company financial statements continued

6. Current asset investments

	2009 £m	2008 £m
Investments in short term money funds	166	787
Short term deposits	234	–
Restricted cash balances Collateral	109	–
	509	787

7. Borrowings

The following table analyses the Company's total borrowings:

	2009 £m	2008 £m
Amounts falling due within one year:		
Bank loans and overdrafts	942	192
Bonds	480	827
	1,422	1,019
Amounts falling due after more than one year:		
Bank loans	720	75
Bonds	5,751	4,385
	6,471	4,460
Total borrowings	7,893	5,479

	2009 £m	2008 £m
Total borrowings are repayable as follows:		
In one year or less	1,422	1,019
In more than one year, but not more than two years	976	342
In more than two years, but not more than three years	1,360	650
In more than three years, but not more than four years	933	999
In more than four years, but not more than five years	450	792
In more than five years, other than by instalments	2,752	1,677
	7,893	5,479

The notional amount of borrowings outstanding as at 31 March 2009 was £7,776m (2008: £5,417m). For further information on significant borrowings, refer to note 35 of the consolidated financial statements.

8. Called up share capital

	Called up and fully paid	
	millions	£m
At 31 March 2007	2,701	308
Issued during the year ended 31 March 2008 (i)	8	1
Repurchased during the year ended 31 March 2008 (ii)	(127)	(15)
At 31 March 2008 and 31 March 2009	2,582	294

- (i) Included within issued share capital were 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 had a nominal value of £15m and represented approximately 5% of the ordinary shares in issue as at 31 March 2008. The consideration was charged against retained earnings.

For further details on share capital, refer to note 25 in the consolidated financial statements.

9. Reserves

	Share premium account £m	Cash flow hedge reserve £m	Other equity reserves £m	Profit and loss account £m
At 1 April 2007	1,332	22	91	4,582
Net loss 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
Net loss transferred from equity in respect of cash flow hedges (net of tax)	—	(2)	—	—
Repurchase of share capital and purchase of treasury shares (i)	—	—	—	(602)
Issue of treasury shares	—	—	—	8
Share-based payment	—	—	22	—
Loss for the year	—	—	—	(467)
At 31 March 2009	1,371	12	146	3,603

(i) From 1 April 2008 to 24 September 2008, the Company repurchased under its share repurchase programme 85m (2008: 200m) ordinary shares for aggregate consideration of £597m (2008: £1,516m) including transaction costs. Further purchases of shares outside the official share repurchase programme were for an aggregate consideration of £5m (2008: £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 £371m (2008: £2,370m). Of the Company's profit and loss account reserve of £3,603m at 31 March 2009 (2008: £4,664m), £1,323m (2008: £1,623m) relating to gains on intra-group transactions was not distributable to shareholders.

10. Reconciliation of movements in shareholders' funds

	2009 £m	2008 £m
Profit for the year after taxation	371	2,370
Dividends (i)	(838)	(780)
(Loss)/profit for the financial year	(467)	1,590
Proceeds of issue of ordinary shares	—	13
Proceeds of issue of treasury shares	8	12
B shares converted to ordinary shares	—	27
Movement on cash flow hedge reserve (net of tax)	(2)	(8)
Share-based payment	22	18
Repurchase of share capital and purchase of treasury shares	(602)	(1,520)
Net (decrease)/increase in shareholders' funds	(1,041)	132
Opening shareholders' funds	6,467	6,335
Closing shareholders' funds	5,426	6,467

(i) For further details of dividends paid and payable to shareholders, refer to note 9 in the consolidated financial statements.

11. Commitments and contingencies

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due from certain subsidiary undertakings primarily to third parties. At 31 March 2009, the sterling equivalent amounted to £2,302m (2008: £888m). The guarantees are for varying terms from 2 years to open-ended.

The Company has also guaranteed the lease obligations of a former associate to a subsidiary undertaking, amounting to £4m (2008: £13m).

12. Directors and employees

There are no employees of the Company (2008: nil). The Directors of the Company were paid by subsidiary undertakings in 2009 and 2008. Details of Directors' emoluments are contained in the Directors' Remuneration Report.

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.

A

accelerated tax depreciation

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.

American Depositary Shares (ADSs)

Securities of National Grid listed on the New York Stock Exchange, each of which represents five ordinary shares.

Annual General Meeting (AGM)

Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.

B

B shares

Non-cumulative preference shares of 10 pence nominal value each that were issued in 2005 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.

Board

The Board of Directors of the Company (for more information see pages 16 and 17).

brownfield

The term generally used to describe previously developed land, which may or may not be contaminated.

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.

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.

Dth

A decatherm, being an amount of energy equal to 1 million British thermal units (BTUs), equivalent to 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.

E

employee engagement index

A key performance indicator, based on the percentage of favourable responses to certain indicator questions repeated in each employee engagement survey, which provides a measure of how employees think, feel and act in relation to National Grid. Research shows that a highly engaged workforce leads to increased productivity and staff retention, therefore we use employee engagement as a measure of organisational health in relation to business performance.

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 year.

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 187 to 193, which are prepared in accordance with UK GAAP.

FSA

The UK Financial Services Authority, the financial markets regulator, which includes regulation of companies with listed securities in the UK, including National Grid and certain of its subsidiaries.

G

Great Britain

England, Wales and Scotland.

GW

Gigawatt, being an amount of power equal to 1 billion watts (10⁹ watts).

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).

H

HSE

Health & Safety Executive, the main safety regulator in the UK.

I

IAS or IFRS

An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting Standards Board. IFRS is also used as the term to describe international generally accepted accounting principles as a whole.

individual financial statements

Financial statements of a company on its own, not including its subsidiaries or joint ventures.

IFRIC

The International Financial Reporting Interpretations Committee, which provides guidance on how to apply accounting standards.

J

joint venture

A company or other entity which is controlled jointly with other parties.

K

KeySpan

KeySpan Corporation and its subsidiaries, acquired by National Grid on 24 August 2007.

kV

kW

Kilowatts, being an amount of power equal to 1,000 watts.

kWh

Kilowatt hours, being an amount of energy equal to delivering 1,000 watts of power for a period of one hour.

L

lifetime allowance

The lifetime allowance is an overall ceiling on the amount of UK tax privileged pension savings that any one individual can draw.

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).

lost time injury (LTI)

An incident arising out of National Grid's 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 (acute) identifiable incident which arises as a result of National Grid's premises, plant or activities, which was reported to the supervisor at the time and was subject to appropriate investigation.

lost time injury frequency

The number of LTIs per 100,000 hours in a 12 month period.

M

m³

A cubic metre.

mcm

Million standard cubic metres, equivalent to approximately 35.3 million standard cubic feet.

MW

Megawatts, being an amount of power equal to 1 million watts.

MWh

Megawatt hours, being an amount of energy equal to delivering 1 million watts of power for a period of one hour.

N

New England

The term refers to a region within the northeastern US that includes the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. National Grid's New England operations are primarily in the states of Massachusetts, New Hampshire and Rhode Island.

northeastern US

The northeastern region of the US, comprising the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

Kilovolt, being an amount of electric force equal to 1,000 volts.

Definitions and glossary of terms continued

O

Ofgem

The UK Office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

ordinary shares

Voting shares entitling the holder to part ownership of a company. Also known as common stock. National Grid's ordinary shares have a nominal value of 11¹⁷/₄₃ pence.

P

PAS 55

PAS (Publicly Available Specification) 55 is a universal benchmark published by the British Standards Institution (BSI) for the optimal management of physical assets.

Personal Lifetime Allowance

The lifetime allowance applicable to individuals who registered their pre 6 April 2006 UK pension benefits for protection.

purchase accounting

The accounting process of aligning the accounting policies of an acquired business with those of National Grid and of adjusting the carrying value of assets and liabilities acquired from their previous accounting book value to their fair values at the date control was acquired by National Grid.

R

regulated controllable operating costs

Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

regulatory asset value (RAV)

The value ascribed by Ofgem to the capital employed in the relevant licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historical cost, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the retail price index to allow for the effects of inflation.

S

scm

Standard cubic metre, a quantity of gas which at 15°C and atmospheric pressure (1.013 bar) occupies the volume of 1m³.

SEC

The US Securities and Exchange Commission, the financial regulator for companies with registered securities in the US, including National Grid and certain of its subsidiaries.

share premium

The difference between the amounts shares are issued for and the nominal value of those shares.

subsidiary

A company or other entity that is controlled by National Grid.

T

therm

An amount of energy equal to 10,000 British Thermal Units (BTUs), equivalent to approximately 29.3 kWh, primarily used to measure natural gas.

treasury shares

Shares that have been repurchased but not cancelled.

tonne

A unit of mass equal to 1,000 kilograms, equivalent to approximately 2,205 pounds.

tonnes CO₂ equivalent

A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

TWh

Terawatt hours, being an amount of energy equal to delivering 1 billion watts of power for 1,000 hours.

U

UK

The United Kingdom, comprising England, Wales, Scotland and Northern Ireland.

UK GAAP

Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.

Uniform Network Code

The legal and contractual framework for the supply and transport of gas in the UK, comprising a common set of rules for all industry participants which ensure competition can be facilitated on level terms.

US

The United States of America.

US GAAP

Generally accepted accounting principles in the US. These differ from IFRS and from UK GAAP.

V

vanilla return

Metric used by Ofgem to define the allowed rate of return within the price control reviews for our UK regulated businesses. Our calculation uses IFRS business performance operating profit adjusted for various items to reflect the replacement of certain IFRS based accounting treatments with a regulatory based treatment, primarily these items are depreciation, capital costs, pensions and taxation. The adjusted IFRS operating profit is divided by the regulatory asset value inflated to mid year to generate a percentage rate of return.

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 2009. 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, 2008 and 2009 has been prepared under IFRS issued by the IASB and as adopted by the European Union.

	31 March 2009 £m	31 March 2008* £m	31 March 2007 £m	31 March 2006 £m	31 March 2005 £m
Summary income statement					
Revenue	15,624	11,423	8,695	8,868	7,174
Operating profit					
Before exceptional items, remeasurements and stranded cost recoveries	2,915	2,595	2,031	1,968	1,936
Exceptional items, remeasurements and stranded cost recoveries	(292)	369	482	406	177
	2,623	2,964	2,513	2,374	2,113
Profit before taxation					
Before exceptional items, remeasurements and stranded cost recoveries	1,770	1,829	1,486	1,369	1,235
Exceptional items, remeasurements and stranded cost recoveries	(376)	353	265	349	177
	1,394	2,182	1,751	1,718	1,412
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements and stranded cost recoveries	1,259	1,275	1,146	1,075	1,376
Exceptional items, remeasurements and stranded cost recoveries	(315)	1,915	248	2,773	48
	944	3,190	1,394	3,848	1,424
Summary statement of net assets					
Non-current assets	37,712	30,830	21,109	22,106	25,596
Current assets	6,755	5,435	5,312	3,818	1,964
Assets of businesses held for sale	–	1,506	1,968	–	–
Total assets	44,467	37,771	28,389	25,924	27,560
Current liabilities	(7,026)	(7,146)	(3,360)	(5,683)	(5,974)
Non-current liabilities	(33,457)	(25,188)	(20,443)	(16,748)	(19,465)
Liabilities of businesses held for sale	–	(63)	(450)	–	–
Total liabilities	(40,483)	(32,397)	(24,253)	(22,431)	(25,439)
Net assets	3,984	5,374	4,136	3,493	2,121
Summary cash flow statement					
Cash generated from operations					
Continuing operations	3,564	3,265	3,090	2,973	2,820
Discontinued operations	(8)	10	181	138	638
	3,556	3,275	3,271	3,111	3,458
Tax paid	(143)	(110)	(313)	(140)	(150)
Net cash inflow from operating activities	3,413	3,165	2,958	2,971	3,308
Net cash flows (used in)/from investing activities	(1,998)	(3,023)	(4,061)	4,052	(2,900)
Net cash flows (used in)/from financing activities	(877)	(1,592)	1,278	(5,842)	(400)
Net increase/(decrease) in cash and cash equivalents	538	(1,450)	175	1,181	8

*Comparatives for the year ended 31 March 2008 have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation

Shareholder Information

Financial calendar

The following dates have been announced or are indicative of future dates:

3 June 2009	Ordinary shares go ex-dividend for 2008/09
5 June 2009	Record date for 2008/09 final dividend
22 July 2009	Scrip election date for 2008/09 final dividend*
27 July 2009	2009 Annual General Meeting and interim management statement
19 August 2009	2008/09 final dividend paid to qualifying ordinary shareholders
19 November 2009	2009/10 half-year results
2 December 2009	Ordinary shares go ex-dividend
4 December 2009	Record date for 2009/10 interim dividend
20 January 2010	2009/10 interim dividend paid to qualifying ordinary shareholders
Jan/Feb 2010	Interim management statement
May 2010	2009/10 preliminary results

* Please see below for further information about dividends

Dividends

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.

Subject to shareholder approval at the 2009 Annual General Meeting, National Grid will be offering an optional scrip dividend for the 2008/09 final dividend. The scrip dividend will replace the dividend reinvestment plan (DRIP), which will be suspended indefinitely. A scrip dividend enables shareholders to receive new ordinary shares in National Grid instead of cash dividends. This enables shareholders to build up a shareholding in National Grid without going to the market to buy new shares and no dealing costs or stamp duty are incurred (ADR holders are subject to Stamp Duty Reserve Tax).

Shareholders have previously been able to re-invest dividends in further National Grid shares under the DRIP. Shareholders who previously had a DRIP mandate will have to elect for the scrip or alternatively receive a cash dividend. For further information on the scrip dividend, 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. Shareholders can manage their holding online at www.nationalgrid.com/shareholders. This allows shareholders to check their shareholding, recent dividend payments and change information such as address and any direct payment details. 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 form of notification included within the Performance Summary 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.

Shareholder networking

National Grid operates a shareholder networking programme, the aim of which is to allow UK resident 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 UK 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.

Share dealing, individual savings accounts (ISAs) and ShareGift

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 up-to-date indicative share price when dealing than when using the postal dealing service.

For more information please call 0871 664 0445 (8.00am – 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. 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.

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.

These details are provided for information only and any action you take is at your own risk. 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.

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 2009:

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1-50	218,395	19.0310	6,696,656	0.2594
51-100	341,876	29.7911	23,267,985	0.9012
101-500	488,641	42.5802	97,718,218	3.7846
501-1000	52,955	4.6145	37,343,673	1.4463
1,001-10,000	43,419	3.7835	100,505,395	3.8926
10,001-50,000	1,173	0.1022	22,967,883	0.8895
50,001-100,000	250	0.0218	18,213,246	0.7054
100,001-500,000	454	0.0396	108,346,256	4.1963
500,001-1,000,000	146	0.0127	102,168,112	3.9570
1,000,001+	269	0.0234	2,064,747,427	79.9677
Total	1,147,578	100	2,581,974,851	100

Share price

The following graphs represents the movement of National Grid's share price during 2008/09. A graph showing the total shareholder return over the last five years is available on page 106.

Share price



ADR price



Shareholder Information continued

For queries about ORDINARY SHARES contact:

Capita Registrars



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



National Grid Share Register
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0GA

Cautionary Statement

This document comprises the Annual Report and Accounts for the year ended 31 March 2009 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 100 and 101 and the Directors' Remuneration Report on pages 102 to 112 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 statements in the future tense, identify forward-looking

National Grid plc
1-3 Strand, London WC2N 5EH, United Kingdom
Registered in England and Wales No. 4031152

www.nationalgrid.com

For queries about AMERICAN DEPOSITARY SHARES (ADSs or ADRs) contact:

The Bank of New York Mellon



1-800-466-7215
(from outside the US: +1-212-815-3700)



shrrelations@mellon.com
www.bnymellon.com/shareowner



The Bank of New York Mellon
Shareholders Correspondence
PO Box 358516
Pittsburgh, PA
15252-8516

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 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, technological developments and the ability to access capital markets and other sources of credit in a timely manner or on acceptable terms, especially considering the recent deterioration of market conditions in the global economy and financial markets. 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. The content of any website references herein do not form part of this document.

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UK Shareholder enquires: 0871 664 0500

US Shareholder enquires: 1-800-466-7215

www.nationalgrid.com

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 13, 2009 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 16, 2009