

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 2010

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:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Ordinary Shares of 11 ¹⁷ / ₄₃ pence each	The New York Stock Exchange*
American Depositary Shares, each representing five	The New York Stock Exchange
Ordinary Shares of 11 ¹⁷ / ₄₃ pence each	
6.625% Guaranteed Notes due 2018	The New York Stock Exchange
6.30% Guaranteed Notes due 2016	The New York Stock Exchange
Preferred Stock (\$100 par value-cumulative):	
3.90% Series	The New York Stock Exchange
3.60% Series	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, 2010 was

Ordinary Shares of 11¹⁷/₄₃ pence each 2,617,190,095

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) 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 changes in laws or regulations and decisions by governmental bodies or regulators; breaches of, or changes in, environmental, climate change and health and safety laws or regulations; network failure or interruption, the inability to carry out critical non-network operations and damage to infrastructure; performance against regulatory targets and standards, including delivery of costs and efficiency savings; customers and counterparties failing to perform their obligations to us; and unseasonable weather affecting energy demands. Other factors that could cause actual results to differ materially from those described in this document include fluctuations in exchange rates, interest rates, commodity price indices and settlement of hedging arrangements; restrictions in our borrowing and debt arrangements; changes to credit ratings of the Company and its subsidiaries; adverse changes and volatility in the global credit markets; our ability to access capital markets and other sources of credit in a timely manner and other sources of credit on acceptable terms; deflation or inflation; the seasonality of our businesses; the future funding requirements of our pension schemes and other post-retirement benefit schemes, and the regulatory treatment of pension costs; new or revised accounting standards, rules and interpretations, including changes of law and accounting standards that may affect our effective rate of tax; incorrect assumptions or conclusions underpinning business development activity, and any unforeseen significant liabilities or other unanticipated or unintended effects of such activities and the performance of the Company’s subsidiaries. In addition the Company’s reputation may be harmed if consumers of energy suffer a disruption to their supply. 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 IFRS⁽¹⁾:

		<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenue	£m	13,988	15,624	11,423	8,695	8,868
Total operating profit	£m	3,293	2,623	2,964	2,513	2,374
Profit for the year from continuing operations	£m	1,389	922	1,575	1,310	1,183
Profit for the year	£m	1,389	947	3,193	1,396	3,850
Basic earnings per share from continuing operations ²	Pence	56.1	36.9	59.5	47.4	41.1
Diluted earnings per share from continuing operations	Pence	55.8	36.6	59.1	47.2	40.9
Basic earnings per share	Pence	56.1	37.9	120.7	50.6	134.0
Diluted earnings per share	Pence	55.8	37.6	120.0	50.3	133.3
Number of shares — basic	Millions	2,470	2,490	2,644	2,754	2,872
Number of shares — diluted	Millions	2,483	2,507	2,659	2,772	2,886
Total assets	£m	43,553	44,467	37,771	28,389	25,924
Net assets	£m	4,211	3,984	5,374	4,136	3,493
Total parent company shareholders' equity	£m	4,199	3,970	5,356	4,125	3,482
Dividends per ordinary share: paid during the year	Pence	36.65	33.94	29.5	26.8	25.4
Dividends per ordinary share: approved or proposed during the year	Pence	38.49	35.64	33.0	28.7	26.1
Dividends per ordinary share: paid during the year	US	\$ 0.579	0.523	0.593	0.513	0.455
Dividends per ordinary share: approved or proposed during the year	US	\$ 0.608	0.549	0.663	0.549	0.467

⁽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.

The selected financial data incorporates businesses acquired in the period from the date of their acquisitions, principally KeySpan Corporation acquired in August 2007 and our Rhode Island gas distribution operations acquired in August 2006. Comparatives for 2008 have been restated for the finalization of the fair value exercise on the acquisition of KeySpan Corporation.

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.

- ⁽²⁾ In accordance with IAS 33, per share data for comparative periods has been restated as a result of shares issued via scrip dividends.

Dividends

The information set forth under the headings “Financial Calendar” and “Dividends” on page 190 of the Company’s Annual Report and Accounts 2009/10 (in extracted form) 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 21 May 2010.

	<u>High</u>	<u>Low</u>
May 2010*	1.5116	1.4305
April 2010	1.5499	1.5200
March 2010	1.5295	1.4885
February 2010	1.5969	1.5224
January 2010	1.6372	1.5935
December 2009	1.6658	1.5932
November 2009	1.6796	1.6379
		<u>Average**</u>
2009/10		1.58
2008/09		1.54
2007/08		2.01
2006/07		1.91
2005/06		1.78

* For the period to 21 May 2010.

** 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 93 to 95 of the Company’s Annual Report and Accounts 2009/10 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

Item 4. Information on the Company

History and development of 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 14 to 83, "Note 7 Discontinued operations" on page 136, and "Key milestones" on page 191 of the Company's Annual Report and Accounts 2009/10 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

Business overview

The information set forth under the headings "Operating and Financial Review" on pages 14 to 83, "Note 1 Segmental analysis" on pages 125 to 127, and "Definitions and glossary of terms" on pages 186 to 188 of the Company's Annual Report and Accounts 2009/10 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

Organizational structure

The information set forth under the headings "Organisation and Structure" on page 15, and "Note 36 Subsidiary undertakings, joint ventures and associates" on page 171 of the Company's Annual Report and Accounts 2009/10 (in extracted form) 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. We also have major offices in 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. 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 4,725 miles (approximately 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 system consists of overhead transmission lines and underground cable of approximately 4,900 route miles (approximately 7,200 kilometers of overhead transmission lines and 713 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. We own the freehold of our electricity control centre in Berkshire.

UK gas distribution. Our UK gas distribution system consists of approximately 82,000 miles (approximately 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 254,000 square feet of office space in the MetroTech Building in Brooklyn, New York, pursuant to a lease that expires on 28 February 2025. We 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. In addition to our principal US offices, we maintain (principally by lease) other offices and facilities in various locations throughout our US service territory in New York and New England. In addition, we lease 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. The Company has recently retired a number of its legacy company mortgage indentures; however, mortgage indentures remain with respect to the following legacy companies: Niagara Mohawk Power Corporation (upstate New York); Colonial Gas Company (eastern Massachusetts); and The Narragansett Electric Company (only with respect to assets related to its gas business in Rhode Island). Each of the referenced indentures constitute a direct lien on substantially all current and after-acquired gas and electric properties (as applicable) presently owned by each of the respective companies and used or useful in the operation of that company's properties as an integrated system. 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 it is determined that such properties are no longer productive or necessary for the operation of our business, they are disposed of as promptly as possible. With respect to 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 (approximately 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, tariff provisions and municipal franchise grants and agreements generally provide our US 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 72,600 circuit miles (approximately 116,800 kilometers) of electric distribution lines located on rights-of-way in Massachusetts, New York, New Hampshire and Rhode Island and approximately 36,000 miles (approximately

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, tariff provisions and municipal franchise grants and agreements generally provide our US distribution operations with the rights required to locate 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.

The information set forth under the heading “Note 12 Property, plant and equipment” on page 140 of the Company’s Annual Report and Accounts 2009/10 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

Item 4A. *Unresolved Staff Comments*

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

Item 5. *Operating and Financial Review and Prospects*

The information set forth under the headings “Operating and Financial Review” on pages 14 to 83, “Directors’ Report” on page 96, and “Adoption of new accounting standards” on pages 118 and 119 of the Company’s Annual Report and Accounts 2009/10 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

Item 6. *Directors, Senior Management and Employees*

The information set forth under the headings “Board of Directors” on pages 12 and 13, “Directors’ Remuneration Report” on pages 98 to 108, “Note 4 Pensions and other post-retirement benefits” on pages 131 and 132, “Note 30 Actuarial information on pensions and other post-retirement benefits” on pages 153 to 155, “Corporate Governance” on pages 84 to 95, “Employees” on page 97, “Note 2 Operating costs: (b) Number of employees” on page 128, and “Note 25 Share capital” on pages 148 and 149 of the Company’s Annual Report and Accounts 2009/10 (in extracted form) 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 21 May 2010, 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>
Black Rock Inc.	123,761,405	4.99
Legal and General Group plc	107,703,278	4.35
Crescent Holding GmbH.	106,724,490	4.34
Capital Group Companies, Inc.	102,067,366	3.75
FMR Corp.	82,805,863	3.06

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

No further notifications have been received.

As at 21 May 2010, 141,092,553 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 16.3% of National Grid's ordinary shares, including American Depositary Shares ("ADSs"), are held beneficially by persons in the US, and there are approximately 3,580 US holders on the ordinary share register and approximately 18,300 registered holders of ADSs.

The information set forth under the heading "Note 29 Related party transactions" on page 153 of the Company's Annual Report and Accounts 2009/10 (in extracted form) 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 112 to 117, "Adoption of new accounting standards" on pages 118 and 119, "Consolidated balance sheet" on page 122, "Consolidated income statement" on page 120, "Consolidated statement of comprehensive income" on page 121, "Consolidated statement of changes in equity" on page 123, "Consolidated cash flow statement" on page 124, "Notes to the consolidated financial statements — analysis of items in the primary statements" on pages 125 to 150, "Notes to the consolidated financial statements — supplementary information" on pages 151 to 178, "Legal and related matters" on page 21, and the chart "Total shareholder return" on page 28 of the Company's Annual Report and Accounts 2009/10 (in extracted form) 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
2009/10	685.50	511.00	56.59	38.25
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
2009/10 Q4.....	685.50	619.50	55.13	46.85
Q3	683.50	572.50	56.59	46.13
Q2	628.00	529.50	52.00	43.05
Q1	617.00	511.00	50.25	38.25
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
May 2010*	638.00	551.50	48.79	40.00
April 2010	666.00	626.00	51.00	47.76
March 2010	665.00	628.50	50.18	46.85
February 2010.....	653.50	619.50	51.60	48.38
January 2010.....	685.50	628.00	55.13	49.95
December 2009.....	683.50	636.50	56.03	52.09

* For the period to 21 May 2010.

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

Articles of Association

The following description is a summary of the material terms of our Articles of Association (the “Articles”). The following description is a summary only and is qualified in its entirety by reference to the Articles.

At the Annual General Meeting on 27 July 2009, the Company adopted new Articles, primarily to take account of changes in English company law brought about by the Companies Act 2006 (the “Companies Act”). At that same meeting, the Company adopted additional amendments to the Articles that took effect 1 October 2009, addressing changes to the Companies Act that came into force on that date. The new Articles 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 Articles set out the Company’s corporate regulations. The Company’s objects are unlimited.

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 £35 billion.

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 at least 14 clear days, subject to annual approval of shareholders. 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.

In addition, the Company entered into the following contract in May 2010, which it considered to be material:

Underwriting Agreement

On 20 May 2010, in connection with our rights issue, we entered into an underwriting agreement with several underwriting banks, pursuant to which, the underwriting banks have severally agreed, subject to certain conditions, to use reasonable endeavours to procure acquirers for, or failing which, acquire any ordinary shares not taken up under our rights issue (in each case at the issue price of 335 pence per ordinary share). In the underwriting agreement, we have agreed to pay the underwriting banks a commission and have given certain customary representations and warranties to the underwriting banks and customary indemnities to them and certain indemnified persons connected with each of them. Our liabilities under the underwriting agreement are unlimited as to time and amount. If any of the conditions of the underwriting agreement are not satisfied (or waived) or shall have become incapable of being satisfied by the required time and date therefore, the obligations of the underwriting banks under the underwriting agreement shall cease and determine. Additionally, certain of the underwriting banks (acting in good faith and following consultation with us) may cause the underwriting agreement to terminate in its entirety in certain circumstances, but only prior to admission of our securities for trading on the London Stock Exchange. The securities offered pursuant to the rights issue have not been and will not be registered under the Securities Act of 1933 and may not be offered or sold in the United States unless in a transaction that is registered thereunder or exempt from the registration requirements thereof. No public offer has been or will be made in or into the United States.

Apart from the contracts mentioned above, 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, persons who are liable for the alternative minimum tax, 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 Mellon 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 foreign source dividend income subject to US federal income taxation as ordinary income, to the extent paid out of National Grid’s current or accumulated earnings and profits, as determined under US federal income tax principles. 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, 2010. 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, 2011 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 Mellon 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. In accordance with these requirements, we file reports and other information with the U.S. 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 at 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 "Financial position and financial management" on pages 74 to 81, "Commodity contracts" on pages 78 and 79, "Note 31 Supplementary information on derivative financial instruments" on page 156, "Note 32 Financial risk" on pages 157 to 162, and "Note 33 Commodity risk" on pages 162 to 164 of the Company's Annual Report and Accounts 2009/10 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

Item 12. Description of Securities Other than Equity Securities Depositary Fees and Charges

The Depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The Depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

<u>Persons Depositing or Withdrawing Shares Must Pay:</u>	<u>For:</u>
\$5.00 per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property; cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates; distribution of securities distributed to holders of deposited securities which are distributed by the Depositary to ADS registered holders.
\$.02 or less per ADS (or a portion thereof)	Cash distributions to holders, except for distributions of cash dividends.
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the Depositary or its agent when they deposit or withdraw shares.
Expenses of the Depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement); converting foreign currency to US dollars.
Taxes and other governmental charges the Depositary or the custodian has to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary.
Any charges incurred by the Depositary or its agents for servicing the deposited securities	As necessary.

Depositary Payments to the Company

The Bank of New York Mellon, as Depositary, has agreed to reimburse the Company for expenses it incurs that are related maintenance expenses of the American Depositary Receipt program. The Depositary has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile and telephone calls. It has also agreed to reimburse the Company annually for certain investor relationship programs or special investor relations promotional activities. There are limits on the amount of expenses for which the Depositary will reimburse the Company, but the amount of reimbursement available to the Company is not necessarily tied to the amount of fees the Depositary collects from investors. From 1 April 2009 through 21 May 2010, the Company received no reimbursements from the Depositary.

Any questions from ADR/ADS holders should be directed to The Bank of New York Mellon:

The Bank of New York Mellon
Shareholder Correspondence
PO Box 358516
Pittsburgh, PA 15252-8516
Telephone: 1-800-466-7215 (International +1-212-815-3700)
Email: shrrelations@mellon.com

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*

A. 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 2010. 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.

B. 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 generally accepted accounting principles. 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 2010.

C. Independent auditor attestation

PricewaterhouseCoopers LLP, which has audited our consolidated financial statements for the fiscal year ended 31 March 2010, 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.

D. 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 13 of the Company's Annual Report and Accounts 2009/10 (in extracted form) 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 2010.

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 2010.

	Year Ended March 31, 2010	Year Ended March 31, 2009
	(£m)	
Audit fees	8.4	9.7
Audit related fees	0.2	0.3
Tax fees	1.4	0.9
All other fees	1.0	0.6
Total	£11.0	£11.5

Subject to the Company's Articles 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 2009/10, 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 2010 and the review of interim financial statements for the six months ended 30 September 2009 were £8.4 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 2009 and the review of interim financial statements for the six months ended 30 September 2008, were £9.7 million.
- (2) The aggregate fees billed by PricewaterhouseCoopers LLP for assurance and related services that were reasonably related to the performance of the audit or review of the Company's financial statements and are not disclosed under "Audit Fees" above were £0.2 million in fiscal 2009/10 and £0.3 million in fiscal 2008/09. Included within the fees in fiscal 2009/10 are services principally related to comfort letters and SAS 70 control reports.
- (3) Aggregate fees billed by PricewaterhouseCoopers LLP for tax compliance, tax advice and tax planning were £1.4 million in fiscal 2009/10 and £0.9 million in fiscal 2008/09.
- (4) Aggregate fees billed by PricewaterhouseCoopers LLP for all other services in fiscal 2009/10 were £1.0 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 2008/09 were £0.6 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 2009/10:

<u>Periods</u>	<u>(a). Total Number of Shares Purchased</u>	<u>(b). Average Price Paid per Share</u>	<u>(c). Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>(d). Maximum Number of Shares (Rounded) that May Yet Be Purchased Under the Plans or Programs</u>
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No securities were purchased by the Company during fiscal year 2009/10.

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), and again at the Company's 2009 AGM, held in July 2009, to purchase 10% of the then issued capital shares (up to 243 million shares). The Board will seek shareholder approval to renew this authority at the next AGM in July 2010. 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. In 2009, the Company announced its intention to suspend the share buy-back programme and as such is not currently returning stranded asset cash flows 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 91 of the Company's Annual Report and Accounts 2009/10 (in extracted form) 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 112 to 117, "Adoption of new accounting standards" on pages 118 and 119, "Consolidated balance sheet" on page 122, "Consolidated income statement" on pages 120, "Consolidated statement of comprehensive income" on page 121, "Consolidated statement of changes in equity" on page 123, "Consolidated cash flow statement" on page 124, "Notes to the consolidated financial statements — analysis of items in the primary statements" on pages 125 to 150, "Notes to the consolidated financial statements — supplementary information" on pages 151 to 178 of the Company's Annual Report and Accounts 2009/10 (in extracted form) 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 balance sheets and the related consolidated income statements, consolidated statements of cash flows, consolidated statements of comprehensive income and, consolidated statements of changes in equity, present fairly, in all material respects, the financial position of National Grid plc and its subsidiaries at 31 March 2010 and 2009 and the results of their operations and cash flows for each of the three years in the period ended 31 March 2010, 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 2010, 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 integrated 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 opinion.

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
19 May 2010

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 27 July 2009, effective 1 October 2009.	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

	<u>Description</u>	
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
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. (Exhibit 2 (b).7.2 to National Grid plc Form 20-F dated 16 June 2009 File No. 1-14958)	Incorporated by reference
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. (Exhibit 2 (b).8.1 to National Grid plc Form 20-F dated 16 June 2009 File No. 1-14958)	Incorporated by reference
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. (Exhibit 2 (b).8.2 to National Grid plc Form 20-F dated 16 June 2009 File No. 1-14958)	Incorporated by reference
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. (Exhibit 2 (b).9.1 to National Grid plc Form 20-F dated 16 June 2009 File No. 1-14958)	Incorporated by reference
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. (Exhibit 2 (b).10.1 to National Grid plc Form 20-F dated 16 June 2009 File No. 1-14958)	Incorporated by reference
2(b).11.1	Prospectus issued by National Grid plc and National Grid Electricity Transmission plc on 24 July 2009 relating to €15,000,000,000 issuable under the Euro Medium Term Note Programme.	Filed herewith
2(b).12.1	Prospectus issued by National Grid USA on 18 December 2009 relating to €4,000,000,000 issuable under the Euro Medium Term Note Programme.	Filed herewith

	<u>Description</u>	
2(b).13.1	Prospectus issued by National Grid Gas plc on 24 February 2010 relating to €10,000,000,000 issuable under the Euro Medium Term Note Programme.	Filed herewith
4(a).1	Underwriting Agreement among National Grid plc and the underwriting banks named therein, dated as 20 May 2010.	Filed herewith
4(c).1	Service Agreement among The National Grid Group plc, National Grid Company plc and Edward Astle dated 27 July 2001. (Exhibit 4.3 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).2	Service Agreement among National Grid plc and Mark Fairbairn 23 January 2007. (Exhibit 4(c).2 to National Grid Transco Form 20-F dated 19 June 2007 File No. 1-14958)	Incorporated by reference
4(c).3	Service Agreement among The National Grid plc and Steven Holliday dated 1 April 2006. (Exhibit 4(c).3 to National Grid Transco Form 20-F dated 19 June 2007 File No. 1-14958)	Incorporated by reference
4(c).4	Service Agreement among National Grid Transco plc, National Grid USA and Michael E. Jesanis dated 8 July 2004. (Exhibit 4.5 to National Grid Transco Form 20-F dated 15 June 2005 File No. 1-14958)	Incorporated by reference
4(c).5	Service Agreement among National Grid Group plc, National Grid Company plc and Steve Lucas dated 13 June 2002. (Exhibit 4.5 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).6	Service Agreement among The National Grid Group plc, National Grid Company plc and Roger J. Urwin dated as of 17 November 1995. (Exhibit 4.7 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).7	Service Agreement among National Grid Transco plc, National Grid Company plc and Nicholas 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. (Exhibit 4(b).8.2 to National Grid plc Form 20-F dated 16 June 2009 File No. 1-14958)	Incorporated by reference
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

	<u>Description</u>	
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
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 Holliday and Steve Lucas furnished pursuant to 18 U.S.C. Section 1350	Filed herewith
15.1	National Grid plc Annual Report and Accounts 2009/10, 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
25 May 2010

Company number: 4031152

The Companies Act 2006
Public company limited by shares
Articles of Association
of
National Grid plc
Adopted by special resolution on 27 July 2009
to take effect from 1 October 2009
(Incorporated on 11 July 2000)

Introduction

- 1 Default Articles and other standard regulations do not apply**
- 1.1** The regulations in Table A of the Companies (Tables A to F) Regulations 1985 and in the Companies (Model Articles) Regulations 2008, and any other articles or regulations which may apply to companies like **us** 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. But the glossary is not part of the **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	Definitions
business day	A day which is not a Saturday, Sunday or a public holiday in England.
class meeting	A meeting of the holders of a relevant class of shares .
clear days	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.
committee	A committee of the Board , appointed with powers delegated in line with Article 85.
Companies Act	The Companies Act 2006.
Company Communications Provisions	Sections 1143 to 1148, Section 1168 and Schedules 4 and 5 of the Companies Act .
corporate representative	A person or persons, authorised by a <i>company</i> which is a shareholder , to act as its corporate representative or corporate representatives at a General Meeting or class meeting which the <i>company</i> is entitled to attend.
CREST Regulations	The Uncertificated Securities Regulations 2001.
Director	A Director of NG .
electronic form	Includes any <i>notice</i> , document or information sent or supplied <i>electronically</i> or through any other medium (including sending by email, posting on a <i>website</i> , sending by fax or by sending a disk by post).
existing shares (of any kind)	Shares which are in <i>issue</i> at the relevant time.
General Meeting or meeting	A meeting of our shareholders (including any satellite meeting as set out in Article 32) which is an Annual General Meeting or any other General Meeting, as set out in Article 28.
in writing	Written by hand or produced by any substitute for writing including anything in electronic form .
Interested Directors	Directors who have or could have a direct or indirect interest in a matter which conflicts, or could conflict, with our interests.
law	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.
London Stock Exchange	The London Stock Exchange plc.
NG	National Grid plc.
operator	CRESTCO Limited or any other operator of a <i>relevant system</i> under the CREST Regulations .

Words	Definitions
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 which concern companies and affect 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, <i>unincorporated associations</i> 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** have the meaning given to them 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 52.3, 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.

Shares

3 Shareholders' Liabilities

Each **shareholder's** liability (as a **shareholder**) is limited to the amount (if any) that is unpaid on the **shares** that he or she holds.

4 Fractions of shares

4.1 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.

4.2 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.

4.3 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.

5 The power to reduce capital

5.1 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**.

6 Buying back shares

6.1 **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**.

6.2 **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*).

7 The special rights of new shares

- 7.1** 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 7.1 are *subject to* the provisions of Article 7.4.
- 7.2** The *rights* and restrictions referred to in Article 7.1 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**.
- 7.3** 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*. The **Directors** may determine the terms, conditions and manner of *redemption* of any such **shares**.
- 7.4** 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**.

8 The Directors' power to deal with shares

- 8.1** The **Directors** can decide how to deal with any new **shares**. 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 10.1);
 - (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 8.1 is *subject to* the provisions of Article 8.3.
- 8.2** The **Directors** are free to decide who they deal with, when they deal with the **shares**, and the terms on which they deal.
- 8.3** 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**.

9 Power to pay commission and brokerage

9.1 **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**.

9.2 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**.

10 Renouncing allotted but unissued shares

10.1 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.

11 No trusts or similar interests recognised

11.1 **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*.

11.2 The only exception to Article 11.1 is for any right:

- (a) which is expressly given by these **Articles**; or
- (b) which **we** have a legal duty to recognise.

Uncertificated shares

12 Uncertificated shares

12.1 **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.

12.2 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**.

12.3 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**.

12.4 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 12.4, Article 12.3 will still apply to the **Articles**, read with those regulations.

Share certificates

13 Certificates

13.1 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.

13.2 **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*.

13.3 If a **shareholder** receives more **shares** in certificated form of any class, they are entitled, without charge, to another *certificate* for the extra **shares**.

13.4 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*.

13.5 **We** do not have to issue more than one *certificate* for any **share** in certificated form, even if that **share** is held jointly.

13.6 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**.

13.7 **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.

13.8 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**.

13.9 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.

13.10 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.

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

14 Replacement share certificates

14.1 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** can comply with this request and the **Directors** can require the **shareholder** to pay **our** administrative expenses for doing so.

14.2 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 require the **shareholder** to pay **our** administrative expenses for doing so.

14.3 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.

14.4 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.

14.5 The **Directors** can require the **shareholder** to pay **our** administrative expenses for issuing any share *certificates* under Article 14.3.

14.6 Any one joint **shareholder** can request replacement *certificates* under this Article 14 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

15 Changing the special rights of shares

15.1 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 30). Alternatively, the holders of at least three-quarters of the **existing shares** of the class (by *nominal value*) can give their consent **in writing**.

15.2 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*.

15.3 This Article 15 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 15.

16 More about the special rights of shares

16.1 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

17 Transfer forms

17.1 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 (known as a stock transfer form), or in any other form approved by the **Directors**.

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

18 Transferring shares in certificated form

18.1 A 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.

- 18.2** A transfer form for shares in certificated form must be signed, or made effective in some other way, by the person making the transfer.
- 18.3** 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**.
- 18.4** 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.
- 18.5** A transfer form cannot be used to transfer more than one class of **shares**. Each class of **shares** needs a separate form.
- 18.6** **We** do not charge a fee for transferring **shares** or registering changes relating to the *ownership* of **shares**.
- 18.7** Transfers cannot be in favour of more than four joint holders.
- 18.8** A transfer form must be properly stamped by HM Revenue & Customs (or its successor if any) for payment of stamp duty where this is required.
- 19 Refusing to register certain transfers**
- 19.1** The **Directors** can refuse to register a transfer of any **shares**:
- (a) if the relevant conditions in Article 18 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 50).
- 19.2** 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.
- 19.3** 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 18.4. 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).
- 20 Overseas branch registers**
- 20.1** **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.
- 21 More provisions on uncertificated shares**
- 21.1** *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.

21.2 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

22 If a shareholder dies

22.1 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**.

22.2 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**.

22.3 But this Article does not discharge the estate of any **shareholder** from any liability.

23 Registering personal representatives

23.1 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.

24 A person who wants to be registered must give notice

24.1 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 13.10 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**.

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

25.1 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*.

25.2 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**.

26 The rights of people automatically entitled to shares by law

26.1 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.

26.2 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 26.1*) any of the other rights and benefits of being a **shareholder**.

Shareholders who cannot be traced

27 Shareholders who cannot be traced

27.1 **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 27.1 (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*.

27.2 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.

27.3 The net sale proceeds belong to **us** until claimed under this Article 27, 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.

- 27.4** 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**.
- 27.5** In the case of **uncertificated shares** held by **shareholders** who cannot be traced, restrictions under the **CREST Regulations** will apply.

General Meetings

28 The Annual General Meeting

- 28.1** 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**. The **Directors** will decide when and where to hold the **Annual General Meeting**. They can, in accordance with Article 32, decide to hold an **Annual General Meeting** or any other **General Meeting** in more than one location.

29 Notice of General Meetings

- 29.1** *Subject to* Article 29.2, **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 29.2, **we** must give at least 14 **clear days' notice in writing**.
- 29.2** **We** can convene a **General Meeting** by shorter *notice* than that specified in Article 29.1, 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.
- 29.3** Any *notice* of **General Meeting** must:
- (a) say where the **meeting** is to be held (and, if the **meeting** will be held at more than one location in accordance with Article 32, state the **principal meeting place** and any other location under Article 32);
 - (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**.

29.4 **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*.

29.5 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*.

29.6 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*.

29.7 Unless the **Companies Act** does not require it, if **we** receive a *request in writing* from the number of **shareholders** specified in the **Companies Act** and in line with Article 29.8 and the **Companies Act**, **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 from the **shareholders** requesting it 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.

29.8 If, before the end of the financial year preceding the next **Annual General Meeting**, **we** receive a request (that complies with the requirements of the **Companies Act**) to circulate a resolution or statement, and it is in a form acceptable to the **Directors**, **we** will send out the resolution or statement without cost to the **shareholders** requesting it. Otherwise, **we** may require the **shareholders** who requested it to deposit or pay a reasonable sum to meet **our** expenses to circulate the resolution or statement.

29.9 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**.

30 Class meetings

30.1 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**.

31 Moving a General Meeting at short notice

31.1 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 and on **our** website. *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 51, until 48 hours before the rearranged **meeting**. The **Directors** can also move or postpone the rearranged **meeting**, or both, under this Article 31.

32 Satellite meeting places

32.1 To assist with the organisation and administration of any **General Meeting**, the **Directors** may decide that the **General Meeting** will be held at more than one location.

32.2 For the purposes of these **Articles**, any **General Meeting** taking place at two or more locations will be treated as taking place where the chairman of the **meeting** is in attendance (to be known as the **principal meeting place**) and any other location where that **meeting** takes place is referred to in these **Articles** as a **satellite meeting**.

32.3 A **shareholder** present in person or by *proxy* at a **satellite meeting** may be counted in the *quorum* and can exercise all rights that they would have been able to exercise if they were present at the **principal meeting place**.

32.4 The **Directors** can make and change such arrangements as they consider appropriate to:

32.4.1 ensure that all **shareholders** and *proxies* for **shareholders** wanting to attend the **meeting** can do so;

32.4.2 ensure that all persons attending the **meeting** are able to take part in the business of the **meeting** and to see and hear anyone else addressing the **meeting**;

32.4.3 ensure the safety of persons attending the **meeting** and the orderly conduct of the **meeting**; and

- 32.4.4** restrict the numbers of **shareholders** and *proxies* at any one location to a number that can be safely and conveniently accommodated there.
- 32.5** Whether any **shareholder** or *proxy* is entitled to attend a **satellite meeting** will depend on any arrangements then in force and stated in the *notice of meeting* or *adjourned meeting*.
- 32.6** If the communication equipment fails or if any other arrangements fail for shareholders to take part in the **meeting** at more than one place, the chairman may *adjourn* the **meeting** under Article 38. Such an *adjournment* will not affect the validity of such **meeting**, or any business conducted at such **meeting** up to the point it is *adjourned*, or any action taken following such a **meeting**.
- 32.7** A person (known as a **Satellite Chairman**) may be appointed by the **Directors** to preside at each **satellite meeting**. Every **Satellite Chairman** appointed:
- 32.7.1** will carry out all requests made by the chairman of the **General Meeting**;
- 32.7.2** can take whatever action they think necessary to maintain the proper and orderly conduct of the **satellite meeting**;
and
- 32.7.3** will have all powers necessary or desirable to carry out these duties.

Proceedings at General Meetings

33 The chairman of a General Meeting

- 33.1** 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**, the **Directors** will, in advance of the **General Meeting**, appoint a **Director** to chair the **meeting**.
- 33.2** *Subject to* Article 33.1, if **we** do not have a chairman, or if the chairman is not willing and able to chair the **meeting**, after waiting ten 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.
- 33.3** 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.
- 33.4** Any resolution (including any amending resolution) proposed by the chairman of the **meeting** does not need to be seconded.
- 33.5** 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**.

34 Security and other arrangements at General Meetings

- 34.1** The **Directors** can put in place any arrangements or restrictions they think necessary to ensure the safety and security of people attending a **General Meeting** and the orderly conduct of the **meeting**, including requiring those attending to submit to searches.
- 34.2** 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.

34.3 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.

34.4 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**.

34.5 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**.

34.6 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.

35 Overflow meeting rooms

35.1 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 35 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.

36 The quorum needed for General Meetings

36.1 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 attend and vote.

37 The procedure if there is no quorum

37.1 This Article applies if a *quorum* is not present within 10 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.

37.2 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.

37.3 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*.

37.4 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.

38 Adjourning General Meetings

38.1 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 the safety of the people attending the **meeting** or 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.

38.2 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*.

38.3 **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*.

38.4 An *adjourned General Meeting* can only deal with business that could have been dealt with at the original **meeting** before it was *adjourned*.

39 Amending resolutions

39.1 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.

- 39.2** 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.
- 39.3** 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.

40 Proxies, Corporate Representatives and Directors speaking at General Meetings

- 40.1** *Proxies* and **corporate representatives** can speak at a **General Meeting**.
- 40.2** A **Director** who is not a **shareholder** can still attend and speak at a **General Meeting**.

Voting procedures

41 All votes decided on a poll

- 41.1 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.
- 41.2** 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**.
- 41.3** 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.

41.4 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.

42 How a poll is taken

42.1 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**.

42.2 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.

42.3 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**.

42.4 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.

43 Timing of a poll

43.1 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.

44 The chairman's casting vote

44.1 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*.

45 The effect of a declaration by the chairman

45.1 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

46 The votes of shareholders

46.1 *Subject to* Article 46.2, 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**.

46.2 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**.

47 Shareholders who owe us money

47.1 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**.

48 Votes of shareholders who are of unsound mind

48.1 This Article 48 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.

48.2 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 48 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*).

49 The votes of joint holders

49.1 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

50 Suspending shareholder rights on non-disclosure of interest

50.1 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 (a **Section 793 notice**), 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 50 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**.

50.2 Any person who acquires **shares** *subject to* the restrictions under Article 50.1 is limited by the same restrictions, unless:

- (a) the transfer was an **approved transfer** (see Article 50.9); or
- (b) the transfer was by a **shareholder** who has supplied the information required by the notice under Article 50.1.

50.3 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 50.4, no transfer of any of the **shares** held by the **shareholder** will be registered unless:
 - (i) the transfer is an **approved transfer** (see Article 50.9); 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**.

- 50.4** 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**.
- 50.5** **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.
- 50.6** 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.
- 50.7** 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 50.3 even where a **Section 793 Notice** restricts transfers.
- 50.8** For the purposes of this Article 50, 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**.
- 50.9** For the purposes of this Article 50, 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**.
- 50.10** For the purposes of this Article 50, 'interested' has the same meaning as in Section 793 of the **Companies Act**.
- 50.11** For the purposes of this Article 50, 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.

50.12 This Article 50 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

51 Completing proxy forms

51.1 A *proxy form* can be in any form which is commonly used, or in any other form, which the **Directors** approve.

51.2 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 122. 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 line with Article 122. 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.

51.3 *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.

51.4 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.

51.5 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 attached 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.

51.6 A *proxy* need not be a **shareholder**.

51.7 *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.

52 Delivering completed proxy forms

52.1 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 *electronically*, the *proxies* must be delivered in the way that the **Directors** 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 52.1, the **Directors** can decide to exclude any part of any day which is not a **business day**.

- 52.2** As far as the **law** permits, **Directors** can decide to accept *proxies* delivered *electronically* (see Article 52.3), *subject to* any limitations, restrictions or conditions they decide to apply. **We** may choose not to apply Articles 52.1 and 52.2 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**.
- 52.3** 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**.
- 52.4** If Article 52 is not met, the *proxy* will not be able to act for the person who appointed them.
- 52.5** 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.
- 52.6** 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.
- 52.7** 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.
- 52.8** 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.
- 53 Cancellling a proxy's authority**
- 53.1** 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.
- 53.2** 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.

54 Representatives of companies

54.1 Subject to the **Statutes**, a *company* which is a **shareholder** can authorise one or more 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**.

55 Challenging votes

55.1 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

56 The number of Directors

56.1 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**.

57 Qualification to be a Director

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

58 Directors' fees

58.1 Under this Article 58.1, 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 59, amounts paid as expenses under Article 60 and any payments under Article 61) must not exceed:

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

58.2 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.

59 Special pay

59.1 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.

59.2 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.

59.3 Special **pay** is additional to fees paid under Article 58.1.

60 Directors' expenses

60.1 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.

61 Directors' pensions and other benefits

61.1 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.

61.2 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**.

61.3 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.

61.4 No **Director** or former **Director** is accountable to **us** or **our shareholders** for a benefit of any kind given in line with this Article 61. Receiving a benefit of any kind given in line with this Article 61 does not prevent a person from being or becoming a **Director**.

62 Appointing Directors to various posts

- 62.1** 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.
- 62.2** A **Director** appointed as an executive **Director** can, in line with Article 59, 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 58.
- 62.3** 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 62.3, this does not prejudice any claim for breach of contract against **us** which may otherwise apply.
- 62.4** 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

63 Retiring Directors

- 63.1** 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.

64 Eligibility for re-election

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

65 Re-electing a Director who is retiring

- 65.1** 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**.
- 65.2** 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.

66 Electing two or more Directors

- 66.1** 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.

67 People who can be Directors

67.1 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** (under Article 67.2) who is entitled to attend and vote at the **General Meeting**.

67.2 A **shareholder** proposing a **Director** 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 14 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).

68 Filling vacancies and appointing extra Directors

68.1 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**.

68.2 *Subject to* Article 67, at a **General Meeting** the **shareholders** can also pass an *ordinary resolution* to fill a *casual vacancy* or to appoint an extra **Director**.

68.3 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**).

69 Removing and appointing Directors by an ordinary resolution

69.1 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.

69.2 *Subject to* Article 67, 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 69.2, the vacancy can be filled under Article 68.

70 When Directors are disqualified

70.1 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.

70.2 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

71 Directors' meetings

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

72 How Directors' meetings are called

72.1 Any **Director** can call a meeting. The *Company Secretary* must also call a meeting if a **Director** requests a meeting.

72.2 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**.

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

73 Quorum

- 73.1** If no other *quorum* is fixed, two **Directors** are a *quorum*. *Subject to* these **Articles** and the **law**, a meeting at which a *quorum* is present can *exercise* all the powers, authorities and discretions of the **Directors**.
- 73.2** 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*.
- 73.3** 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.

74 The chairman of Directors' meetings

- 74.1** 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.
- 74.2** Subject to Article 74.1, if the chairman of the **Board** is not present, or if the chairman is not willing to act as chairman, within 10 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.

75 Voting at Directors' meetings

- 75.1** 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.
- 75.2** 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 56 and 73 (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**.
- 75.3** If no **Directors** are willing or able to act under this Article 75, any two **shareholders** can call a **General Meeting** to appoint extra **Directors**.

76 Directors' meetings by video or web conference and phone

- 76.1** 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 or web conference or by using a conference phone or similar equipment designed to allow everybody to take part in the **Directors'** meeting.
- 76.2** 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 or web 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.

76.3 A **Directors'** meeting held in the way described in Article 76.1 will be valid as long as a *quorum* is present in one single place, or in places connected by way of video or web conference, telephone conference or similar equipment.

77 Resolutions in writing

77.1 This Article 77 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.

77.2 The resolution can be passed using several copies of a document, if each document is signed by one or more **Directors**, or each **Director** confirms their agreement *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*.

77.3 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.

77.4 A written resolution will be valid when it is signed by the last **Director**.

77.5 The resolution can be:

- (a) in the form of a letter;
- (b) in **electronic form** (as long as it is **in writing**); or
- (c) in any other way the **Directors** may approve.

78 The validity of Directors' actions

78.1 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.

78.2 Article 78.1 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.

78.3 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 78.

Directors' interests

79 Authorising Directors' interests

79.1 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.

79.2 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.

79.3 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.

79.4 Any authorisation of a matter under this Article will be *subject to* any conditions or limitations that the **Board** decides. 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.

79.5 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.

80 Directors may have certain interests

80.1 *Subject to* complying with Article 80.2, 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 they are paid 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) A **Director** can have an interest, transaction or arrangement which may result in another interest which they do not know about.
- (f) A **Director** may have an interest in any matter authorised under Article 79.
- (g) A Director may have any other interest authorised by *ordinary resolution*.

No authorisation under Article 79 is required for any interests under this Article 80.1.

80.2 The **Director** must declare the nature and extent of any interest allowed under Article 80.1, but which does not fall within Article 80.3. They must do this at a **Board** meeting or by sending notice in writing to other **Directors** *electronically* or otherwise. If a Director:

- (a) has an interest in a company and is interested in any transaction or arrangement with that company; or
 - (b) is connected with a person and is interested in a transaction with that person,
- they must declare the nature and extent of any interest and give such notice at a **Board** meeting.

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

- (a) falling within paragraph (d) or (e) or (f) of Article 80.1;
- (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 their 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.

80.4 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 80.1.

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

80.5 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.

81 Restrictions on quorum and voting

81.1 Unless this Article says otherwise, and regardless of whether the interest is one which is authorised under Article 79 or allowed under Article 80, a **Director** cannot vote (and if he or she does, their vote will not be counted) on a resolution about a contract in which they (or a **person** connected with them) have an interest.

81.2 A **Director** cannot be counted in the *quorum* for a **Board** meeting in relation to any resolution on which they are not entitled to vote.

81.3 If the **law** allows, a **Director** can (unless they have 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 they do 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 they hold **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*.

81.4 This Article 81 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.

81.5 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**.

82 Confidential information

82.1 *Subject* to Article 79, 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**.

82.2 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 82 will apply only if the conflict arises out of a matter which has been authorised under Article 79 or falls within Article 80.

82.3 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.

83 Directors' interests — general

83.1 For the purposes of Articles 79 to 83:

- (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**.

83.2 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.

83.3 By passing an *ordinary resolution*, the **shareholders** can ratify any contract not properly authorised because it breached any of the provisions in Articles 79 to 83.

Minutes

84 Minutes

84.1 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.

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

Directors' committees

85 Delegating powers to committees

85.1 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**.

85.2 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 85.

86 Committee procedure

86.1 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 85.1.

Directors' powers

87 General powers of Directors

87.1 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 87.1 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**.

88 Provision for employees if we cease or transfer our business

88.1 If **we** cease or transfer to any person the whole or part of the undertaking of **NG** (or the whole or part of the undertaking of any of **our subsidiaries**), the **Directors** may make provision for the benefit of **our** employees or former employees (or the employees or former employees of that subsidiary) other than directors, former directors, or shadow directors.

89 The power to appoint attorneys and agents

89.1 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**.

89.2 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.

89.3 For the purposes of this Article 89 but *subject to* Article 89.1, 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*.

90 Local boards

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

90.2 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.

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

90.4 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.

91 Using the title 'Director'

91.1 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**.

92 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.

93 Borrowing powers

93.1 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.

94 Borrowing restrictions

94.1 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 £35,000,000,000 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**.

94.2 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 94.2(d)) of the **Group** and will include:
 - (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 one member of the **Group** to repay (with or without a premium), within six months of being borrowed, all or part of the outstanding borrowings owed 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 94 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 94, 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.

- 94.3** 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 94.1 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.
- 94.4** No lender or other person dealing with the **Group** needs to see or enquire if we are observing the borrowing limit imposed by Article 94.1. 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 was given 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

95 Alternate directors

- 95.1** 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**.
- 95.2** 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 65. 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**.
- 95.3** 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.
- 95.4** If the **Directors** decide to allow this, Article 95.3 also applies to any meeting of a **committee** that the person who appointed them is a member of.
- 95.5** An **alternate director** will alone be responsible to **us** for their own actions and mistakes. Except as said in this Article 95, 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**.

95.6 If the **law** allows, an **alternate director** is entitled to:

- (a) contract;
- (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

96 The Company Secretary

96.1 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*. One or more deputy and/or assistant *Company Secretaries* may also be appointed.

The Seal

97 The Seal

97.1 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*.

97.2 *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**.

97.3 A **committee** duly authorised by the **Board** for the purposes of this Article 97 can consist entirely or partly of people other than **Directors**. Other than the provisions of Articles 84.1(a) and (b), Articles 84 and 77 will apply to this **committee**.

- 97.4** 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.
- 97.5** *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.
- 97.6** The **Directors** can use all the powers given by **law** relating to official seals to be used abroad.
- 97.7** **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**.
- 97.8** 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

98 Establishing that documents are genuine

- 98.1** 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.
- 98.2** 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.
- 98.3** This Article 98.3 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 98.1 or 98.2. 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

99 Setting up reserves

99.1 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

100 Final dividends

100.1 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**.

101 Fixed and interim dividends

101.1 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).

101.2 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 101 on other **shares** which *rank* equally with or behind their **shares**.

102 Dividends not in cash

102.1 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** will give effect to such a 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.

103 Deducting amounts owing from dividends and other money

103.1 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**.

104 Payments to shareholders

104.1 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**.

104.2 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**.

104.3 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 or related tax voucher has been, or is alleged to have been, lost, stolen or destroyed, the **Directors** may issue a replacement cheque or warrant or related tax voucher if the person entitled to the money requests this and pays **our** administrative expenses for complying with their request.

104.4 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.

104.5 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.

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

105 Record dates for payments and other matters

105.1 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 105 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 105 does not affect the rights between past and present **shareholders** to payments or other benefits.

106 Dividends which are not claimed

106.1 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**.

106.2 **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.

107 Waiving dividends

107.1 **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**.

Capitalising reserves

108 Capitalising reserves

108.1 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.

108.2 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.

108.3 If any difficulty arises distributing **shares** in line with this Article 108, 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.

108.4 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

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

109.1 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.

109.2 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.

109.3 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 109.1 is not renewed.

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

109.4 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.

- 109.5** The **Directors** will only apply this Article 109 if **we** have enough revenues or reserves which can be *capitalised* to satisfy the offer.
- 109.6** After the **Directors** have decided to apply this Article 109 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.
- 109.7** 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.
- 109.8** 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**.
- 109.9** 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 109. 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 108 applies to this process, so far as it is consistent with this Article 109.
- 109.10** 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.

109.11 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.

109.12 The **Directors** can decide at their discretion 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

110 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.

111 The location and inspection of records

111.1 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.

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

111.3 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.

112 Sending copies of accounts and other documents

112.1 This Article 112 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.

112.2 **We** must send copies of the documents mentioned in Article 112.1 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;
- (b) more than one joint holder of **shares** or *debentures*; or
- (c) any person **we** do not have a current address for.

112.3 **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

113 Acts of Auditors

113.1 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.

114 Auditors at General Meetings

114.1 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

115 Serving and delivering notices and other documents

115.1 *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).

115.2 *Subject to* and in line with Articles 115, 116, 118 and 119, the **Company Communications Provisions** in the **Companies Act** govern how **we** send or receive *notices*, documents or information.

116 Notices to joint holders

116.1 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**.

116.2 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**.

116.3 Where this Article 116 relates to joint **shareholders**, it will take priority over the **Company Communications Provisions**.

117 Notices for shareholders with foreign addresses

117.1 This Article 117 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 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.

117.2 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.

118 When notices are served or considered to be served

118.1 If we send a *notice* or any other kind of document (including a share certificate):

- (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*;

we treat it 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:

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

118.2 **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.

118.3 **We** will treat any *notice* or document which we send or supply through a *website* as being properly served when:

- (a) the material is first made available on the *website*; or
- (b) 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*.

118.4 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.

118.5 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**, we will consider that they received *notice* of the **meeting** and of the reason why it was called.

118.6 Where this Article 118 relates to any *notices* or documents **we** treat as having been delivered, it will take priority over the **Company Communications Provisions**.

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

119.1 This Article 119 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 119.1, there is no need to send them to, or serve them in any other way, on any other people who may be involved.

119.2 Where this Article relates to a **shareholder** who has died, has become of *unsound mind* or become bankrupt or is in liquidation, it will take priority over the **Company Communications Provisions**.

120 If documents are accidentally not sent

120.1 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.

121 When entitlement to notices stops

121.1 This Article 121 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 121.1, references to a communication include references to any cheque or other method of payment; but nothing in this Article 121.1 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 106.2.

122 Signing or authenticating of documents sent electronically

122.1 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:

- (a) **we** can confirm the identity of the sender;
- (b) **we** have no reason to doubt the identity of the sender; or
- (c) it is 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**.

123 Statutory requirements for notices

123.1 Nothing in Articles 115 to 122 will affect any legal requirement for serving any offer, *notice*, information or other document in any particular way.

Winding up

124 Directors' power to petition

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

125 Distributing assets in kind

125.1 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 125, no past or present **shareholder** can be forced to accept any **shares** or other property which carries a *liability*.

Destroying documents

126 Destroying documents

126.1 **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;
- (b) all dividend payment instructions and notifications of a change of address or name, two years after the date these were registered; and
- (c) all cancelled share *certificates*, one year after the date they were cancelled.

126.2 If **we** destroy a document in line with Article 126.1, 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.

126.3 This Article 126 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.

126.4 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.

126.5 **We** can destroy a document earlier than the dates mentioned in Article 126.1 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.

126.6 This Article 126 does not make **us** liable:

- (a) if **we** destroy a document earlier than referred to in Article 126.1; or
- (b) if **we** would not be liable if this Article 126 did not exist.

126.7 This Article 126 applies whether **we** destroy a document or dispose of it in some other way.

Indemnity and insurance

127 Indemnity and insurance

127.1 To the fullest extent permitted by 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 Section 234(3) of 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 127, the *indemnity* will cover all costs, charges, losses, expenses and *liabilities* incurred by them.

127.2 As well as the cover provided under Article 127.1 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
- (b) 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*;
- (b) any pension fund; or
- (c) any employees' share scheme;

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

127.3 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
- (c) 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.

128 ADR definitions

128.1 In Articles 128 to 137:

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 a person or persons who are registered as holding 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 .

129 The ADR Depositary can appoint proxies

129.1 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 129.2, 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**.

129.2 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 129.3).

129.3 The **Depository Shares** which can be held by the **ADR Depository** consist of the total of the number of **shares** registered in the name of the **ADR Depository**.

130 The ADR Depository must keep a Proxy Register

130.1 The **ADR Depository** 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.

130.2 The **ADR Depository** must let anyone the **Directors** nominate inspect the **Proxy Register** during usual business hours on a **business day**. The **ADR Depository** must also provide, as soon as possible, any information contained in the **Proxy Register** if we or our agents ask for it.

131 Appointed Proxies can only attend General Meetings if properly appointed

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

132 Rights of Appointed Proxies

132.1 *Subject to* the **Companies Act** and these **Articles**, and as long as the **Depository 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 Depository** was the registered holder of the **shares** and they had been validly appointed in line with Articles 51 to 55 by the **ADR Depository** as its *proxy* in relation to those **shares**; and
- (b) 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 51 to 55 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.

133 Sending information to an Appointed Proxy

133.1 We can, if the **Directors** decide and *subject to* U.S. and any other legal and regulatory requirements, send all the same documents we send to **shareholders** to an **Appointed Proxy**, at their address in the **Proxy Register**.

134 Paying dividends to an Appointed Proxy

134.1 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 Depository**. If we do this, we will not have any obligation to make this payment to the **ADR Depository** as well.

135 The Proxy Register can be fixed at a certain date

135.1 To determine who is entitled as **Appointed Proxies** to:

- (a) *exercise* the rights conferred by Article 132;
- (b) receive documents sent in line with Article 133; and
- (c) be paid dividends in line with to Article 134,

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**.

135.2 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**;
- (b) 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
- (c) 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.

136 The nature of an Appointed Proxy's interest

136.1 Except as required by the **Companies Act**, **we** will not recognise any **Appointed Proxy** as holding any interest in **shares** held in any trust.

136.2 Except for recognising the rights set out in Article 132, **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**.

137 Validity of the appointment of Appointed Proxies

137.1 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.

137.2 If a question of the type described in Article 137.1 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 joint, 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 560 of the **Companies Act**.

equity shares Shares in **our** capital which are regarded as equity share capital under Section 548 of the **Companies Act**.

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:

- (a) **us**;
- (b) any of **our** holding companies; and
- (c) 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.

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 in 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* 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 724 to 726 of the **Companies Act**.

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.

PROSPECTUS DATED 24 JULY 2009



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

Barclays Capital

BofA Merrill Lynch

Citi

Commerzbank Corporates & Markets

Deutsche Bank

HSBC

Mitsubishi UFJ Securities International plc

Morgan Stanley

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 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.

Save for the Issuers (as described in the first paragraph on page 2 of this Prospectus), no other party has separately verified the information contained in this Prospectus. None of the Dealers, the Arranger or the Trustee makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. Neither this Prospectus nor any other financial statement is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by 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 2008 and 31 March 2009, together in each case with the audit report thereon, (ii) the Terms and Conditions set out on pages 24 to 56 of the prospectus dated 18 August 2005 relating to the Programme, (iii) the Terms and Conditions set out on pages 26 to 59 of the Prospectus dated 11 August 2006 relating to the Programme, and (iv) the Terms and Conditions set out on pages 26 to 61 of the Prospectus dated 30 July 2008 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. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this 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	Barclays Bank PLC Citigroup Global Markets Limited Commerzbank Aktiengesellschaft Deutsche Bank AG, London Branch HSBC Bank plc Merrill Lynch International Mitsubishi UFJ Securities International plc Morgan Stanley & Co. 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 references to “ Dealers ” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Trustee	The Law Debenture Trust Corporation p.l.c.
Issuing and Paying Agent	The Bank of New York Mellon
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 a NGN, the Global Instrument will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Instrument is not intended to be a NGN, 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	<p>United States, United Kingdom, Public Offer Selling Restriction under the Prospectus Directive (in the case of unlisted Instruments) and Japan. See “Plan of Distribution”.</p> <p>Category 2 selling restrictions will apply to the Instruments for the purposes of Regulation S under the Securities Act.</p>

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, a decoupling of energy usage and revenue and other decisions relating to the implications of energy change, remuneration for standard assets, the level of permitted revenues and dividend distributions for National Grid's businesses and in relation to 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 is increasingly subject to regulation in relation to climate change. 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 exceed regulatory efficiency and integration targets and service quality standards 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: 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 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 (in particular in the U.S. dollar), interest rates and commodity price indices, could have a significant impact on National Grid's results of operations.

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 and volatility in the global credit markets.

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 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 National Grid's assets. Accordingly, National Grid relies 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 National Grid is not able to access capital at

competitive rates, National Grid's ability to finance its operations and implement its strategy will be adversely affected.

National Grid's results of operations could be affected by deflation.

National Grid's income under its price controls in the UK is linked to the retail price index. Therefore, if the UK economy suffers from a prolonged period of deflation, National Grid's revenues may decrease, which may not be offset by reductions in operating costs.

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. Changes in law and accounting standards could increase National Grid's effective tax rate.

The accounting treatment under International Financial Reporting Standards ("IFRS"), as adopted by the European Union, of, among other things, 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. New or revised standards and interpretations may be issued, which could have a significant impact on the financial results and financial position that National Grid reports. 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.

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 and volatility in the global credit markets

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.

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. Changes in law and accounting standards could increase NGET's effective tax rate.

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. New or revised standards and interpretations may be issued, which could have a significant impact on the financial results and financial position that NGET reports. The effective rate of tax 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.

NGET's results of operations could be affected by deflation.

NGET's income under its price controls in the UK is linked to the retail price index. Therefore, if the UK economy suffers from a prolonged period of deflation, NGET's revenues may decrease, which may not be offset by reductions in operating costs.

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 resident in that other Member State or certain other 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 territories 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 or certain other persons in a Member State 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 or certain other persons in one of those territories or certain limited types of entity established in one of those territories.

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the

scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

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 24 July 2009 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 24 July 2009 has been entered into in relation to the Instruments between the Issuers, 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 July 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 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 (known as TARGET2) System which was launched on 19 November 2007 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).

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:

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

where:

I_d is the Index Level for the day d

HICP m-2 is the level of HICP for month m-2

HICP m-3 is the level of 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:

Substitute Index Level = Base Level x (Latest Level / 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 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 (both before and after 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

* Only applicable where National Grid is the Issuer.

Announcement shall be made and if, within the National Grid Restructuring Period, either:

- (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.

* Only applicable where National Grid is the Issuer.

[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 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 any non-contractual obligations arising out of or connected with them 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, 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 ownership and operation of regulated electricity and gas infrastructure networks in the U.K. and the U.S. serving around 19 million customers directly and many more indirectly. National Grid also has interests in related markets, including electricity interconnectors, metering services, liquefied natural gas storage (LNG) and importation facilities and property in the U.K., LNG storage and transportation and non-regulated gas transmission pipelines in the U.S. and a generator of electricity on Long Island New York.

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. more significant subsidiary companies include KeySpan Corporation, The Brooklyn Union Gas Company, KeySpan Gas East Corp., Niagara Mohawk Power Corporation, Massachusetts Electric Company, Narragansett Electric Company, Granite State Electric Company, Energy North Natural Gas, Essex Gas 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 690 kilometres of underground cable and 337 substations at 241 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 is also designated as system operator for the new offshore electricity regime.

National Grid also owns the gas national transmission system in Great Britain. This comprises 7,600 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 three 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 140 kilometres of underground cable and 524 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 25 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 and any other gas transporters in the UK.

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 26,400 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 116,700 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;
- Fulcrum Connections Limited provides gas connections and associated design services on behalf of gas distribution networks in the U.K.; and
- Blue- NG is a joint venture between National Grid and 20C 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.

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 U.S. Securities and Exchange Commission (“**SEC**”) and the exchanges themselves.

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 licence 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.

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 operate under various franchise agreements that provide certain rights and obligations regarding gas facilities and the provision of gas service within each state that they operate. The gas distribution activities are regulated by the relevant state utility commission in the states in which they operate (including New York, Massachusetts, Rhode Island 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 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 2009; 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.

For electricity transmission, National Grid also has a balancing services incentive scheme that covers the external costs incurred in balancing the system. For 2009/10, National Grid has accepted an incentive scheme with a cost target between £600 million and £630 million, such that National Grid retains 25% (up to a cap of £15 million) of any savings below £600 million, and National Grid lose 15% (down to a collar of £15 million) of any costs in excess of £630 million.

U.S. electricity transmission

Incentives applicable to transmission investments in service after 31 December 2008 require a separate petition filing with the FERC. On 17 September 2008, National Grid 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.

National Grid has been pursuing improvements to the New York regional planning process, and 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 National Grid's rate plan, in December 2007 it petitioned the NYPSC for deferred recovery of necessary investment on major capital programmes for calendar year 2008 that are incremental to the capital programmes reflected in current rates. The NYPSC issued its order on National Grid's deferral petition in September 2008 that recognised that the total programme of investment is a major program or expenditure that satisfies the NYPSC's materiality requirement for deferrals. National Grid was required to file an additional petition based upon its actual 2008 investments after the end of the calendar year addressing the NYPSC's remaining requirements for deferrals, including whether the spending is incremental to the existing rate plan. This supplemental petition was filed on 21 April 2009. National Grid anticipates that it will also petition for deferred recovery of qualifying incremental investment for calendar years 2009 and 2010.

Gas distribution

U.K. gas distribution

The price controls that apply to National Grid's UK gas distribution networks for the period from 1 April 2008 to 31 March 2013 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 real basis. These allowances are expected to grow the asset base by almost 25 per cent. over the next five years.

Electricity Distribution and Generation

As permitted under National Grid's rate plan, in December 2007 it petitioned the NYPSC for deferred recovery of necessary investment on major capital programmes for calendar year 2008 that are incremental to the capital programmes reflected in current rates. The NYPSC issued its order on National Grid's deferral petition in September 2008 that recognised that the total programme of investment is a major program or expenditure that satisfies the NYPSC's materiality requirement for deferrals. National Grid was required to file an additional petition based upon its actual 2008 investments after the end of the calendar year addressing the NYPSC's remaining requirements for deferrals, including whether the spending is incremental to the existing rate plan. This supplemental petition was filed on 21 April 2009. National Grid anticipates that it will also petition for deferred recovery of qualifying incremental investment for calendar years 2009 and 2010.

National Grid filed a rate case with the NYPSC on 23 May 2009 for an \$84 million rate increase in natural gas delivery rates for its upstate New York utility. National Grid filed a settlement proposal on 13 February 2009, which included a two year rate plan, a \$39.4 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, recovery of commodity related bad debt expense, a full recovery of New York State Energy Research and Development Authority ("NYSERDA") auction rate debt, and full or partial recovery of new long-term debt, depending upon the interest rate. The NYPSC approved the settlement and the new rates became effective on 20 May 2009.

In both the Massachusetts and Rhode Island rate plans, National Grid filed rate applications to increase electricity distribution rates. In Massachusetts, National Grid requested a \$111.3 million

increase effective for rates beginning January 1, 2010. In Rhode Island, National Grid requested a \$75.3 million increase effective for rates January 1, 2010. Based on a request from the Rhode Island Division of Public Utilities and Carriers, which was agreed to by National Grid and approved by the Rhode Island Public Utilities Commission, new rates will be suspended until March 1, 2010, National Grid may recover lost revenues for the period January 1, 2010 through February 28, 2010.

On 30 January 2009, National Grid generation filed with the FERC for a rate increase for the electricity generated and supplied to Long Island Power Authority (LIPA) under the Power Supply Agreement ("PSA"). The PSA is a 15 year agreement with rates initially set in 1998 and reset every five years. Rates were last reset in 2004. The filing seeks to reset the rate for the final five-year term of the PSA. 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, rates would have increased \$60 million under the existing formula without a filing. On 31 March 2009, the FERC accepted National Grid's proposed tariff effective from 1 February 2009, subject to refund. The order also encourages a negotiated settlement. Absent a settlement, the issues would be litigated before the FERC.

Other

In February 2008, the Gas and Electricity Markets Authority (GEMA) issued a decision to fine National Grid £41.6 million for a breach of the UK Competition Act 1998 in respect of term contracts with gas suppliers entered into by its UK metering services business in 2004. National Grid 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. National Grid applied to the Court of Appeal for leave to appeal against the Tribunal's judgment on 14 July 2009.

In October 2008, National Grid informed Ofgem that its 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.

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 National Grid's 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, National Grid received a second civil investigative demand in connection with this matter. National Grid believes that KeySpan's activity in the capacity market has been consistent with all applicable laws and regulations. The investigation is ongoing and National Grid is continuing to cooperate fully.

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 Anglo American plc on 10 July 2009 becoming Chairman on 1 September 2009, Non-Executive Director of Carnival plc and Carnival Corporation Inc., (US) and of the European Aeronautic Defence and Space Company (EADS), Joint Non-Executive Chairman of Mondi plc (UK) and Mondi Ltd (S. Africa) Deputy Chairman. Director of D.P. World (Dubai) and Chancellor of the University of Southampton.
Steven Holliday	Chief Executive	Non-Executive Director of Marks and Spencer Group plc.
Bob Catell	Non-Executive Director & Deputy Chairman	Co-chair of the Board of the Downtown Brooklyn Partnership, 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 Board member of the Business Council of New York, Keyera Energy Management Ltd, Sovereign Bankcorp Inc Advisory Board, and J.P.M Chase Inc., Metropolitan Advisory Board.
Steve Lucas	Finance Director	Non-Executive Director of Compass Group PLC.
Mark Fairbairn	Executive Director, Gas Distribution	None
Tom King	Executive Director Electricity Distribution and Generation	None
Nick Winser	Executive Director, Transmission	Non-Executive Director of Kier Group plc, co-Chair of the Energy Research Partnership
Linda Adamany	Non-Executive Director	None
Philip Aiken	Non-Executive Director	Chairman of Robert Walters plc, Non-Executive Director and Senior Independent Director of Kazakhmys plc and senior advisor to Macquarie Capital (Europe) Limited
John Allan	Non-Executive Director	Non-executive Director and Chairman elect of DSG International plc. Non Executive Director of ISS. Member of the

<u>Name</u>	<u>Title</u>	<u>Principal activities outside the National Grid Group</u>
		Supervisory Boards of both Lufthansa AG and Deutsche Postbank. 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	Finance 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 the Directors.

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 licences 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 licences in Scotland) as well as being system operator designate in relation to offshore transmission systems.

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 690 kilometres of underground cables and 337 substations at 241 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:

<u>Name</u>	<u>Title</u>	<u>Principal Activities outside NGET Group</u>
Nick Winser	Chief Executive	Executive Director of National Grid plc. Director of National Grid Gas plc, National Grid Grain LNG Limited.
Stuart Humphreys	Finance Director	Director of National Grid Gas plc, National Grid Interconnectors Ltd, National Grid Grain LNG Ltd and Britned Development 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, The Association of Corporate Treasurers, Chief Financial Officer and Treasurer of KeySpan Corporation and Treasurer of National Grid USA.
Mark Fairbairn	Director	Executive Director of National Grid plc, Director of National Grid Gas Holdings Ltd and National Grid Gas plc.

Name	Title	Principal Activities outside NGET Group
Paul Whittaker	Director	UK Director of Regulation for National Grid plc, Director of National Grid Gas plc and Fulcrum Connections Limited.

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 licensable 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 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:

- (i) 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
- (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 NGET’s Transmission Licence.

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 on which National Grid is focused. National Grid is 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 National Grid’s current licencing framework.

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 underway 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.

As at 31 March 2009, 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. National Grid has continued to work closely with the Scottish transmission companies to find innovative solutions to advancing new generation projects in Scotland. National Grid has 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.

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 & 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 & Customs may, in certain cases, be passed by HM Revenue & 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 2010.

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 (the “Directive”), 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 in that other Member State or to certain other 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 territories to the exchange of information relating to such payments.

Also, a number of non-EU territories, 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 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 in one of those territories or certain limited types of entity established in one of those territories.

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive, they may amend or 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 a dealer agreement dated 24 July 2009 (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) 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;
- (b) 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;
- (c) 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;
- (d) at any time if the denomination per Instrument being offered amounts to at least €50,000; 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 (a) 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 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 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 24 July 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 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 [issue date of original Notes] a copy of which is set forth in the Prospectus dated [original date] [and the supplementary Prospectus dated [•]] and incorporated by reference into the Prospectus dated [date of current prospectus] 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..

* Delete as applicable.

[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. (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]

* 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)

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]
[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) 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

‡ If Instruments are issued by National Grid, only insert any additional put/call option other than the National Grid Restructuring Put contained in Condition 5.6 and the call option contained in Condition 5.5.1. This does not include the National Grid or NGET Restructuring Put in Condition 5.6.

- (iv) Broken Amount(s): [•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []
- (v) Day Count Fraction (Condition 3.2.5): [30/360 / Actual/Actual ([ICMA]/ISDA)/other]
- (vi) Determination Dates (Condition 3.2.5): [•] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*)
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Instruments: [Not Applicable/*give details*]
- 16. 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 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 3.2.5): [•]

(xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Instruments, if different from those set out in the Conditions: [•]

17. Zero Coupon Instrument Provisions

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

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

(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	[•] [Include a description of market disruption or settlement disruption events and adjustment provisions if appropriate]
(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: [•]
*[Include a description of market disruption or settlement disruption events and
adjustment provisions if appropriate]*

(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) [•]

[Include a description of market disruption or settlement disruption events and adjustment provisions if appropriate]

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:	<i>[give or annex details]</i>
(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:	<i>[give or annex details]</i>
(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:	<i>[Include a description of market disruption or settlement disruption events and adjustment provisions if appropriate]</i>
(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. 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*]

30. 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:

- | | |
|--|---|
| 31. Details relating to Instalment Instruments: | [Not Applicable/ <i>give details</i>] |
| - Amount of each instalment: | [•] |
| - Date on which each payment is to be made: | [•] |
| - Maximum Instalment Amount: | [•] |
| - Minimum Instalment Amount: | [•] |
| 32. Redenomination, renominatisation and reconventioning provisions: | [Not Applicable/ <i>give details</i>] |
| 33. Consolidation provisions: | [Not Applicable/ <i>give details</i>] |
| 34. Other final terms: | [Not Applicable/ <i>give details</i>] <i>(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.)</i> |

DISTRIBUTION

- | | |
|---|--|
| 35. (i) If syndicated, names of Managers: | [Not Applicable/ <i>give names</i>] |
| (ii) Stabilising Manager(s) (if any): | [Not Applicable/ <i>give name(s)</i>] |
| 36. If non-syndicated, name of Dealer: | [Not Applicable/ <i>give name</i>] |
| 37. U.S Selling Restrictions: | Reg. S Compliance Category 2; [TEFRA C]/[TEFRA D]/[TEFRA not applicable] |
| 38. Additional selling restrictions: | [Not Applicable/ <i>give details</i>] |

[PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the London Stock Exchange plc's Regulated Market of the 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 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.]
- (Where documenting a fungible issue need to indicate that original Instruments are already admitted to trading.)*
- (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. [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.

4. 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.)]**

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. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation and a clear and comprehensive explanation of how the value of the Notes is affected by the value of the underlying]

[(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.)]

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]*.

* Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

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 initial Paying Agent (s): [•]

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

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

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]][•]]

* Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

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 of the U.K. Listing Authority and to trading on the Market is expected to take effect on or about 29 July 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 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 2009 and no material adverse change in the prospects of National Grid since 31 March 2009.
12. Save as disclosed in the section entitled "Description of National Grid Electricity Transmission plc — Recent Developments" on page 87, there has been no significant change in the financial or trading position of NGET or the NGET Group since 31 March 2009 and no material adverse change in the prospects of NGET since 31 March 2009.
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 2009.
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 2009.
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 2008 and 31 March 2009, 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 2008 and 31 March 2009, 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

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

Commerzbank Aktiengesellschaft
Kaiserstraße 16
60311 Frankfurt am Main
Federal Republic of Germany

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB

HSBC Bank plc
8 Canada Square
London E14 5HQ

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

Mitsubishi UFJ Securities International plc
6 Broadgate
London EC2M 2AA

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Warf
London E14 4QA

National Australia Bank Limited
88 Wood Street
London EC2V 7QQ

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 Dealers

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

PROSPECTUS



National Grid USA

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

Euro 4,000,000,000 Euro Medium Term Note Programme

Under the Euro Medium Term Note Programme (the “**Programme**”) described in this prospectus (the “**Prospectus**”), National Grid USA (the “**Issuer**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue debt instruments (the “**Instruments**”) denominated in any currency agreed between the Issuer, the Trustee and the relevant Dealer (as defined below). The aggregate nominal amount of Instruments outstanding will not at any time exceed Euro 4,000,000,000 (or its equivalent in other currencies). The Instruments will only be issued in bearer form.

Application has been made to the Financial Services Authority in its capacity as competent authority (the “**U.K. Listing Authority**”) under the Financial Services and Markets Act 2000 (“**FSMA**”) for Instruments issued under the Programme for the period of 12 months from the date of this Prospectus to be admitted to the official list of the U.K. Listing Authority (the “**Official List**”) and to the London Stock Exchange 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 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 Depository**”). 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 depository 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

HSBC

Deutsche Bank

Morgan Stanley

The date of this Prospectus is 18 December 2009

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.

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

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 2009 and 31 March 2008 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.
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 a NGN, the Global Instrument will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Instrument is a CGN, the Global Instrument representing the relevant Instruments may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Instruments may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the 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 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 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 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 Issuer (either in whole or in part) and/or the Instrumentholders, and if so the terms applicable to such redemption.

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

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, the Public Offer Selling Restriction under the Prospectus Directive 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.

Unless the context requires otherwise, references to “National Grid USA” or the “Issuer” in the Risk Factors and Business Description sections of this Prospectus shall mean National Grid USA and its principal public utility subsidiaries as appropriate in the context of the disclosure.

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 Issuer 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, many of which are public utilities that are subject to regulation by federal and state regulatory agencies and other authorities. 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 a dividend. The Issuer’s utility subsidiary’s legal authority to operate as a public utility in the state in which it operates, including the legal authority to pay dividends or make other distributions to the Issuer, is subject to regulation by the state public utility commissions of the states in which it operates. None of these subsidiaries are currently prohibited from paying a dividend.

Regulatory Risks

The Issuer is subject to extensive and complex regulations and legislation that affect the Issuer’s business, financial position and results of operations.

The Issuer is subject to extensive regulations and legislation enforced by various regulatory agencies. These regulatory agencies include the Federal Energy Regulatory Commission (“**FERC**”), the federal Environmental Protection Agency (the “**EPA**”) and the various federal, state local agencies including the various state public utility commissions. Regulations affect almost every aspect of the Issuer’s business and limit its ability to independently make and implement management decisions regarding business combinations, disposing of operating assets, setting rates charged to customers, issuing debt and engaging in transactions between the Issuer and its subsidiaries and affiliates. Moreover, regulatory decisions and legislation also affect matters unique to the Issuer’s businesses, including whether franchises to operate are granted or renewed, decoupling of energy usage and revenue, and remuneration for stranded assets. Regulations and legislation are subject to ongoing policy initiatives,

and the Issuer cannot predict the future course of regulations or legislation and their respective ultimate effect. Such changes could materially impact the Issuer's businesses, financial position and results of operations.

A significant portion of the Issuer's revenues and its opportunity to recover costs in its utility businesses is directly dependent on rates established by federal or state regulatory authorities, and any change in these rates and regulatory structure could significantly impact the Issuer'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 Issuer operates, could adversely affect it. Regulatory decisions concerning the level of permitted revenues for the Issuer'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 Issuer to claims for financial compensation and adverse regulatory consequences, as well as adversely affecting the Issuer's business, financial position, results of operations and damaging the reputation of the Issuer.

The Issuer's activities are subject to numerous environmental, health and safety regulations that affect many aspects of its operation. In addition, there are aspects of the Issuer's activities and operations that are potentially dangerous, such as the operation and maintenance of electric generation facilities, electricity lines and the transmission and distribution of gas. Such activities are hazardous operations and generate potentially hazardous products and by-products which may not currently be subject to environmental, health or safety regulations but that could become subject to regulation in the future, or to more extensive regulation, such as, for example, the effects of electric and magnetic fields and greenhouse gas emissions. Compliance with current and future regulations can require significant capital and operating expenditures, including expenditures for new equipment, inspection and clean-up costs and damages arising out of contaminated properties. Further, the Issuer may not be able to obtain or maintain all required environmental regulatory approvals for its facilities. As a result, some facilities may be required to shut down or alter their operations. If the Issuer's conduct and activities fail to comply with any applicable environmental requirements, the Issuer may be subject to penalties and fines or other sanctions. In addition, the Issuer could suffer damage to its reputation.

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

Operational Risk

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

The operation of complex electric transmission, natural gas transportation and electric and gas distribution systems and generation facilities involve many operating uncertainties and events beyond the Issuer's control. These potential events include the breakdown or failure of transmission and distribution lines or other equipment or processes, unscheduled facility outages, interruption or unavailability of critical equipment, materials and supplies, performance below expected levels of output, capacity or efficiency, catastrophic events such as severe storms, fires, earthquakes or explosions and acts of terror or vandalism. Any of these risks or other operational risks could cause the Issuer to fail to meet the various standards of service requirements expected of utilities as established by the various state public utility commissions and/or significantly reduce or eliminate the Issuer's revenues or significantly increase its expenses. For example, the Issuer 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 various transmission and distribution systems or network, inadequate forecasting of demand or inadequate record keeping. 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 Issuer 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 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 Issuer 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 Issuer's net revenues.

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

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

Earnings from the Issuer will be affected by its ability to recover incurred expenditure under various regulatory rate plans affecting its businesses. Levels of earnings also depend on meeting service quality standards set by U.S. regulators. In addition, from time to time, the Issuer publishes cost and efficiency savings targets for its businesses. The Issuer has completed reorganising its operations along lines of business. To meet these cost and efficiency savings targets and standards, the Issuer must continue to improve operational performance, service reliability and customer service. If the Issuer does not meet these targets and standards and/or does not complete implementation of this reorganisation as envisaged the Issuer's business may be adversely affected and its performance, results of operations and its reputation may be harmed.

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. Under the Issuer's state regulatory rate plans earnings, maintenance and growth from the Issuer's regulated gas and electricity businesses will be affected by its ability to realise and

deliver expected integration and operational efficiency synergies from completed acquisitions as set by or agreed with its state and federal regulators. Many of these risks and uncertainties are similar to those that are faced by the Issuer's pre-existing businesses; however, there are some that are not.

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

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

The Issuer'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 Issuer's control.

The Issuer is responsible for arranging for the transportation and distribution of available electricity and gas to its customers. The development of additional gas reserves requires significant capital expenditure by others for exploring, drilling and installing production, gathering, storage, transportation and other facilities that permit gas to be produced and delivered to the Issuer'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 Issuer's distribution systems, thus limiting the Issuer's prospects for long-term growth. Such supply issues could hinder the Issuer's ability to successfully contract for gas and electricity supplies required to meet the needs of its customers. In addition, the Issuer 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 Issuer's role is to manage the relevant distribution and transportation network safely, which in extreme circumstances may require the Issuer to disconnect customers.

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

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

The Issuer's businesses are partly financed through debt and the maturity and repayment profile of debt used to finance investments often does not correlate to cash flows from the Issuer's assets. Accordingly, the Issuer's businesses may rely on access to short-term commercial paper and money markets as a source of short-term financing and longer-term bank and capital markets as a source of long-term financing. The global financial markets are currently experiencing extreme volatility. A shortage of

liquidity, lack of funding, pressure on capital and extreme price volatility across a wide range of asset classes are putting pressure and, in certain cases, placing downward pressure on share prices and credit availability for companies. If the Issuer's businesses are not able to access capital at competitive rates, their ability to finance their operations and implement the Issuer's strategy will be adversely affected.

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 programme 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 Issuer's operating results may fluctuate on a seasonal and quarterly basis.

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

Customers and counterparties to the Issuer's transactions may fail to perform their obligations, which could harm the Issuer's results of operations.

The Issuer's subsidiary operations are exposed to the risk that customers and counterparties to the Issuer's transactions that owe money, commodities or supplies to the Issuer will not perform their obligations. For example, the Issuer's downstate New York subsidiaries derive a substantial portion of revenues in the electric services segment from one customer, the Long Island Power Authority ("LIPA") pursuant to a series of agreements with LIPA that require the Issuer's subsidiary to manage LIPA's transmission and distribution system and supply a significant portion of LIPA's customers' electricity needs. 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, energy marketers, customers and other purchasers that are unable to pay as a result of increasing commodity costs throughout the northeast of the United States.

Prolonged disruptions of our business operations due to work stoppages or strikes could adversely affect Issuer's business.

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

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 is compensated for managing LIPA's transmission and distribution system and supplying 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 ("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 29 July 2007, LIPA and KeySpan signed an agreement addressing KeySpan's receipt of a Civil Investigative Demand ("CID") from 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 right to terminate such agreement if, in connection with the DOJ's investigation referenced in the CID, (a) there is a finding (through either (i) a final, non-appealable judgment, order or decree by a court of competent jurisdiction, or (ii) 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 or similar relief.

Additional risks include, but are not limited to, the following:

- inflationary trends and increases in prevailing interest rates on the Issuer's borrowings as well as general economic conditions, especially in the northeast United States;
- creditworthiness of counterparties to derivative instruments and commodity contracts;
- potential write-down of the Issuer's investment in gas properties when gas prices are depressed or if the Issuer has significant downward revisions in its estimated proved gas reserves;
- a change in the fair market value of the Issuer's investments that could cause a significant change in the carrying value of such investments or the carrying value of related goodwill;
- the Issuer's insurance not adequately providing coverage for certain hazards, such as unexpected outages at critical facilities, damage to pipelines, equipment, properties and people; and
- competition facing the Issuer's gas distribution business.

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. Belgium will replace this withholding system with a provision of information system as from 1 January 2010.

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 published a proposal to amend the Directive in order to improve its effectiveness. The proposed amendments, **if implemented in their current form**, 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. Investors who are in any doubt as to their position should consult their financial advisers.

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 (i) the Investor's Currency-equivalent yield on the Instruments, (ii) the Investor's Currency equivalent value of the principal payable on the Instruments and (iii) the Investor's Currency equivalent market value of the Instruments.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. 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 (i) Instruments are legal investments for it, (ii) Instruments can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Instruments. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Instruments under any applicable risk-based capital or similar rules.

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 18 December 2009 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 18 December 2009 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 18 December 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 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 unmatured Coupons (if any) appertaining to them, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) will be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 7).
- 5.5.2 If the relevant Instrument so provides, upon the due date for redemption of any Instrument, unmatured Coupons relating to such Instrument (whether or not attached) shall become void and no payment shall be made in respect of them.
- 5.5.3 If the relevant Instrument so provides, upon the due date for redemption of any Instrument, any unexchanged Talon relating to such Instrument (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- 5.5.4 Upon the due date for redemption of any Instrument which is redeemable in instalments, all Receipts relating to such Instrument having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- 5.5.5 Where any Instrument which provides that the relevant Coupons are to become void upon the due date for redemption of those Instruments is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, and where any Instrument is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- 5.5.6 If the due date for redemption of any Instrument is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Instrument. Interest accrued on an Instrument that only bears interest after its Maturity Date shall be payable on redemption of that Instrument against presentation of that Instrument.

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, Receipholder 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, 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 a 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 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 if the relevant Final Terms indicates that such Global Instrument is issued in compliance with the D Rules, 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 a 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 northeastern region of the United States. National Grid USA is a U.S. public utility holding company of various U.S. energy delivery subsidiaries that own and operate regulated energy delivery networks comprising the transmission and distribution of electricity and transportation and distribution of natural gas and sale of both to residential and commercial customers located in portions of New York and New England. National Grid USA, through its subsidiaries and their predecessors, has been serving various portions of New York and New England since the mid-1800s. In addition, National Grid USA also owns and operates electric generating facilities and has interests in electricity interconnectors in the United States.

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. National Grid USA, as a holding company, does not conduct any business other than through its U.S. subsidiaries and is dependent on dividends or distributions from its U.S. subsidiaries.

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 40 Sylvan Road, Waltham, MA 02451 and its telephone number is +1-781-907-1000.

As used in this section of the Prospectus, unless the context requires otherwise, references to "National Grid USA" or the "Issuer" shall mean National Grid USA and its principal public utility subsidiaries as appropriate in the context of the disclosure.

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 ("**Brooklyn Union**") — New York;
 - KeySpan Gas East Corporation d/b/a National Grid ("**Gas East**") — New York;
 - Colonial Gas Company ("**Colonial Gas**")— New England;
 - Boston Gas Company ("**Boston Gas**") — New England;
 - Essex Gas Company ("**Essex Gas**") — New England; and
 - EnergyNorth Natural Gas, Inc. ("**EnergyNorth**") — 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

The Issuer’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. The Issuer’s principal gas distribution subsidiaries provide gas distribution in central and eastern portion of upstate New York through NMPC, and in downstate New York and in New England through its KeySpan 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, the Issuer’s KeySpan affiliates (i) manage the electric transmission and distribution system in Long Island, New York owned by the Long Island Power Authority (“**LIPA**”) and provide additional services to LIPA’s retail customers; (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 invest in domestic pipelines and gas storage facilities.

Electricity Transmission

As of 31 March 2009, the Issuer owns and operates an electricity transmission network, excluding the managed LIPA facilities, of approximately 8,600 miles of transmission and sub-transmission lines spanning upstate New York, Massachusetts, Rhode Island, New Hampshire and Vermont and located within rights-of-way corridors that traverse both public and private property. As of 31 March 2009, its U.S. transmission facilities operate at voltages ranging from 69 kV to 345kV, utilising nearly 8,500 miles of overhead lines, 87 miles of underground cable and 524 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, as of 31 March 2009, 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. The electricity transmission network is directly interconnected with other utility systems in New York, Massachusetts, Vermont, Pennsylvania, Rhode Island, New Hampshire and the Canadian provinces of Ontario and Quebec and indirectly interconnected with most of the electric utility systems through the Eastern Interconnection power grid of the United States 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. The ISOs are responsible for (i) operating organised wholesale markets for energy, operating reserves and capacity (ii) maintaining the operating reliability of the New England and New York transmission networks (iii) co-ordinating the activities of the transmission owners, and (iv) managing transparent transmission expansion planning processes.

The 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

The Issuer's gas distribution businesses operate under various franchise agreements that provide it with certain rights and obligations regarding natural gas facilities and the provision of natural gas services in upstate New York, Massachusetts, and Rhode Island. As of 30 September 2009, the Issuer provided service to approximately 577,000 customers across upstate New York through NMPC and approximately 252,000 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 provides gas distribution services to approximately 2.6 million additional gas customers located in downstate New York, Massachusetts, and New Hampshire. As of 31 March 2009, National Grid USA's gas distribution companies network consists of approximately 35,000 miles of gas pipelines in New York and New England.

The Issuer's gas distribution operations provide the core services of operation, maintenance 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 the Issuer's gas distribution companies, purchase gas from gas producers and gas transporters, and then transport this gas on the independent interstate pipeline system and into regulated utilities' gas distribution networks for delivery to customers. The Issuer's gas distribution companies receive gas from the interstate 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, the Issuer 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 the Issuer's service territories in New York, New Hampshire, Rhode Island and Massachusetts.

Electricity Distribution and Generation

The Issuer operates National Grid plc's U.S. electricity distribution and generation business. The Issuer's electricity distribution system operates in upstate New York through NMPC and in Massachusetts, Rhode Island and New Hampshire through MECO, NEC, Narragansett and Granite State, respectively, 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 northeastern U.S., as measured by energy delivered, and one of the largest utilities in the United States, as measured by the number of electricity distribution customers. As of 30 September 2009 the Issuer'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 72,500 circuit miles in New England and New York.

The Issuer'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 the Issuer 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 distribution assets. The cost of the electricity supplied is passed through to customers. The Issuer's businesses are also subject to service quality standards including among other things reliability levels, customer satisfaction levels and safety that vary among the Issuer's rate plans for those states in which the Issuer operates including New York, Massachusetts, and Rhode Island .

Many of these service standards have penalties associated with them if certain specified minimum standards are not met. The rate plans also include sharing arrangements which allow for the retention of certain efficiency improvements in excess of those built into the rate plan assumptions. Typically the Issuer retains all the benefits up to a certain level of return on equity after which the Issuer retains only a proportion of the benefits with the balance returned to customers..

LIPA

Under various legacy contractual arrangements including the 2006 MSA between certain of the Issuer's KeySpan subsidiaries and LIPA, a corporate municipal instrumentality and a political subdivision of the State of New York, the Issuer is compensated for providing various services to LIPA and its 1.1 million electric retail customers, such as managing the day to day operation of LIPA's electricity transmission and distribution system. Other services currently provided under the legacy contracts include billing and other customer services, purchasing energy capacity, ancillary services in the open market and managing the fuel supplies for the Issuer's 57 electric generating facilities located on Long Island that provide 4.1 GW of power generation capacity that is sold under long term contracts to LIPA. 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 and any power not purchased by LIPA is made available for sale in the open market. LIPA had an option to acquire certain electric generating facilities owned by one of the Issuer's KeySpan generation subsidiaries on Long Island which option expired by its express terms on 30 September 2009. At such time no further extensions of time were requested by LIPA or otherwise granted by the Issuer. On 30 January 2009, KeySpan filed with FERC for a rate increase for the power supplied to LIPA and a settlement agreement reached by the parties is currently under review for approval by FERC. If approved by FERC, the settlement will provide a rate increase of U.S.\$65.7 million and a return on equity ("**ROE**") of 10.75 per cent.

Other

NEET owns and operates the first phase of the Hydro-Quebec and New England interconnection (the "**Interconnection**"), consisting of six miles of high-voltage direct current transmission line and related facilities in New Hampshire. N.H. Hydro, in which the Issuer holds 54 per cent. of the common stock, owns and operates 121 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 common stock, owns and operates an alternating current/direct current terminal and related facilities for the second phase of the Interconnection and 12 miles of high-voltage direct current transmission line in Massachusetts. These facilities are made available to customers under the 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. The Issuer, with the approval of the utility commissions in the states in which the Issuer's subsidiaries operate, recovers most of these costs through the special rate charged to electricity customers. This revenue stream will decline as the recovery of stranded costs is completed

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, New York. 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 an intrastate pipeline, known as the Millennium Pipeline which transports up to 525,000 DTH of gas a day from Corning to Ramapo, New York, interconnecting with the other intrastate pipeline systems 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.

Regulatory Environment

The securities of 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 the Issuer are subject to regulation by the Financial Services Authority in the UK and the Securities and Exchange Commission ("**SEC**") in the U.S. In addition, since the Issuer, as a public utility holding company with federal and state regulated utility subsidiaries, operates in a highly regulated environment, it must also maintain good relationships with economic and safety regulators.

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 FERC.

In relation to electricity transmission, 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 (i.e. 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. FERC has principal jurisdiction over transmission rates although the ultimate recovery of transmission rates is principally regulated by the state commissions.

The electricity distribution activities are regulated by the relevant state utility commissions in the states in which the Issuer operates.

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. There are also federal, state and local laws and regulations covering both general business practices with respect to the Issuer's gas distribution businesses in particular.

Amongst other things, with respect to the Issuer's electric and gas distribution businesses, the state utility commissions set distribution service standards for the utility commissions' jurisdictional public utilities and retail rates for end-use customers and determine the public utility 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.

Overview of Rate Plans

General

Transmission Rate Plans

Revenue for the Issuer's electric transmission businesses operated for the regional transmission entities in New England and New York is collected from transmission customers, including the Issuer's electricity distribution and generation businesses, through both regional and local tariffs approved by the state utility commissions or by FERC. Revenue for the Issuer's electric transmission portion of the business is collected from two sources: (i) end-use distribution customers through tariffs approved by the state commissions and (ii) through tariffs approved by FERC. Under the New York retail transmission rate plan to the extent that more energy is delivered than forecasted it equates to increased income. The New England rate structure is such that network availability, energy delivery and operational expenditures are all pass-through items to the customers. The Issuer's New England transmission tariffs allow for recovery of, and return on, capital expenditures as new investment enters service, bringing immediate revenue benefits. The Issuer's New York transmission retail rates allow for capital expenditure on the Issuer's transmission network based upon historic levels which are lagging behind the Issuer's current level of investment. The Issuer has recently petitioned the state regulatory commission for additional revenues with respect to incremental capital expenditure.

Electric and Gas Distribution Rate Plans

In New England revenue for the distribution entities in each state is collected through tariffs approved by the applicable state utility commissions. Each of the electric distribution entities are currently operating under multi-year rate plans. MECO, NEC's and Narragansett's rate plans expire at the end of 2009. However Narragansett agreed to extend its existing rate plan until 1 March 2010 at which time its new rate plan will commence. Pursuant to an Order of the Rhode Island Public Utilities Commission, Narragansett will be able to recover any additional revenues that it would have collected had the new rate plan been in effect during the months of January and February 2010. In New York revenue for the Issuer's electric and gas distribution business is collected from distribution customers exclusively through tariffs approved by the state commission. The rate plan for the Issuer's New York Distribution business, NMPC, expires in 2011.

The Issuer's revenue for gas distribution is collected through tariffs approved by the applicable state commissions. In New England, two of the three gas distribution entities of the Issuer in Massachusetts are operating under plans that have expired. The plan for the largest Massachusetts gas distribution company, Boston Gas Company, 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 rates for the Issuer's gas distribution business in Rhode Island went into effect in November 2008 and the Issuer received approval for new gas rates in New Hampshire in May 2009 with an effective date of 24 August 2008. In New York, the Issuer's gas distribution businesses are currently operating under multi-year rate plans.

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 may be proposed by a utility in Rhode Island and New Hampshire subject to regulatory approval. 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, the gas and electric distribution companies, including those principle operating subsidiaries of the Issuer, operate under the provisions of service quality plans. While the plans differ slightly from state to state, most 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.

A more detailed description of the various state rate plans in effect is set forth below.

Electricity Distribution Rate Plans

New York

Electricity distribution rates for energy delivery services provided by NMPC are subject to approval by the New York Public Service Commission (“**NYPSC**”). NMPC, is operating under a ten year rate plan that expires after 2011. Under the plan, if the Issuer’s earned return on equity exceeds 11.75 per cent. varying percentages of the excess are shared with customers. For earnings sharing purposes, the return on equity is measured in accordance with U.S. GAAP on a two year rolling basis. The earnings calculation used to determine the regulated returns excludes half of the electric portion of the efficiency gains and synergy savings from the acquisition of NMPC by National Grid plc in 2002, net of the cost to achieve such gains and savings that are assumed in the rate plan.

The NMPC rate plan also allows for 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. On 3 August 2009, NMPC filed for recovery of the projected balance in the deferral accounts as of 31 December 2011, less the \$100 million threshold. The filing proposes recovery of deferral account amounts of \$156 million per year for the calendar years 2010 and 2011, an approximately U.S.\$33 million increase in annual revenues resulting from the recovery of the deferral balance.

In obtaining approval of the KeySpan transaction, the Issuer made a commitment to invest U.S.\$1.47 billion in the transmission and distribution system over five years, pursuant to a capital investment plan filed with the NYPSC. The Issuer is also required to file annual reports, showing amounts spent each year under the investment plan. To the extent the Issuer does not meet its annual spending targets under the investment 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.

In connection with the NYPSC's approval of National Grid plc's acquisition of KeySpan, the Issuer's upstate business, NMPC, was required under its existing rate plan to provide a follow-on merger credit for the benefit of NMPC's upstate New York customers. On 29 May 2008, the NYPSC issued an order in connection with NMPC's compliance filing regarding the follow on merger credit requiring a credit in the amount of U.S.\$52 Million be returned to the Issuer's upstate New York customers. NMPC, filed a petition with the NYPSC for rehearing regarding the calculation of the follow-on merger credit which petition for rehearing was denied in an order dated 24 February 2009. Currently, settlement discussions have commenced regarding two additional follow-on merger credit savings issues that were not addressed in the NYPSC's May 2009 Order.

Massachusetts

Rates for services rendered by the Issuer's Massachusetts electric distribution companies, MECO and NEC are subject to approval by the Massachusetts Department of Public Utilities ("**MDPU**"). In March 2000, the MDPU approved a multi-year rate plan which became effective on 1 May 2000 and expires on 31 December 2009. 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. MECO and NEC implemented increases in distribution rates as approved by the MDPU pursuant to the distribution rate index mechanism of 1.59 per cent., 1.90 per cent., and 1.54 per cent. effective from 1 March 2007, 2008 and 2009, respectively. The rate plan generally provides for distribution revenues designed to allow the MECO and NEC an opportunity to recover their costs associated with the operation of the electric distribution systems and also includes provisions for recovery of major storm costs and recovery of incremental costs for certain specified exogenous events and environmental remediation costs. On 30 November 2009, the MDPU issued an order on the joint request of MECO and NEC for a base rate increase effective 1 January 2010. By the order, the MDPU authorised an increase in annual distribution revenue of approximately U.S.\$43.9 million as compared to the annual distribution revenue generated at the rates under the current rate plan. This amount includes the recovery over five years of approximately U.S.\$32.6 million associated with the restoration of service following a severe ice storm on 11 and 12 December 2008. The MDPU also approved a full revenue decoupling mechanism, an annual capital tracker on capital spent in the previous year capped at U.S.\$170 million per year, an annual tracker for commodity related bad debt and working capital associated with the provision of commodity service, an annual pension and post retirement benefits other than pensions ("**PBOP**") tracker and an allowance in rates to replenish the storm fund balance to address future storms. The MDPU set the allowed ROE at 10.35 per cent. These new rates will remain in effect until a subsequent base rate case is filed and new rates are approved by the MDPU.

Rhode Island

Rates for electric distribution delivery services provided by Narragansett are subject to approval by the Rhode Island Public Utility Commission ("**RIPUC**"). The Issuer's electric distribution business in Rhode Island is governed by a multi-year rate plan with frozen distribution rates through 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. On 1 June 2009, the Issuer's Rhode Island electric distribution business, Narragansett, filed for an

increase in base distribution rates, which it anticipates RIPUC will act upon for rates effective on 1 March 2010. This rate case filing seeks approval of an increase in distribution revenue of approximately U.S.\$75.6 million which the Issuer has subsequently adjusted to \$73.3 million as compared to the revenues generated at the current rates. The filing includes a rate decoupling proposal, which includes, in part, a mechanism to reflect in rates the revenue impact of the actual annual incremental net capital additions, along with proposals for the reconciliation of commodity-related bad debt and pension costs. In addition, the filing includes new proposals for other fully reconciling adjustments for other expenses. Narragansett under Rhode Island law continues to be authorised to recover all costs associated with procuring power for its customers, all transmission costs, and costs charged by certain Issuer's affiliates, for stranded costs associated with the Narragansett's former electric generation investments.

New Hampshire

Rates for services rendered by the Issuer's New Hampshire electric distribution company, Granite State 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 acquisition of KeySpan (the "**2007 Settlement**"). Among other things, the 2007 Settlement provided for a two step reduction in Granite State's base distribution rates totalling U.S.\$2.2 million. The 2007 Settlement also contains a distribution rate plan spanning five years effective 1 January 2008. During the rate plan period, distribution rates are frozen except for rate adjustments related to certain reliability enhancement programmes. The rate plan also includes provisions for recovery of major storm costs through a storm contingency fund and recovery of incremental costs for certain uncontrollable specified exogenous events. The Rate Plan also includes an earnings share mechanism based on an ROE sharing threshold of 11 per cent. Earnings above the 11 per cent. threshold are shared equally between customers and Granite State.

Gas Rate Plans

New York

The prices charged for NMPC's gas delivery service to customers are based on a cost of service model whereby the rates established by the NYPSC are designed to recover the costs NMPC incurs in providing service to its 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. Gas 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, which recovery is subject to timing differences between when costs are incurred and when costs are recovered from customers.

NMPC filed a rate case with NYPSC on 23 May 2008 for a U.S.\$95 million rate increase in natural gas delivery rates. NMPC, the Issuer's upstate New York gas distribution business, had not had a delivery rate increase since 1996. The proposed U.S.\$95 million rate increase included requested recovery of U.S.\$11 million of costs associated with an energy efficiency programme that the NYPSC subsequently determined should be addressed in another proceeding. On 13 February 2009, NMPC filed a joint proposal reflecting a settlement of the 23 May 2008 rate filing among NMPC, staff of the NYPSC and other parties that provided for an increase of U.S.\$39.4 million resulting in an overall 5.1 per cent. increase on customer bills. In addition, the joint proposal also included a two-year rate plan. The NYPSC approved the joint proposal and the new rates became effective on 20 May 2009. The joint proposal contained a 10.2 per cent. return on equity, revenue decoupling, increased negative revenue adjustments for failure to meet certain service quality performance metrics, a new rate for low income customers and recovery of a commodity related bad debt expense recovery mechanism that adjusts for fluctuations in commodity prices. On or before 13 April 2010, NMPC will submit a supplemental rate case filing to update certain cost items for incorporation in its rates during the second year of the rate plan.

NMPC's approved rate plan permits it to retain earnings up to a return on equity of 11.35 per cent.; earnings in excess of that return are partially retained by NMPC with the balance returned to customers.

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 31 December 2012. The rate plans arose from the companies' rate filings made in the context of the National Grid plc merger proceedings. Base delivery rates were increased by U.S.\$60 million for Gas East and were maintained at then current levels for Brooklyn Union. The base delivery rates are 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 10.5 per cent. (including a 10 basis point incentive) would be shared with gas sales customers. 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, Colonial Gas and Essex Gas 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 Gross Domestic Product-based price-cap formula. PBOP, as well as certain environmental remediation costs also are separately collected through a reconciling mechanism. There is also an earnings sharing mechanism. If the 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, 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, its current multi-year rate plan terminated in August 2009. In the case of Colonial Gas, the Issuer will be allowed recovery of merger related costs 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 new rates in 2010.

Rhode Island

In April 2008, the Issuer filed a request to increase Narragansett's Rhode Island gas distribution rates by approximately U.S.\$20 million, which the Issuer later adjusted to U.S.\$18.4 million. In November 2008, the Rhode Island Public Utility Commission ("**RIPUC**") approved a U.S.\$13.6 million gas distribution rate increase. The rate increase includes a new rate for low-income customers and increased recovery of commodity related bad debt expense. The RIPUC also approved a 10.5 per cent. allowed ROE based on an imputed equity ratio of 47.7 per cent., a discrete funding mechanism for an accelerated base-steel and cast-iron mains replacement programme and a full reconciliation of pension and postretirement benefits other than pensions. The RIPUC approved the Narragansett's proposed rate base, which was based on forecasted additions to plant in service through the end of the rate year, subject to subsequent adjustments to reflect any actual lower amount of plant in service. The RIPUC denied Narragansett's revenue decoupling proposal, indicating that full revenue, decoupling was not appropriate at this time. Narragansett is allowed recovery of all of its gas commodity costs through a fully reconciling rate recovery mechanism. On 3 August 2009, the Company made its Distribution Adjustment Charge filing, which proposed a downward adjustment to the approved rate base. The RIPUC approved the adjustment on 26 October 2009 which resulted in approximately a U.S.\$2 million one-time credit to customers and \$2 million reduction to the annual revenue requirement.

New Hampshire

Rates for services rendered by the Issuer's New Hampshire gas distribution company, EnergyNorth, are subject to approval by the New Hampshire Public Utility Commission ("**NHPUC**"). On 25 February 2008, EnergyNorth filed a request for a rate increase of approximately U.S.\$10 million which is the first request for an increase in EnergyNorth's gas distribution rates since 1993. The filing included a request for a pension and PBOP reconciliation mechanism. 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. On 29 May 2009, the NHPUC issued an order approving a partial settlement agreement providing for a U.S.\$5.5 million gas distribution rate increase. The settlement left the issue of the allowed ROE, to be litigated. In its order, NHPUC found against EnergyNorth on the ROE issue, establishing an allowed ROE of 9.54 per cent. as compared to the 12.25 per cent. requested by EnergyNorth. On 12 June 2009 the Company made its compliance tariff filing and began billing new rates to EnergyNorth's 85,000 New Hampshire customers on 1 July 2009 which rates become retroactive to 24 August 2008 and further required EnergyNorth to credit customers the difference between the rate in effect since 24 August 2008 and the new rate, less any rate case expenses. A motion for reconsideration of the allowed ROE was filed by EnergyNorth on 29 June 2009 which motion was denied by the NHPUC on 13 November 2009.

Market and Regulatory Developments

U.S. Electricity Transmission

New England

NEP is a participating transmission owner ("**PTO**") in the New England Regional Transmission Organization which commenced operations effective 1 February 2005. The Independent System Operator for New England ("**ISO-NE**") has been authorised by FERC to exercise the operations and system planning functions required of Regional Transmission Organisations ("**RTO**") and is the independent regional transmission provider under the ISO-NE Open Access Transmission Tariff ("**ISO-NE OATT**"). The ISO-NE OATT is designed to provide non-discriminatory open access transmission services over the transmission facilities of the PTOs and recover their revenue requirements. FERC issued a series of orders in 2004 and 2005 that approved the establishment of the RTO and resolved certain return on equity issues concerning the New England Transmission Owners ("**NETO**"), including NEP. Other return issues including base ROE and the proposed 1.0 percent ROE incentive for new transmission investment were determined in a series of orders from FERC. On 31 October 2006, FERC issued an order establishing the ROE for the NETOs, including NEP. In a series of related orders from 2006 to 2008, FERC approved a 1.0 per cent. ROE adder for all new transmission investment approved through the regional system planning process and placed in service prior to 31 December 2008 as an incentive to build new transmission infrastructure and also approved a base ROE that varied depending on whether costs are recovered through regional or local network service rates, and whether the costs are for existing or new facilities. Overall, the ROEs approved by FERC represent an increase from NEP's last authorised ROE of 10.25 per cent. For new transmission investment after 31 December 2008 FERC made clear that any future transmission investment incentives must be sought through initiating an incentive proposal under Section 205 of the Federal Power Act pursuant to the Commission's Order No. 679 Transmission Pricing Policy. Opposing parties to FERC's decision regarding future transmission investment filed appeals in December 2008, with briefs filed in May 2009 and oral arguments completed in December 2009. A decision on the appeal filed is not expected until 2010.

On 17 September 2008 NEP, Narragansett, and Northeast Utilities jointly filed with FERC to recover financial incentives for the New England East-West Solution ("**NEEWS**") pursuant to FERC's

Transmission Pricing Policy Order, Order No. 679. NEEWS, estimated to cost a total of U.S.\$2.1 billion, consists of a series of inter-related transmission upgrades identified in the New England Regional System Plan and is being undertaken to address a number of reliability problems in the tri-state area of Connecticut, Massachusetts, and Rhode Island. Narragansett's share is estimated to be U.S.\$474 million and NEP's share is estimated to be U.S.\$160 million. Effective as of 18 November 2008, FERC granted for NEEWS (i) an incentive ROE of 12.89 per cent. (125 basis points above the approved base ROE of 11.64 per cent.), (ii) 100 per cent. of construction work in progress in rate base and (iii) recovery of plant abandoned for reasons beyond the companies' control. Parties opposing the NEEWS incentives have sought rehearing of the FERC order.

Under settlement agreements approved by the appropriate state regulatory commissions and FERC orders, NEP as the Issuer's New England transmission operator is permitted to recover costs associated with its former generating investments (nuclear and non-nuclear) and related contractual commitments that were not recovered through the sale of those investments (i.e. stranded costs). Stranded costs are recovered from NEP's affiliated former wholesale customers with whom it has settlement agreements through Contract Termination Charges ("**CTC**"). NEP's affiliated former wholesale customers (i.e. the Issuer's New England electric and gas distribution businesses) in turn recover the stranded cost charges through delivery charges to their distribution customers. NEP earns an ROE of approximately 11 per cent. on stranded cost recovery. Most stranded costs will be fully recovered through CTCs by the end of 2010. NEP's stranded cost obligation related to the above-market cost of the purchase of power contracts and nuclear decommissioning costs are recovered through the CTC when the costs are actually incurred. NEP, under certain settlement agreements, earns incentives based on successful mitigation of its stranded costs to December 2009 and these incentives supplement NEP's ROE.

New York

The Issuer, through NMPC, is a transmission owner under the authority of the New York Independent Systems Operator, Inc. ("**NYISO**"). NMPC participates in a regional planning process with the NYISO to identify regional reliability and economic resource and transmission needs and 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 is pursuing implementation of that economic planning process.

In February 2008, the NMPC filed with FERC a formula transmission rate for customers that take service under the NYISO tariff. In July 2008, FERC issued an order accepting for filing and suspending the effectiveness of the proposed formula rate. The rate took effect on 1 October 2008 subject to refund. FERC directed hearing and settlement judge proceedings to resolve the remaining contested issues in the proceeding. On 6 April 2009, the Company filed a settlement agreement which was accepted by the Commission by its order issued on 22 June 2009, and which resolves all issues in the proceeding. This decision marked the first formula rate for a transmission owner in New York. The formula is projected to increase annual revenues by approximately U.S.\$7.9 million. The settlement provides for an authorised return on equity of 11.5 per cent., including any incentive return. The effective date for the settlement was 30 January 2009 with a phase-in of the settlement rate over the period from 30 January to 30 June 2009. In July 2009, NMPC refunded to customers a total of U.S.\$7.1 million, inclusive of FERC required interest, for amounts collected in excess of the settlement rates for the period from October 2008 to June 2009. The increase in revenues resulting from the new formula rate are charged to wholesale transmission customers and credited back to retail electric distribution customers through the Transmission Revenue Adjustment Clause mechanism.

Energy Markets

Despite significant declines in wholesale energy prices since mid 2008, high consumer energy prices have been experienced in the U.S. markets. This has 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. In the U.S., the recent change in administration 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.

Federal Regulatory Policy Developments

At the federal level, the new administration and the U.S. Congress have proposed or passed new energy legislation in two areas that impact us: economic stimulus and comprehensive energy legislation. In February 2009, the \$787 billion American Recovery and Reinvestment Act (the "**Reinvestment Act**") was passed. The Reinvestment Act, which covers all sectors of the economy, has significant incentives for the energy industry, including amounts relating to the expansion of the electricity transmission network with a focus on smart grid development, a broad array of energy efficiency programmes, clean fuel transportation incentives, and research and development programmes. The Issuer is developing various programmes and initiatives to take advantage of the incentives provided by the Reinvestment Act. Congress is also pursuing legislation to address comprehensive climate and energy policy, including global greenhouse gas emissions. While the Issuer cannot predict the outcome of U.S. Congressional deliberations, the Issuer is actively supporting these climate and energy policy initiatives which have been made policy priorities by the Issuer and National Grid plc.

State Regulatory Policy Developments

Massachusetts

On 2 July 2008, the Commonwealth of Massachusetts enacted into law comprehensive legislation regarding energy policy and the environment. Entitled the Green Communities Act, this legislation is broad, mandating large scale and innovative ideas for implementing renewable energy, alternative energy, and energy efficiency throughout the Commonwealth of Massachusetts. The legislation sets forth numerous requirements for utilities, including the filing of three-year energy efficiency plans that would cover calendar years 2010 to 2012. MECO filed its plan on 30 October 2009. Other provisions of the law that will affect the Issuer's other Massachusetts-based electric and gas subsidiaries include requirements to invest in equipment and other resources designed to assist customers in reducing their current energy supply costs, long-term contracts with renewable electricity suppliers for up to 3 per cent. of the utilities' load, the development of a smart grid pilot programme, and net metering to allow customers to sell self-generated electricity back to the utilities. Utilities would be allowed to recover certain costs associated with these new requirements and have the opportunity to earn incentives for certain of these provisions. In addition, under the new law, the maximum level of service quality penalties has been increased from 2.0 per cent to 2.5 per cent. of distribution revenues.

The Issuer's subsidiaries, MECO and NECO, have filed a proposed smart grid pilot programme on 1 April 2009 which is pending before the MDPU. The direct expenditures of the proposed pilot programme are estimated at approximately U.S.\$56.4 million. If the programme is approved by the MDPU, the provisions of the Green Communities Act allow for the recovery of the programme costs through basic service rates. The MDPU has not issued an order with respect to the 1 April 2009 filing. The Issuer has applied for grants under the Reinvestment Act with respect to its smart grid programs in Massachusetts, New York and Rhode Island under the smart grid investment grant programme, but the Issuer was not

awarded any grants. The Issuer is in the process of assessing whether a filing for an additional phase of the pilot programme may be considered in Massachusetts.

The new law also allows electric utilities to invest in solar generation, provided that such utility does not own or operate more than 50 megawatts of solar capacity after 1 January 2010. On 23 April 2009, MECO filed a proposal with the MDPU to construct, own, and operate approximately 4.8 megawatts of solar generation on five separate company-owned properties in Massachusetts. On 26 October 2009 the DPU issued an order approving the project. We estimate that the total capital cost of this project will be approximately U.S.\$31 million.

On 3 December 2009 MECO and NEC filed a memorandum of understanding (“**MOU**”) with the MDPU to seek approval to commence negotiations for a long term power purchase contract with an offshore wind developer of a proposed 468 MW project called Cape Wind. The MOU does not commit MECO and NEC to a contract, but is procedural in nature. Under the Green Communities Act, the Company is required to obtain authorisation before engaging in individual negotiations with a developer outside of an approved competitive bidding process. The MDPU has requested comments on the filing by 18 December and an order approving the request to negotiate is expected within 30 days.

New York

The principal regulatory policy developments continue to focus on the need for significant increases in energy efficiency and the development of renewable generation. The NYPSC and other policy makers are establishing targets for utility energy efficiency programmes and renewable generation. The NYPSC has instructed utilities to file decoupling proposals as part of their next rate cases. The current design of the electric delivery service rates in New York link the recovery of utility fixed costs to the volume of actual sales which design maintains disincentives for utilities to promote energy efficiency. There is also an increasing interest in exploring the deployment by New York utilities of smart grid technologies. Because the Issuer did not receive any awards under the Reinvestment Act’s smart grid grant programme the Issuer is currently reviewing its proposed smart grid pilot programme in New York.

Rhode Island

In July 2009, Rhode Island enacted legislation promoting the development of energy resources through long-term contracts for purchase of capacity energy and attributes. This legislation requires that by 2013 Narragansett, the Issuer’s Rhode Island electric distribution business, enters into long-term contracts for up to a total of 10 per cent. of its load, but only where those contracts are deemed commercially reasonable and are approved by the RIPUC. Under the new legislation, the utility is authorised to recover all costs associated with long-term contracts entered into pursuant to the statute and is permitted to recover remuneration of 2.75 per cent. of the actual annual payments made under these long-term contracts for those projects that are commercially operating. The legislation also provides for a smaller scale renewable energy generation project of up to eight wind turbines with aggregate nameplate capacity of up to 30 MW to benefit the Town of New Shoreham and a large scale off-shore wind farm that would equate to approximately 15 per cent. of the load of the Issuer’s Rhode Island electric distribution business, if approved. Long-term contracts for energy relative to both projects would be subject to RIPUC for approval. In accordance with this legislation, on 9 December 2009, Narragansett filed with the RIPUC for approval a signed twenty-year power purchase agreement with Deepwater Wind Block Island, LLC (“**Deepwater**”) for the purchase of energy, capacity, and attributes to be generated from an eight-turbine offshore wind generation facility to benefit the Town of New Shoreham at a cost of 24.4 cents per kilowatt hour in the first full year of commercial operation, expected in 2013, escalating at 3.5 per cent. per year. Upon RIPUC approval of the contract, all costs incurred in the negotiation, administration, enforcement, and implementation of the agreement shall be recovered annually by Narragansett in electric distribution rates. On 21 July 2009 Narragansett filed a proposed smart grid pilot programme for approval by the RIPUC. The direct expenditures for the proposed pilot programme are estimated at up to approximately U.S.\$59 million and are subject to RIPUC approval. If the pilot programme is approved by

the RIPUC, Rhode Island law would allow for recovery for programme costs through distribution rates. Because the Issuer did not receive any awards under the Reinvestment Act’s smart grid grant programme the Issuer is currently reviewing its proposed smart grid pilot programme in Rhode Island.

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. Since July 2009, KeySpan and DOJ have entered into discussions to explore possible resolution of this matter. At this time the Issuer is unable to determine what effect, if any, the outcome may have on the Issuer and/or National Grid plc’s financial position or profitability.

Environmental Regulation

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

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

The Issuer believes that the ongoing operations of the subsidiaries, and their approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws.

Board of Directors

The Directors of the Issuer and their principal activities outside National Grid USA, are as follows:

Name	Title	Principal activities outside National Grid USA and the National Grid Group*	Business Address
Tom King	Director and President	Director of Jobs for Mass.; Alliance to Save Energy; Edison Electric Institute; and Energy Association of New York State.	40 Sylvan Road Waltham, MA 02451, <u>United States</u>

Name	Title	Principal activities outside National Grid USA and the National Grid Group*	Business Address
Ellen Smith	Director and Chief Operating Officer	None	40 Sylvan Road Waltham, MA 02451, <u>United States</u>
Lisa Crutchfield	Director and Executive Vice President	None	40 Sylvan Road Waltham, MA 02451, <u>United States</u>
Nikolas Stavropoulos	Director and Executive Vice President	Director of Enterprise Bank and Trust Company; Dynamics Research Corporation; American Gas Association (Second Vice Chair); Greater Boston Chamber of Commerce; United Way of Massachusetts Bay. Trustee of Bentley University.	40 Sylvan Road Waltham, MA 02451, <u>United States</u>
Andrew Sloey	Director and Senior Vice President	None	One MetroTech Center Brooklyn New York 11201 <u>United States</u>
Colin Owyang	Director, General Counsel and Secretary	Board Member of New England Legal Foundation	40 Sylvan Road Waltham, MA 02451, <u>United States</u>

* 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. Belgium will replace this withholding system with a provision of information system as from 1 January 2010.

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 published a proposal to amend the Directive in order to improve its effectiveness. The proposed amendments, **if implemented in their current form**, 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. Investors who are in any doubt as to their position should consult their financial advisers.

PLAN OF DISTRIBUTION

Summary of Agreement

Subject to the terms and on the conditions contained in an amended and restated dealer agreement dated 18 December 2009 (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 (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) 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 Act of Japan (the “**Financial Instruments and Exchange Act**”). 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 Act 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 18 December 2009 [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 18 December 2009 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 18 December 2009 [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)]*
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]*

* Instruments which have a maturity of less than one year must have a minimum denomination of £100,000 (or it equivalent in other currencies)

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
- (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]*

[†] This does not include the tax call in Condition 4.2 or the call option contained in Condition 4.5.1

- | | | |
|--------|--|----------------------------|
| (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 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]

* Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

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 23 December 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 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 annual 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 2009 and no material adverse change in the prospects of the Issuer since 31 March 2009.
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 2009 and 31 March 2008.
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. The Issuers do not intend to provide any post-issuance information in relation to any issues of Instruments.
10. 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 2008 and 31 March 2009, 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

40 Sylvan Road
Waltham
MA 02451

United States of America

THE ARRANGER

HSBC Bank plc

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United Kingdom

DEALERS

Commerzbank Aktiengesellschaft

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Federal Republic of Germany

Deutsche Bank AG, London Branch

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United Kingdom

HSBC Bank plc

8 Canada Square
London E14 5HQ
United Kingdom

Morgan Stanley & Co. International plc

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Canary Wharf
London E14 4QA
United Kingdom

LEGAL ADVISERS

To the Dealers as to English and United States law

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United Kingdom

To the Issuer as to English and United States law

Linklaters LLP

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THE TRUSTEE

The Law Debenture Trust Corporation p.l.c.

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United Kingdom

ISSUING AND PAYING AGENT

The Bank of New York Mellon

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United Kingdom

PAYING AGENT

KBL European Private Bankers S.A.

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Luxembourg

REGISTERED AUDITORS TO THE ISSUER

PricewaterhouseCoopers LLP

300 Madison Avenue
New York
NY 10017
United States of America

Prospectus

**NATIONAL GRID GAS plc**

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

NATIONAL GRID GAS FINANCE (NO 1) plc

(incorporated with limited liability in England and Wales on 3 August 2006 under registered number 5895068)

Euro 10,000,000,000

Euro Medium Term Note Programme

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

NATIONAL GRID GAS 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) 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 either the London Stock Exchange’s Regulated Market (the “**Market**”) or on the London Stock Exchange’s Professional Securities Market (the “**PSM**”). References in this Prospectus to Instruments being “**listed**” (and all related references) shall mean that such Instruments have been admitted, as appropriate, to trading on the Market or the PSM and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. The PSM is not a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. The 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 the PSM (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**”). If the Global Instruments are stated in the applicable Final Terms to be issued in new global note (“**NGN**”) form, the Global Instruments will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”). Global notes which are not issued in NGN form (“**Classic Global Notes**” or “**CGNs**”) will be deposited on the issue date of the relevant Tranche with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the “**Common Depositary**”). The provisions governing the exchange of interests in any Global Instruments for interests in any other Global Instruments and Definitive Instruments are described in “Summary of Provisions Relating to the Instruments while in Global Form”.

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

In the case of any Instruments which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the relevant Directive 2003/71/EC (the “**Prospectus Directive**”), the minimum specified denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Instruments).

Prospective investors should have regard to the factors described under the section headed “Risk Factors” in this Prospectus.

Arranger for the Programme

HSBC

The Dealers

BARCLAYS CAPITAL

DEUTSCHE BANK

HSBC

JPMORGAN CAZENOVE

MIZUHO INTERNATIONAL PLC

MORGAN STANLEY

RBC CAPITAL MARKETS

THE ROYAL BANK OF SCOTLAND

The date of this Prospectus is 24 February 2010

IMPORTANT NOTICES

This Prospectus comprises (i) 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 and (ii) listing particulars for the purposes of LR 2.2.11 of the Listing Rules of the Financial Services Authority.

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 (the “**Securities Act**”) and will be in bearer form and subject to U.S. tax law requirements. Subject to certain exceptions, Instruments may not be offered, sold or delivered within the United States or to 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 2008 and 31 March 2009, in each case together with the audit report thereon, (ii) the Terms and Conditions set out on pages 22 to 50 of the prospectus dated 26 February 2008 relating to the Programme and (iii) the Terms and Conditions set out on pages 21 to 49 of the prospectus dated 24 February 2009 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

In respect of any Instruments to be listed on the Market, 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.

SUPPLEMENTARY LISTING PARTICULARS

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

OVERVIEW OF THE PROGRAMME

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

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 references to “ Dealers ” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Trustee	The Law Debenture Trust Corporation p.l.c.
Issuing and Paying Agent	The Bank of New York Mellon
Other Paying Agents	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 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 a NGN, the Global Instrument will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Instrument is a CGN, the Global Instrument representing the relevant Instruments may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Instruments may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the 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 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

	<p>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	<p>The Instruments (and where applicable, the guarantee in respect of them) will constitute unsubordinated and unsecured obligations of the relevant Issuer (and where</p>

	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 or the PSM 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 respect of Instruments having a specified denomination of less than €50,000 or its equivalent in any other currency as at the date of issue of the 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. 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, and other decisions relating to the implications of energy change, 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 increased costs, 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, including 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, and increasingly, to regulation in relation to climate change. 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 and damage to infrastructure 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 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 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 and its reputation. Terrorist attack, sabotage or other intentional acts may also physically damage National Grid Gas's assets 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"). 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, 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

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.

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 and volatility in the global credit markets

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. Some of National Grid Gas's borrowings are 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 those borrowings. National Grid Gas's borrowing capacity and its cost of borrowing could also be affected by adverse changes in the global credit markets.

National Grid Gas's business is partly funded through debt and the maturity and repayment profile of debt used to finance investments often does not correlate to cash flows from its assets. Accordingly it relies on access to short-term commercial paper and money markets and longer term bank and capital markets as sources of finance. 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 stock prices and credit availability for companies. If National Grid Gas is not able to access capital at competitive rates, its ability to finance its operations and implement its strategy will be adversely affected.

National Grid Gas's results of operations could be affected by deflation

National Grid Gas's income under its price controls is linked to the retail price index. Therefore if the UK economy suffers from a prolonged period of deflation, the company's revenues may decrease which may not be offset by reductions in operating costs.

Future funding requirements of the National Grid plc UK Pension Scheme could adversely affect National Grid Gas's results of operations

Substantially all of National Grid Gas's employees are members of a defined benefits pension 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. Changes in law and accounting standards could increase National Grid Gas's effective rate of tax.

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. New or revised standards and interpretations may be issues which could have a significant impact on the financial results and financial position that it reports. The effective rate of tax it pays 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 National Grid Gas's transactions may fail to perform their obligations or arrangements the company has may be terminated, which could harm the results of its operations

National Grid Gas'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 it to incur additional costs.

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, including Belgium from 1 January 2010, 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 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 (including Switzerland), 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 a Residual Entity established in one of those territories.

Investors should note that the European Commission has published proposals to amend the EU Savings Directive in order to improve its effectiveness. The proposed amendments, **if implemented in their**

current form, include an extension of the scope of the EU Savings 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 “intermediate” entity (whether or not established in a Member State) for the ultimate benefit of an EU resident individual. Investors who are in any doubt as to their position should consult their financial advisers.

If a payment in respect of an Instrument which is the subject of the EU Savings 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 any 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 EU Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

Further information on the EU Savings Directive is contained on page 67 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 2010 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 2010 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 2010 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 TARGET2) 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(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; 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 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, 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, 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 4,722 miles (7,600 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 82,021 miles (132,000 km) of distribution pipeline, conveying gas on behalf of approximately 25 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 Counties;
- (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 Winsor	Director	Executive Director of National Grid plc and a director of National Grid Electricity Transmission plc, National Grid UK Limited, NGET/SPT Upgrades Limited, National Grid Grain LNG Limited, non-executive director of Kier Group plc and co-chair of the Energy Research Partnership.	1-3 Strand London WC2N 5EH
Stuart Humphreys	Director	Director of National Grid Electricity Transmission plc, National Grid Interconnectors Limited and NGET/SPT Upgrades 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, 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, Lattice Group Trustees Limited, National Grid Insurance Company (Isle of Man) Ltd, National Grid Insurance Company (Ireland) Ltd, Melmar Limited, NGG Finance plc, NGG Finance (No1) Limited and CLS Holdings plc,	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, Beegas Limited and National Grid UK Pension Scheme Trustee 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.

UK supply forecasts continue to be built around an analysis of declining UK continental shelf gas supplies, supplemented with increasing volumes of imports. The UK is anticipated to be around 45% import dependent in 2010, and around 70% import dependent in 2019. With new import projects now on stream, there is currently a surplus of import capacity to the UK. Global demand reductions and development of unconventional sources of gas have meant surplus liquefied natural gas (LNG) has consistently arrived at UK terminals over the past year. How this may change when the global recession abates is a key uncertainty to the forecast which, combined with the increased connectivity of the UK gas markets to Continental Europe through interconnectors and pipelines, adds to the uncertainty on how supply will be used to match demand. Longer term, the proposed development of more storage in the UK also provides considerable uncertainty in terms of what will be built and when. 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. During the year ended 31 March 2009, National Grid Gas further improved security of supply by investing in new pipelines to enable the flow of gas from new importation facilities. For example it commissioned pipelines in South Wales and across the Pennines in addition to building a new pipeline link to the Isle of Grain.

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 appealed Ofgem’s decision to the Competition Appeal Tribunal, which upheld the appeal in part in April 2009 and reduced the fine to £30 million. National Grid appealed further to the Court of Appeal in respect of certain aspects of the Competition Appeal Tribunal’s judgment. On 23 February 2010, in a reserved judgment, the Court of Appeal decided that it would not interfere with the judgment of the Competition Appeal Tribunal save that it further reduced the fine to £15 million.

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 from 1 April 2009; 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 incentive schemes, in those areas where schemes are not already set, covering the external costs of its system operation role to apply from 1 April 2010. These discussions are ongoing, but the outcome of them will not be known until the end of the first quarter of 2010.

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 permits 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. In February 2009, Ofgem amended National Grid Gas's licence in respect of the NTS business in order to give it the power to suspend these price caps in the event that contestability is established in relation to the provision of operating margins services. In January 2010, Ofgem announced that it proposed to consult on a further amendment to National Grid Gas's licence in respect of the NTS business in order to provide greater clarity in relation to the circumstances in which it may suspend the price caps.

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:

<u>Name</u>	<u>Principal Occupation</u>	<u>Principal Activities outside National Grid Gas Finance (No 1)</u>
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.
Mark Flawn	Director	Director of 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 each 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 for information purposes which is not intended to be exhaustive and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Instrumentholders who are in any doubt as to their tax position should consult their professional advisers. Instrumentholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Instruments are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Instruments. In particular, Instrumentholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Instruments even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

(A) 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 or the Professional Securities 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 2010.

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. Where a payment on an Instrument does not constitute (or is not treated as) interest for United Kingdom tax purposes, and the payment has a United Kingdom source, it would potentially be subject to United Kingdom withholding tax if, for example, it constitutes (or is treated as) an annual payment or a manufactured payment for United Kingdom tax purposes (which will be determined by, amongst other things, the terms and conditions specified by the Final Terms of the Instrument). In such a case, the payment may fall to be made under deduction of United Kingdom tax (the rate of withholding depending on the nature of the payment), subject to such relief as may be available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply.
6. 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, including Belgium from 1 January 2010, 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 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. The European Parliament approved an amended version of this proposal on 24 April 2009. 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 2010 (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 has not offered, sold or delivered and 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 Act of Japan (the “**Financial Instruments and Exchange Act**”). Accordingly, each of the Dealers has represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Instruments in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan. 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 2010 [and the supplementary Prospectus/supplementary listing particulars dated [•]] which [together] constitute[s] (i) a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and (ii) listing particulars for the purposes of Listing Rule 2.2.11 of the Listing Rules of the Financial Services Authority (the “**Listing Rules**”). This document constitutes the Final Terms of the Instruments described herein for the purposes of [Article 5.4 of the Prospectus Directive/Listing Rule 4.2.3 of the Listing Rules] 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]/supplementary listing particulars] [is] [are] available for viewing at, and copies may be obtained from, the registered address of the Issuer at 1-3 Strand, London WC2N 5EH and the office of the Issuing and Paying Agent at One Canada Square, London E14 5AL and 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/supplementary listing particulars 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**”)/Listing Rule 4.2.3 of the Listing Rules of the Financial Services Authority (the “**Listing Rules**”)] and must be read in conjunction with the Prospectus dated [current date] [and the supplementary Prospectus/supplementary listing particulars dated [•]], which [together] constitute[s] (i) a base prospectus for the purposes of the Prospectus Directive and (ii) listing particulars for the purposes of Listing Rule 2.2.11 of the Listing Rules of the Financial Services Authority (the “**Listing Rules**”), save in respect of the Conditions which are extracted from the Prospectus dated [original date] [and the supplementary Prospectus/supplementary listing particulars dated [•]] and are attached hereto]. 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 Prospectuses dated [original date] and [current date] [and the supplementary Prospectuses/supplementary listing particulars dated [•] and [•]]. The Prospectuses [and the

⁺ Delete as applicable.

^{*} Only applicable where National Grid Gas Finance (No 1) is the Issuer.

supplementary Prospectus/supplementary listing particulars] [is/are] available for viewing at, and copies may be obtained from, the registered address of the Issuer at 1-3 Strand, London WC2N 5EH and the office of the Issuing and Paying Agent at One Canada Square, London E14 5AL and 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.]

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute (i) (in the case of an application for the Instruments to trade on the London Stock Exchange plc’s Regulated Market) “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive or Section 87(G) of the Financial Services and Markets Act 2000 (the “FSMA”) or (ii) (in the case of an application for the Instruments to trade on the London Stock Exchange plc’s Professional Securities Market) “a significant change” and consequently trigger the need for a supplement to the Prospectus under Section 81 of the FSMA.]

- | | | |
|---|---|---|
| 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 |

[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]].]

Calculation Amount: *[If only one Specified Denomination, insert the*

⁺ 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).

Specified Denomination. If more than one Specified Denomination, insert the highest common factor [Note: There must be a common factor in the case of two or more Specified Denominations]

- 7 [(i)] Issue Date: [•]
- [(ii)] Interest Commencement Date: [•]
- 8 Maturity Date: *[specify date or (for Floating Rate Instruments) Interest Payment Date falling in or nearest to the relevant month and year]*
- 9 Interest Basis: [•] per cent. Fixed Rate]
[[specify reference rate] +/- [•] per cent. Floating Rate]
[Zero Coupon]
[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

* Only applicable where National Grid Gas Finance (No 1) is the Issuer.

	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 (<i>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)</i>)
(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) 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]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
 - (i) Amortisation Yield (Condition 5.4): [•] per cent. per annum
 - (ii) Day Count Fraction (Condition 3.2.4(i)): [•]
 - (iii) Any other formula/basis of determining amount payable: [•]
- 18 Index Linked Interest Instrument** *[Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
 - (i) Index/Formula: *[give or annex details]*
 - (ii) Interest Rate: [•]
 - (iii) Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Calculation Agent): [•]
 - (iv) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [•]

- (v) Specified Interest Payment Dates: [•]
- (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/*other (give details)*]
- (ix) Minimum Indexation Factor: [Not Applicable/*specify*]
- (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] (<i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i>)
(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] (<i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i>)
(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:	[•]

* [This does not include the tax call in Condition 5.2].

- (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:

[No²/Yes]

[Note that the designation "Yes" simply means that the Instruments are intended upon issue to be deposited with Euroclear or Clearstream, Luxembourg as common safekeeper and does not necessarily mean that the Instruments will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] *[Include this text if "Yes" selected in which case the Instruments must be issued in NGN form]*

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, renominalisation 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.)]*

² Specify "No" if the Instruments being issued are Classic Global Notes/CGNs.

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 [Regulated Market of the London Stock Exchange/Professional Securities Market of the London Stock Exchange/*specify relevant 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]*

* Only applicable where National Grid Gas Finance (No 1) is the Issuer.

PART B — OTHER INFORMATION*

1 LISTING

- (i) Listing: [London/*other (specify)*/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.] (*Where documenting a fungible issue need to indicate that original Instruments are already admitted to trading.*)
- (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 [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.

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 and the PSM is expected to take effect on or about 1 March 2010. 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 or the PSM 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 or the PSM, as the case may be, in accordance with their respective rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

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, the PSM 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 Programme in its current form was established on 31 July 2006. 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 26 January 2010. 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 Programme in its current form was authorised by a resolution of the Board of Directors of National Grid Gas Finance (No 1) on 18 August 2006, and the update of the Programme was authorised by a resolution of the Board of Directors of National Grid Gas Finance (No 1) passed on 9 February 2010.
- (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" starting 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) There has been no significant change in the financial or trading position of the National Grid Gas Group since 31 March 2009.
- (10) There has been no material adverse change in the prospects of National Grid Gas or the National Grid Gas Group since 31 March 2009.
- (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 2008 and 31 March 2009, 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 2008 and 31 March 2009, together with the audit report thereon; and
 - (v) the amended and restated Trust Deed dated 24 February 2010 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 or the PSM, the relevant Final Terms will be, available on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/en-gb/pricesnews/marketnews.

- (15) The Issuers do not intend to provide any post-issuance information.

REGISTERED OFFICE OF THE ISSUERS AND THE GUARANTOR

1-3 Strand
London WC2N 5EH

THE TRUSTEE

The Law Debenture Trust Corporation p.l.c.

Fifth Floor
100 Wood Street
London EC2V 7EX

THE ARRANGER

HSBC Bank plc
8 Canada Square
London E14 5HQ

THE DEALERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB

HSBC Bank plc
8 Canada Square
London E14 5HQ

Mizuho International plc
Bracken House
One Friday Street
London EC4M 9JA

Royal Bank of Canada Europe Limited
71 Queen Victoria Street
London EC4V 4DE

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB

J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA

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

KBL European Private Bankers S.A.

43, Boulevard Royal
L-2955 Luxembourg

REGISTERED AUDITORS TO NATIONAL GRID GAS PLC

PricewaterhouseCoopers LLP

1 Embankment Place
London WC2N 6RH

FOR INFORMATION ONLY

The securities offered pursuant to the rights issue have not been and will not be registered under the US Securities Act of 1933 and may not be offered or sold in the United States unless in a transaction that is registered thereunder or exempt from the registration requirements thereof. No public offer has been or will be made in or into the United States.

THIS AGREEMENT is made on 20 May 2010

BETWEEN:

- (1) **NATIONAL GRID PLC**, a public company incorporated under the laws of England with registered number 04031152, whose registered office is at 1-3 Strand, London WC2N 5EH (the *Company*);
- (2) [**•**];
- (3) [**•**];
- (4) [**•**], [**•**] ([**•**] and, together with [**•**], the *Joint Sponsors*); and
- (5) [**•**], ([**•**] and, together with [**•**] and [**•**], the *Joint Bookrunners*, the *Joint Global Co-ordinators* and the *Underwriters*).

WHEREAS:

(A) The Company proposes to offer the New Shares by way of rights at the Issue Price on the terms and subject to the conditions set out in the Prospectus and, where applicable, to be set out in the Provisional Allotment Letter.

(B) The Directors have authority under section 551 of the Companies Act to allot the New Shares.

(C) The Underwriters have agreed on a several basis, on the terms and subject to the conditions set out in this Agreement, to underwrite the Underwritten Shares in their Due Proportions and may (but are not obliged to) seek sub-underwriters on the basis of the Press Announcement and the Preliminary Results Announcement.

(D) The Company will apply for admission of the New Shares to the Official List and for admission of the New Shares to trading on the London Stock Exchange's main market for listed securities. Each of the Joint Sponsors has agreed to act as sponsor for the purpose of the Prospectus to be issued in connection with the Rights Issue and Admission.

(E) The consideration received by the Company for the issue and allotment of the New Shares for the Issue Price shall be the transfer of certain Newco Ordinary Shares and Newco Preference Shares by the Newco Subscriber to the Company in accordance with the Subscription and Transfer Agreement.

(F) The Joint Global Co-ordinators have agreed to act as global co-ordinators in relation to the Rights Issue on the terms and subject to the conditions set out in this Agreement.

(G) The Joint Bookrunners have agreed to act as joint bookrunners in relation to the Rights Issue on the terms and subject to the conditions set out in this Agreement.

(H) Each of the Directors has irrevocably undertaken with the Company, subject to the publication of the Prospectus, to either (i) apply under the Rights Issue for all of the New Shares to which he or she will be entitled as a Qualifying Shareholder; or (ii) sell sufficient of

his or her Nil Paid Rights during the nil paid dealing period to meet the costs of taking up the balance of his or her entitlements to New Shares under the Rights Issue.

(I) The Rights Issue is to be made (i) outside the United States within the meaning of and pursuant to Regulation S (**Regulation S**) under the US Securities Act of 1933, as amended (the **Securities Act**) and (ii) within the United States only to a limited number of persons reasonably believed to be “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (**Rule 144A**) or persons that are Directors of the Company who are “accredited investors” within the meaning of Regulation D under the Securities Act (**Regulation D**) and, pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

NOW IT IS AGREED as follows:

1. DEFINITIONS

1.1 In this Agreement:

Acceptance Date means 11 June 2010 or such later date as the Company and the Joint Bookrunners may agree in writing, being no later than 16 June 2010;

Accounts means the audited consolidated accounts of the Group for the three years ended 31 March 2008, 2009 and 2010 (including, without limitation, the related directors’ and auditors’ reports, the consolidated income statement, the balance sheets, the consolidated cashflow statement, the consolidated statement of total recognised gains and losses, the reconciliation of movements in shareholders’ funds and all related notes) incorporated by reference into the Prospectus;

Accounts Date means 31 March 2010;

Accredited Investors has the meaning given in Regulation D;

AI Letter means the letter in the agreed form, to be delivered by certain Qualifying Shareholders in the United States who are both Accredited Investors and Directors of the Company in connection with their participation in the Rights Issue;

Admission means the admission of the New Shares to the Official List becoming effective in accordance with the Listing Rules and the admission of such shares (nil paid) to trading on the London Stock Exchange’s main market for listed securities becoming effective in accordance with the Admission and Disclosure Standards;

Admission and Disclosure Standards means the current Admission and Disclosure Standards published by the London Stock Exchange;

Adverse Interest means any option, pledge, lien, claim, mortgage, charge, equity, trust, any other right or interest of any third party and any other encumbrance of any kind and including, for the avoidance of doubt, any pre-emptive or similar right;

affiliate has the meaning given in Rule 501(b) of Regulation D or Rule 405 under the Securities Act, as applicable;

Annual Report means the annual report and accounts of the Company for the year ended 31 March 2010 to be published on the Publication Date;

Annual Results means the annual results of the Company, whether in preliminary or audited form, for the year ended 31 March 2010;

associate has the meaning ascribed in section 345 of the Companies Act 2006;

Auditors means PricewaterhouseCoopers LLP;

Banks means [•], [•], [•] and [•] and **Bank** shall mean any one of them;

Banks' Counsel means [•];

Banks' Engagement Letters means the [•] Engagement Letter and the [•] Engagement Letter;

Board means the board of directors of the Company or a duly constituted and authorised committee thereof;

Business Day means any day which is not a Saturday, a Sunday or a bank or public holiday in England and Wales;

Capita means Capita Registrars Limited;

City Code means the UK City Code on Takeovers and Mergers;

Claims means any and all claims, actions, liabilities, demands, proceedings, regulatory or governmental investigations, judgments or awards whatsoever (and in each case whether or not successful, compromised or settled and whether joint or several) threatened, asserted, established or instituted against or otherwise involving any Indemnified Person and **Claim** shall be construed accordingly;

Companies Act means the Companies Act 2006 to the extent in force from time to time;

Company's Counsel means Linklaters LLP;

Conditions means the conditions set out in Clause 2.1;

CREST means the relevant system (as defined in the Regulations) in respect of which Euroclear is the Operator (as defined in the Regulations);

[•] Indemnified Persons means:

- (a) [•] and any subsidiary, branch or affiliate of [•];
- (b) a person who is, on or at any time after the date of this Agreement, a director, officer, partner, employee or agent of an undertaking specified in paragraph (a) above; and
- (c) [•], its selling agents and each person, if any, who controls [•] within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act and [•]'s

respective affiliates, subsidiaries, branches, associates and holding companies and the subsidiaries of such subsidiaries, branches, affiliates, associates and holding companies and each of such person's respective directors, officers, employees and agents,

and [•] **Indemnified Person** shall be construed accordingly;

Dealing Day means a day on which dealings in domestic equity market securities may take place on the London Stock Exchange;

Directors means the persons named in the Prospectus as directors of the Company;

Disclosure Rules and **Transparency Rules** means the Disclosure Rules and Transparency Rules of the FSA made under section 73A of FSMA;

Draft Annual Report means the draft annual report and accounts of the Company for the year ended 31 March 2010, in the agreed form;

Draft Prospectus means the draft prospectus in the agreed form;

Due Proportions has the meaning set out in Clause 9.1;

Environmental Laws has the meaning given to it in paragraph 26.1 of Schedule 3;

Euroclear means Euroclear UK & Ireland Limited;

Exchange Act means the U.S. Securities Exchange Act of 1934, as amended;

Excluded Shareholders means, subject to certain exceptions, Ordinary Shareholders with registered addresses in the Excluded Territories on the Record Date;

Excluded Territories means the United States, China, Hong Kong, India, Japan, South Africa and Switzerland;

Facilities has the meaning given to it in paragraph 11.3 of Schedule 3;

FCPA has the meaning given to it in paragraph 29.1 of Schedule 3;

FSA means the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA and in the exercise of its functions in respect of the admission of securities to the Official List of the Financial Services Authority otherwise than in accordance with Part VI of the FSMA, including, where the context so permits, any committee, employee, officer or servant to whom any function of the Financial Services Authority may for the time being be delegated;

FSA Rules means the FSA Handbook of Rules and Guidance as amended from time to time;

FSMA means the Financial Services and Markets Act 2000, as amended;

Fully Paid Rights means fully paid rights to subscribe for New Shares;

Group means the Company and its subsidiaries and its subsidiary undertakings and **Group Company** means any one of them;

Hazardous Materials has the meaning given to it in paragraph 26.1 of Schedule 3;

HMRC means Her Majesty's Revenue & Customs;

IFRS means International Financial Reporting Standards as adopted by the European Union;

Indemnified Person means any and each [•] Indemnified Person, [•] Indemnified Person and [•] Indemnified Person;

Intellectual Property Rights means patents, trade marks, service marks, logos, get-up, trade names, rights in designs, copyright (including rights in computer software), internet domain names, moral rights, utility models, rights in know how, rights in databases and other intellectual property rights, in each case whether registered or unregistered and including applications for the grant of any such rights and all rights or forms of protection having equivalent or similar effect anywhere in the world;

Investor Letter means the QIB Letter or the AI Letter;

Issue Price means 335 pence per New Share;

IT Systems means the information technology used by members of the Group or required for use in their business, including hardware, proprietary and third party software, networks, peripherals and associated documentation;

Joint Bookrunners means [•], [•] and [•] and **Joint Bookrunner** shall mean any one of them;

Joint Global Co-ordinators means [•], [•] and [•] and **Joint Global Co-ordinator** shall mean any one of them;

Joint Sponsors means [•] and [•] and **Joint Sponsor** shall mean either of them;

Limitation has the meaning given in Clause 13.9;

Listing Rules means the Listing Rules of the FSA made under section 73A of the FSMA;

London Stock Exchange means London Stock Exchange plc;

Losses means any and all loss, damage, cost, liability, demand, charge or expense (including legal fees) and taxation, in each case whether joint or several, which any Indemnified Person may suffer or incur (including, but not limited to all Losses suffered or incurred in investigating, preparing for or disputing or defending or settling any Claim and/or in establishing its right to be indemnified or to receive a contribution pursuant to Clause 13 or in seeking advice regarding any Claim or in any way related to in connection with the indemnity contained in Clause 13 or the provisions of Clause 14) and **Loss** shall be construed accordingly;

Material Adverse Change means a change in, or any development involving a prospective change in or affecting, the condition (financial, operational, legal or otherwise), or in the earnings, liquidity, management, funding position, business affairs or operations, solvency or prospects of the Group, whether or not arising in the ordinary course of business, which is, or is reasonably likely to be, material in the context of the Group, the Rights Issue or Admission;

[•] **Engagement Letter** means the engagement letter between [•] and the Company dated 20 May 2010;

[•] **Indemnified Persons** means:

- (a) [•] and any subsidiary, branch or affiliate of [•];
- (b) a person who is, on or at any time after the date of this Agreement, a director, officer, partner, employee or agent of an undertaking specified in paragraph (a) above; and
- (c) [•], its selling agents and each person, if any, who controls [•] within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act and [•]'s respective affiliates, subsidiaries, branches, associates and holding companies and the subsidiaries of such subsidiaries, branches, affiliates, associates and holding companies and each of such person's respective directors, officers, employees and agents,

and [•] **Indemnified Person** shall be construed accordingly;

Money Laundering Laws has the meaning given to it in paragraph 28 of Schedule 3;

[•] **Engagement Letter** means the engagement letter between [•] and the Company dated 20 May 2010;

[•] **Indemnified Persons** means:

- (a) [•] [•] and any subsidiary, branch or affiliate of [•] or [•];
- (b) a person who is, on or at any time after the date of this Agreement, a director, officer, partner, employee or agent of an undertaking specified in paragraph (a) above; and
- (c) [•], [•], their selling agents and each person, if any, who controls [•] or [•] within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act and [•]'s and [•]'s respective affiliates, subsidiaries, branches, associates and holding companies and the subsidiaries of such subsidiaries, branches, affiliates, associates and holding companies and each of such person's respective directors, officers, employees and agents,

and [•] **Indemnified Person** shall be construed accordingly;

Newco means National Grid Jersey Investments Three Limited, a company incorporated in Jersey in connection with the Rights Issue;

Newco A Preference Shares means 250,000,000 redeemable 'A' preference shares of £0.0001 each in the capital of Newco;

Newco B Preference Shares means 250,000,000 redeemable 'B' preference shares of £0.0001 each in the capital of Newco;

Newco Counsel means Ogier, solicitors and advocates of Whiteley Chambers, Don Street, St Helier, Jersey JE4 9WG;

Newco Ordinary Shares means ordinary shares of £1.00 each in the capital of Newco;

Newco Preference Shares means Newco 'A' Preference Shares and Newco 'B' Preference Shares;

Newco Subscriber means [•] in its capacity as subscriber for the Newco Ordinary Shares and the Newco Preference Shares under the terms and subject to the conditions of the Subscription and Transfer Agreement;

New Shares means 990,439,017 new Ordinary Shares which are to be allotted pursuant to the Rights Issue;

Nil Paid Rights means the New Shares in nil paid form provisionally allotted to Qualifying Shareholders in connection with the Rights Issue;

OECD Convention has the meaning given to it in paragraph 29.1 of Schedule 3;

OFAC has the meaning given to it in paragraph 29.9 of Schedule 3;

Official List means the Official List of the FSA;

Option Agreement means the initial subscription and put and call option deed relating to Newco Ordinary Shares to be entered into on the date hereof between the Company, Newco and the Newco Subscriber providing, *inter alia*, for the subscription of certain Newco Ordinary Shares by the Newco Subscriber and the Company;

Ordinary Shareholders means holders of Ordinary Shares;

Ordinary Shares means ordinary shares of 11¹⁷/₄₃ pence each in the capital of the Company;

Participating Security has the meaning given to it in the Regulations;

Preliminary Results Announcement means the preliminary statement of annual results for the year ended and as at 31 March 2010, in the agreed form and to be dated the date of this Agreement;

Presentation Materials means the written materials in the agreed form used and to be used by the Company in presentations to institutional investors in connection with the Rights Issue and/or the Annual Results;

Press Announcement means the press announcement in the agreed form to be dated the date of this Agreement giving details of, *inter alia*, the Rights Issue;

Previous Announcements means all documents issued and announcements (other than the Press Announcement and the Rule 135c Press Announcement) made by or on behalf of the Company or any member of the Group to the public or the press since the Accounts Date and before the date of this Agreement;

Principal Group Company means each of National Grid Gas plc, National Grid Electricity Transmission plc, New England Power Company, Massachusetts Electric Company, The Narragansett Electric Company, Niagara Mohawk Power Corporation, National Grid Metering Limited, Utility Metering Services Limited, National Grid Grain LNG Limited LNG, Boston Gas Company (incorporated in the US), National Grid Electric Services LLC, National Grid Generation LLC, New England Electric Transmission Corporation, Nantucket Electric Company, KeySpan Gas East Corporation, The Brooklyn Union Gas Company, NGG Finance plc, British Transco Finance Inc., British Transco International Finance BV, National Grid Property Limited, National Grid Holdings One plc, Lattice Group plc, National Grid USA, Niagara Mohawk Holdings, Inc., National Grid Commercial Holdings Limited, National Grid Gas Holdings Limited, National Grid (US) Holdings Limited, National Grid Holdings Limited and KeySpan Corporation;

Prospectus means the prospectus (comprising a prospectus for the purposes of the FSMA, the Listing Rules and the Prospectus Rules) in the agreed form to be published by the Company in connection with the Rights Issue, together with the documents incorporated by reference therein;

Prospectus Directive means the EU Prospectus Directive (2003/71/EC);

Prospectus Rules means the Prospectus Rules of the FSA made under s73A of the FSMA;

Provisional Allotment Letter means the form of renounceable provisional allotment letter, in the agreed form, to be issued or made available by the Company, subject to Clause 4.6, to Qualifying Non-CREST Holders in connection with the Rights Issue;

Publication Date means the date on which the Company is to publish the Prospectus being 25 May 2010 or such later date as the Company and the Joint Bookrunners may agree in writing;

QIBs or **qualified institutional buyers**, has the meaning given in Rule 144A under the Securities Act;

QIB Letter means the letter, in the agreed form, to be delivered by Qualifying Shareholders in the United States who are QIBs in connection with their participation in the Rights Issue;

QIB Rump Letter means the letter, in the agreed form, to be delivered by subscribers for the New Shares that were not originally taken up in the Rights Issue, who are located in the United States;

Qualifying CREST Holders means Qualifying Shareholders who hold Ordinary Shares in uncertificated form;

Qualifying Non-CREST Holders means Qualifying Shareholders who hold Ordinary Shares in certificated form;

Qualifying Shareholders means Ordinary Shareholders on the register of members of the Company as at the Record Date (excluding, for the avoidance of doubt, the Company as the direct or indirect holder of treasury shares);

Qualifying US Shareholders means Qualifying Shareholders in the United States who are either QIBs or certain Directors of the Company who are Accredited Investors;

Receiving Agent or **Registrar** means Capita;

Receiving Agent Agreement means the receiving agent agreement in the agreed form to be entered into on the date hereof between the Company, Newco, the Newco Subscriber and the Receiving Agent in relation to the Rights Issue;

Record Date means the close of business on 19 May 2010;

Regulations means the Uncertificated Securities Regulations 2001 (SI 2001/3755);

Regulation D has the meaning given to it in Recital (I);

Regulation S has the meaning given to it in Recital (I);

Regulatory Information Service means any of the services set out in Schedule 12 to the Listing Rules;

Relevant Documents means the Prospectus, any Supplementary Prospectus, the Summaries of the Prospectus, the Provisional Allotment Letters, any explanatory documents which may accompany the Prospectus and/or Provisional Allotment Letters, the Shareholder Guide, the QIB Letter, the AI Letter, the QIB Rump Letter, the Presentation Materials, the Preliminary Results Announcement, the Press Announcement, the 135c Press Announcement and any other documents, announcements or other communications issued in connection with the Rights Issue or the offering of the New Shares;

Rights Issue means the offer of New Shares on the basis set out in Recital (A);

Rule 135c means Rule 135c under the Securities Act;

Rule 135c Press Announcement means the Rule 135c compliant press announcement in the agreed form to be dated the date of this Agreement giving details of the Rights Issue, to be made available in the United States;

Rule 144A has the meaning given to it in Recital (I);

Sanctions has the meaning given to it in paragraph 29.9 of Schedule 3;

Securities Act means the U.S. Securities Act of 1933, as amended;

Selling Restrictions means the selling restrictions set out in Schedule 5;

Settlement Bank means [•];

Settlement Date means the date for settlement of the Joint Bookrunners' payment obligations to the Company pursuant to Clauses 8.6 and of the Underwriters' payment obligations to the Company pursuant to Clause 9.2;

Shareholder Guide means the guide for Qualifying Non-CREST Shareholders, explaining in plain English the terms and conditions of the Rights Issue and the options available to Qualifying Non-CREST Shareholders in respect of the Provisional Allotment Letter, in the agreed form;

Specified Warranties means paragraphs 1.3, 2.2, 2.3, 2.5, 2.6, 2.9, 7.1(a) and (e), 9.1, 9.2, 10, 11.2, 11.3 (last sentence only), 11.6, 12.2, 14.1, 14.2, 15.4, 15.5(b) and (c), 15.6 (solely in relation to any Group Company other than the Company), 18(iii), 20, 23, 25.1, 25.2, 25.3 and 26.2 of Schedule 3;

Subscription and Transfer Agreement means the subscription and transfer deed in the agreed form to be entered into on the date hereof between the Company, Newco and the Newco Subscriber providing, *inter alia*, for the acquisition by the Company from the Newco Subscriber of the Newco Preference Shares and certain Newco Ordinary Shares;

Summaries of the Prospectus means the translations of the section of the Prospectus entitled "Summary" prepared in connection with the passporting of the Prospectus into Cyprus, France, Germany, Greece and Spain, including any supplements thereto;

Supplementary Prospectus means any supplementary prospectus published by the Company pursuant to section 87G of the FSMA;

taken up has the meaning given in Schedule 1;

tax or taxes or taxation means all taxes, levies, imposts, duties, charges or withholdings of any nature whatsoever imposed by a tax authority of any jurisdiction, together with all penalties, charges and interest relating to any of the foregoing and regardless of whether the person concerned is primarily or directly liable or not and regardless of whether or not such taxes, levies, imposts, duties, charges, withholdings, penalties and interest are attributable directly or primarily to the person concerned, including (without limitation) corporation tax, advance corporation tax, income tax, capital gains tax, VAT, duties of customs and excise, national insurance contributions, capital duty, stamp duty, stamp duty reserve tax, stamp duty land tax and any other transfer tax or duty, all taxes, duties or charges replaced by or replacing any of them, and all other taxes on gross or net income, profits or gains, distributions, receipts, importations, sales, use, occupation, franchise, value added, and personal property;

Time of Procurement means a time falling within the period commencing at 7.00 a.m. on the first Dealing Day following the Acceptance Date and ending on the third Dealing Day following the Acceptance Date, as is notified to the Company by the Joint Bookrunners as the time of procurement with respect to their endeavours to procure subscribers for such number of New Shares equivalent to the number of Underwritten Shares which are not taken up by Qualifying Shareholders, in accordance with Clause 8.4;

Transaction Bank Account means the cash account in the name of the Receiving Agent to be established in accordance with the Receiving Agent Agreement;

Transfer Taxes means stamp duty, stamp duty reserve tax, capital duty or any similar issuance or transfer tax or duty and any related costs, fines, penalties or interest (if any) whether of the United Kingdom, Jersey or elsewhere;

Transaction Documents means this Agreement, the Subscription and Transfer Agreement, the Option Agreement and the Receiving Agent Agreement;

UK Listing Authority means the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA and in the exercise of its functions in respect of the admission of securities to the Official List otherwise than in accordance with Part VI of the FSMA;

Underwriters means [•], [•] and [•], and **Underwriter** means any of them;

Underwritten Shares means 990,439,017 New Shares;

United Kingdom or **UK** means Great Britain and Northern Ireland;

United States or **U.S.** means the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia;

Untraceable Shareholders means those Qualifying Non-CREST Shareholders in relation to whom notices or other communications have been returned undelivered on two consecutive occasions when such notices have been sent by post to such a Qualifying Non-CREST Shareholder at their registered address (or, in the case of shareholders whose registered address is not in the United Kingdom, any address given to the Company for sending notices);

VAT means value added tax chargeable under or pursuant to the Value Added Tax Act 1994 or the EC Council Directive 2006/112/EC on the common system of value added tax and any other sales, purchase or turnover tax of a similar nature, whether imposed in the United Kingdom or elsewhere;

Verification Materials means the materials in the agreed form confirming the accuracy of certain information contained in the Prospectus, the Press Announcement, the Presentation Materials and any Supplementary Prospectus and including copies of the documents referred to therein and a schedule of forward-looking statements and statements of directors' belief and expectation contained in the Prospectus, the Press Announcement, the Presentation Materials and any Supplementary Prospectus;

Warranties means the representations, warranties and undertakings set out in Clause 11 and Schedule 3 and **Warranty** shall be construed accordingly;

Working Capital Memorandum means the cash flow and working capital memorandum prepared by the Company, in the agreed form, relating to the Group, dated the Publication Date; and

Working Capital Report means the cash flow and working capital report prepared by the Auditors in the agreed form relating to the Group for the period to 30 November 2011 and dated the Publication Date.

1.2 In this Agreement unless the context otherwise requires:

- (a) a reference to **certificated** or **certificated form** in relation to a share or other security is a reference to a share or other security title to which is recorded on the relevant register of the share or other security as being held in certificated form;
- (b) a reference to **uncertificated** or **uncertificated form** in relation to a share or other security is a reference to a share or other security title to which is recorded on the relevant register of the share or other security as being held in uncertificated form, and title to which, by virtue of the Regulations, may be transferred by means of CREST;
- (c) words and expressions defined in the Companies Act shall bear the same meaning, including, for the avoidance of doubt, **holding company**, **subsidiary undertaking** and **subsidiary**;
- (d) headings are for convenience only and shall not affect the construction of this Agreement;
- (e) any reference to an enactment is a reference to it as from time to time amended, consolidated or re enacted (with or without modification) (but, in the case of any amendment, consolidation or re-enactment effected after the date of Admission, only insofar as it applies in relation to a period before Admission and provided that no such amendment, consolidation or re-enactment shall increase or extend the liability of any party to this Agreement) and includes all instruments or orders made under the enactment;
- (f) references in this Agreement to any document expressed to be in the **agreed form** means a document in the form initialled, for the purpose of identification only, by Company's Counsel and Banks' Counsel, or as otherwise expressly confirmed as being in the agreed form by communications between the Banks' Counsel and the Company's Counsel, subject to any changes which the Company and the Joint Bookrunners may agree in writing;
- (g) any reference to recitals, clauses and schedules are to recitals, clauses and schedules to this Agreement, and references to paragraphs are to paragraphs in the schedule in which such references appear, and the schedules to this Agreement form part of the Agreement;
- (h) each reference in this Agreement to the Joint Sponsors (or either of them), the Joint Global Co-ordinators (or any of them), the Joint Bookrunners (or any of them) or the Underwriters (or any of them), by any description or in any capacity, includes a reference to it in each other capacity in which it may act pursuant to this Agreement or otherwise expressly confirmed with the agreement of the Company in connection with the Rights Issue;

- (i) any reference to the Joint Sponsors, the Joint Global Co-ordinators, the Joint Bookrunners and/or the Underwriters approving or agreeing the form of a Relevant Document, shall be a reference to such approval or agreement being given solely for the purposes of this Agreement; and
- (j) unless otherwise stated, references to time are references to London time.

2. CONDITIONS

2.1 The Banks' respective obligations under this Agreement (save for the obligations of the Joint Sponsors under Clause 3.6) are conditional on:

- (a) the Company having complied with all of its obligations and undertakings under this Agreement and under the terms and conditions of the Rights Issue which fall to be performed or satisfied prior to Admission and which, in any such case, all of the Joint Bookrunners consider (acting in good faith) to be, singly or in the aggregate, material in the context of the Group, the Rights Issue or Admission;
- (b) publication of both the Press Announcement and the Preliminary Results Announcement through a Regulatory Information Service by no later than 7.00 a.m. on the date of this Agreement;
- (c) approval of the Prospectus as a prospectus by the UK Listing Authority and the Prospectus being filed with the FSA in accordance with the Prospectus Rules and the FSMA by no later than 2.00 p.m. on the Publication Date and made available to the public by no later than 5.00 p.m. on the Publication Date;
- (d) the posting of the Provisional Allotment Letters to Qualifying Non-CREST Shareholders (other than Untraceable Shareholders) and the sending of a CREST instruction to credit the CREST accounts of Qualifying CREST Shareholders as contemplated in the Prospectus and in accordance with Clause 4.6;
- (e) the Warranties on the part of the Company contained in this Agreement being true and accurate in all respects and not misleading in any respect on and as of the date of this Agreement and at all times before Admission as if they had been repeated by reference to the facts and circumstances then existing;
- (f) (i) no event referred to in section 87G(1) of the FSMA arising between the time of publication of the Prospectus and Admission, and (ii) no Supplementary Prospectus being published by or on behalf of the Company before Admission, in each case which all of the Joint Bookrunners consider (acting in good faith) to be, singly or in the aggregate, material in the context of the Group, the Rights Issue or Admission;
- (g) Admission occurring not later than 8.00 a.m. on 26 May 2010 or such later time and/or date (not later than 1 June 2010) as the Company may agree with the Joint Bookrunners;
- (h) each condition to enable the Nil Paid Rights and the Fully Paid Rights to be admitted as a Participating Security in CREST (other than Admission) being satisfied on or before the Publication Date;

- (i) delivery of all the documents referred to in Parts A, B, C, and D (if relevant and if prior to Admission) of Schedule 2 by the Company to the Banks' Counsel (on behalf of each of the Banks) by the dates and times envisaged therein;
- (j) in the opinion of all of the Joint Bookrunners (acting in good faith), there having been no Material Adverse Change at any time prior to Admission;
- (k) in the opinion of all of the Joint Bookrunners (acting in good faith), there being no information in the Prospectus (and/or in any other publication or announcement issued or to be issued by the Company on or after the date of this Agreement but prior to or at the same time as publication of the Prospectus) that is material in the context of the Group, the Rights Issue or Admission that is not contained in the Draft Prospectus and there being no other material (in the foregoing context) differences between the Prospectus and the Draft Prospectus; and
- (l) delivery of the Annual Report to the FSA's document viewing facility prior to the Prospectus having been approved by the UK Listing Authority and following such delivery, notification to a Regulatory Information Service of such delivery by no later than close of business on the Publication Date.

2.2 The Joint Bookrunners may, in their absolute discretion and subject to such conditions as they consider appropriate, acting jointly:

- (a) extend the time or date for satisfaction of any condition set out in Clause 2.1, in which case a reference in this Agreement to the satisfaction of such condition shall be to its satisfaction by the time or date as so extended; or
 - (b) waive the satisfaction of any such condition, other than those conditions in Clauses 2.1(c) and 2.1(g) in whole or in part,
- by giving written notice to the Company. For the avoidance of doubt, the rights of the Joint Bookrunners under this Clause 2.2:
- (i) may be exercised by the Joint Bookrunners, acting jointly, and except where provided otherwise herein, for whatever reason or on whatever basis that they consider to be practicable, appropriate or advisable to them; and
 - (ii) are conferred on the Joint Bookrunners, and may be exercised by the Joint Bookrunners, acting jointly, in their respective capacities as such, and not in any representative or fiduciary capacity.

2.3 If any condition set out in Clause 2.1 is not satisfied (or waived by the Joint Bookrunners, acting jointly, in their absolute discretion, in accordance with Clause 2.2), or becomes incapable of being satisfied, by the required time and date therefor then (following consultation with the Company to the extent practicable):

- (a) each of the Joint Sponsors, for itself in its capacity as sponsor only, shall be entitled to terminate this Agreement insofar as it relates to the obligations of such Joint Sponsor in its capacity as sponsor and, in the event of such termination, the obligations of such Joint Sponsor in its capacity as sponsor under this Agreement

shall cease and determine, without prejudice to any liability for any prior breach of this Agreement (including, without limitation, breach of any of the representations, warranties and undertakings contained herein); and

- (b) in the event of such termination, a terminating Joint Sponsor, for itself in its capacity as sponsor only, shall be entitled to require (and shall require) the other parties to remove or procure the removal of its name and all references to it from any application made to the UK Listing Authority and/or the London Stock Exchange, in connection with Admission, and if both of the Joint Sponsors (each in their capacity as sponsor) exercise their right to terminate, such application shall be withdrawn.

2.4 If any condition set out in Clause 2.1 is not satisfied (or waived by the Joint Bookrunners, acting jointly, in their absolute discretion, in accordance with Clause 2.2), or becomes incapable of being satisfied, by the required time and date therefor then (following consultation with the Company to the extent practicable):

- (a) each of the Joint Bookrunners shall be entitled to terminate this Agreement in its entirety and, in the event of such termination, the obligations of all of the parties (save for the obligations and agreements of the Company (where applicable) under Clauses 10.5, 11 (other than 11.10), 12, 13, 14, 16 and 19 to 28 inclusive and each other provision necessary for a party to enforce those Clauses) under this Agreement shall cease and determine, without prejudice to any liability for any prior breach of this Agreement (including, without limitation, breach of any of the Warranties contained herein);
- (b) the Company shall announce, in terms agreed with the Joint Bookrunners and as soon as practicable following such agreement, that the Rights Issue has not become unconditional and will not take place, and that this Agreement has terminated; and
- (c) subject to Clause 2.4(b), the Company shall not (and the Company shall use all reasonable endeavours to procure that no member of the Group will) for a period of 90 days following such time and date circulate, distribute, publish, issue or make (nor authorise any other person to circulate, distribute, publish, issue or make) any press or other public announcement or any advertisement, statement or communication which names or references the circumstances of termination or the Banks in any manner whatsoever, without having received the prior written consent of the Joint Bookrunners to the release of the press or other public announcement, advertisement, statement or communication (such consent not to be unreasonably withheld or delayed and it being acknowledged by the Banks that this Clause 2.4(c) will not prevent the Company from issuing or making any announcement in order to comply with law or regulation, provided that the Company shall have consulted with the Joint Bookrunners in relation thereto, to the extent reasonably practicable, and taken into account their reasonable requirements),

provided that, for the avoidance of doubt, the obligations of the Banks under this Agreement shall not remain subject to any of the conditions set out in this Clause 2 nor be capable of termination at any time after Admission.

2.5 The Company shall use all reasonable endeavours to procure that each of the conditions referred to in Clause 2.1 is satisfied within the relevant time.

3. APPLICATION FOR LISTING, ADMISSION TO TRADING AND TO CREST

3.1 The Company undertakes to apply to:

- (a) the UK Listing Authority for admission of the New Shares to the Official List;
- (b) the London Stock Exchange for admission to trading of the New Shares (nil paid and fully paid) on the London Stock Exchange's main market for listed securities; and
- (c) Euroclear for admission of each of the Nil Paid Rights and Fully Paid Rights as a Participating Security in CREST.

The Company shall use all reasonable endeavours to obtain permission: (a) for the admission of the New Shares to the Official List; (b) for admission to trading of the New Shares on the London Stock Exchange's main market for listed securities (subject only to the allotment of the New Shares); and (c) for admission of each of the Nil Paid Rights and Fully Paid Rights as a Participating Security in CREST (subject only to Admission) as soon as practicable and, in any event, prior to the Publication Date.

3.2 The Company undertakes to apply for formal approval of the Prospectus for the purposes of, and in accordance with, the Listing Rules and the Prospectus Rules and shall use all reasonable endeavours to obtain such approval as soon as practicable and in any event before despatching the Prospectus.

3.3 The Company shall supply all information, give all undertakings, execute all documents, pay all fees and do or procure to be done all things in each case as may be necessary or required: (a) by the UK Listing Authority and/or the London Stock Exchange for the purposes of obtaining formal approval of the Prospectus and obtaining Admission; or (b) to comply with the Listing Rules, the Prospectus Rules the Admission and Disclosure Standards, the FSMA and the Companies Act; or (c) by Euroclear for the purposes of obtaining permission for the admission of the Nil Paid Rights and the Fully Paid Rights as a Participating Security in CREST.

3.4 The Company shall notify the Joint Bookrunners immediately of any matter referred to in section 87G(1) of the FSMA which arises between the time that the Prospectus is formally approved by the UK Listing Authority and 11.00 a.m. on the Acceptance Date. The Company shall deal with every such matter in accordance with section 87G of the FSMA, the Listing Rules and the Prospectus Rules and the Company shall not publish or cause to be published any Supplementary Prospectus: (i) without having previously consulted with the Joint Bookrunners and taken into account their reasonable requirements; and (ii) which names or references the Banks in any manner whatsoever without the prior written consent of the Joint Bookrunners.

3.5 The Company shall procure (to the extent that it lies in its power to do so) to be communicated or delivered to the Joint Bookrunners all such information and documents (signed by the appropriate person where so required) as the Joint Bookrunners may reasonably require to enable them to discharge their obligations hereunder and pursuant to or

in connection with obtaining Admission, the Rights Issue or as may be required to comply with the requirements of the FSMA, the FSA or the London Stock Exchange.

3.6 Each Joint Sponsor shall use its reasonable endeavours to provide to the Company such assistance as the Company shall reasonably request in connection with the procedural steps required for the performance of the obligations of the Company set out in Clauses 2.1(c) and 2.1(g).

3.7 If, as a result of its obligations pursuant to this Agreement, any Underwriter *prima facie* becomes subject to an obligation to make a mandatory offer for the Company under the City Code, the Company agrees to support an application to the Panel for a waiver thereof (whether pursuant to note 7 to Rule 9.1 of the City Code or otherwise).

4. APPROVAL, RELEASE AND DELIVERY OF DOCUMENTS

4.1 The Company confirms to the Banks that a meeting or meetings of the Board or a duly authorised committee of the Board has been held which has:

- (a) authorised the Company to enter into and perform its obligations under this Agreement, the Option Agreement, the Subscription and Transfer Agreement and the Receiving Agent Agreement;
- (b) approved the form and release of the Press Announcement and the Preliminary Results Announcement;
- (c) approved the form of the Prospectus, the Provisional Allotment Letters, the Annual Report, the Presentation Materials, and taken responsibility for and authorised and approved the form and publication of the Prospectus, the Provisional Allotment Letters, the Annual Report, the Form 20-F and each of the other Relevant Documents, as appropriate;
- (d) approved the making of the Rights Issue;
- (e) approved the making of the applications for Admission;
- (f) approved the making of an application to Euroclear for admission of each of the Nil Paid Rights and the Fully Paid Rights as a Participating Security in CREST; and
- (g) authorised all necessary steps to be taken by the Company in connection with each of the above matters.

4.2 Before the Press Announcement is released, the Company shall deliver, or procure the delivery of, the documents referred to in Part A of Schedule 2 to the Banks' Counsel (on behalf of each of the Banks).

4.3 The Company shall procure delivery of the Press Announcement and the Preliminary Results Announcement to a Regulatory Information Service for release not later than 7.00 a.m. on the date of this Agreement (or such later time and/or date as the Company and the Joint Bookrunners may agree) and authorises the Joint Bookrunners to deliver the Press Announcement and/or the Preliminary Results Announcement to any potential

sub-underwriters of the New Shares. The Company shall procure delivery of the Annual Report to the FSA's document viewing facility upon the Prospectus having been approved by the UK Listing Authority and following such delivery shall, no later than close of business on the Publication Date, notify a Regulatory Information Service of such delivery.

4.4 Before publishing and despatching the Prospectus, the Company shall deliver, or procure the delivery of, the documents referred to in Part B of Schedule 2 to the Banks' Counsel (on behalf of each of the Banks).

4.5 Subject only to the UK Listing Authority having formally approved the Prospectus for the purpose of the Listing Rules and the Prospectus Rules, the Company shall:

- (a) make the Prospectus available in accordance with paragraph 3.2 of the Prospectus Rules and make available to the Banks such number of copies of the Prospectus as they may reasonably require; and
- (b) despatch the Prospectus to such Ordinary Shareholders who have requested hard copies of the Prospectus other than, save as may be agreed with the Joint Bookrunners, the Excluded Shareholders or their agents or intermediaries (except where the Company and the Joint Bookrunners are satisfied that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction);
- (c) publish the Prospectus; and
- (d) procure the passporting of the Prospectus to Cyprus, France, Germany, Greece, the Republic of Ireland, Malta, the Netherlands and Spain.

in each case, on the Publication Date.

4.6 The Company shall procure that:

- (a) the Provisional Allotment Letters are despatched to Qualifying Non-CREST Holders other than: (i) the Untraceable Shareholders; and (ii) Excluded Shareholders or their agents or intermediaries, except where the Company and the Joint Bookrunners are satisfied that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction, by the last post on the Publication Date (or such later date as may be agreed with the Joint Bookrunners in writing);
- (b) the Registrar instructs Euroclear to credit the stock accounts in CREST of Qualifying CREST Holders other than Qualifying CREST Holders with a registered address in one of the Excluded Territories or their agents or intermediaries, except where the Company and the Joint Bookrunners are satisfied that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction, with their entitlements to Nil Paid Rights so that they are credited at 8.00 a.m. on the first Dealing Day after the Publication Date (or such later date as may be agreed with the Joint Bookrunners in writing);
- (c) no copies of the Prospectus or the Provisional Allotment Letters shall be posted to Excluded Shareholders nor shall the stock accounts in CREST of Qualifying CREST

Holders with a registered address in one of the Excluded Territories be credited with Nil Paid Rights unless they have either: (i) supplied the Company with an address in the United Kingdom for the giving of notices to them; or (ii) otherwise established to the satisfaction of the Company and the Joint Bookrunners that: (a) in the case of Ordinary Shareholders in the United States, they are Qualifying US Shareholders; or (b) in the case of other Excluded Shareholders, they make take up their entitlements to the New Shares in accordance with an applicable exemption from local securities laws;

- (d) the Prospectus and the Provisional Allotment Letter shall specify to the reasonable satisfaction of the Joint Bookrunners such procedures to ensure that the Nil Paid Rights and the Fully Paid Rights are not taken up by or for the account or benefit of any person resident in the United States; provided, however, that such procedures may permit such persons who are Qualifying US Shareholders to take up their rights upon delivery of an Investor Letter to the Company and the Joint Bookrunners; and
- (e) the Provisional Allotment Letters shall specify to the reasonable satisfaction of the Joint Bookrunners procedures to ensure that the Nil Paid Rights and Fully Paid Rights are not taken up by or for the account or benefit of any person resident in the United States; provided however that such procedures may permit Qualifying US Shareholders to take up their rights pursuant to an Investor Letter.

For the avoidance of doubt, the fact of the Prospectus and the Provisional Allotment Letter having been initialled for the purpose of identification by Company's Counsel and Banks' Counsel, or having otherwise been evidenced as being in the agreed form by communications between the Banks' Counsel and the Company's Counsel, will constitute evidence of the satisfaction of the Joint Bookrunners as to the matters referred to in (d) and (e) above.

4.7 No later than the date of this Agreement, the Company shall give the Settlement Bank an undated letter from the Company to Euroclear confirming that each condition to enable each of the Nil Paid Rights and the Fully Paid Rights to be admitted as a Participating Security in CREST has been satisfied. Immediately after Admission, the Settlement Bank shall date the letter and deliver it to Euroclear.

4.8 The Company undertakes to procure that as soon as practicable on the Publication Date the relevant announcements referred to in paragraphs 9.5.5R and 9.6.4R of the Listing Rules shall be lodged with a Regulatory Information Service as required by such paragraphs.

4.9 Prior to Admission, the Company shall deliver, or procure the delivery of, the documents referred to in Part C of Schedule 2 to Banks' Counsel (on behalf of each of the Banks).

4.10 Before despatching and publishing any Supplementary Prospectus, the Company shall deliver, or procure the delivery of, the documents referred to in Part D of Schedule 2 to the Bank's Counsel (on behalf of each of the Banks).

4.11 On or prior to the Time of Procurement, the Company shall deliver, or procure the delivery of, the documents referred to in Part E of Schedule 2 to the Bank's Counsel (on behalf of each of the Banks).

4.12 On or prior to 7.00 a.m. on the Settlement Date, the Company shall deliver, or procure the delivery of, the documents referred to in Part F of Schedule 2 to the Bank's Counsel (on behalf of each of the Banks).

5. APPOINTMENTS

5.1 The Company confirms its appointment of [•] and [•] as joint sponsors in connection with the proposed Admission of the New Shares.

5.2 The Company confirms that the appointments in Clause 5.1 confers on each of the Joint Sponsors all powers, authorities and discretions which are necessary for, or incidental to, the performance of its function as Joint Sponsor (including the power to appoint sub agents or to delegate any of its powers, authorities or discretions to such of its affiliates as the Joint Sponsor deems appropriate and/or to such non-affiliates as the Joint Sponsor deems appropriate and to whom the Company consents (such consent not to be unreasonably withheld or delayed). The Company will ratify and confirm all actions which either of the Joint Sponsors and its sub-agents and delegates lawfully and properly take on behalf of the Company pursuant to this appointment.

5.3 The Company acknowledges and agrees that none of the Banks are responsible for and has not authorised and will not authorise the contents of the Prospectus, any Supplementary Prospectus or any other Relevant Document and that none of the Banks has been requested to verify, nor are, nor shall be, responsible for verifying, the accuracy, completeness or fairness of any information in any of the Relevant Documents (or any supplement or amendment to any of the foregoing).

5.4 The Company consents to each of the Joint Sponsors disclosing to the FSA, at any time before or after Admission, any information which the relevant Joint Sponsor in its absolute discretion deems to relate to the Company and to address non-compliance with the Listing Rules and/or the Disclosure Rules and Transparency Rules in connection with the Rights Issue provided that where such Joint Sponsor believes it to be permitted by applicable law or regulation and reasonably practicable such Joint Sponsor notifies the Company prior to making, and consults as to the timing and manner of, such disclosure.

5.5 The Company irrevocably authorises each of the Banks to give to the Registrar and/or Euroclear any instructions consistent with this Agreement and/or the Relevant Documents that it reasonably considers to be necessary for, or incidental to, the performance of its functions as joint sponsor, joint bookrunner, joint global co-ordinator or underwriter (as the case may be) in connection with the Rights Issue, Admission and the application for New Shares to be transferred through and held in dematerialised form through CREST.

5.6 The Company acknowledges that the Joint Sponsors' responsibilities as sponsors pursuant to the Listing Rules are owed solely to the FSA and that agreeing to act as sponsor does not of itself extend any duties or obligations to any one else, including the Company.

5.7 The Company undertakes to each Joint Bookrunners that it will at any time from the date of this Agreement provide to the Joint Bookrunners all information and assistance and do or procure anything to be done that may be reasonably requested by the Joint Bookrunners or that may be required by the Joint Bookrunners to satisfy their obligations under, or in

connection with the Rights Issue, the Listing Rules, the Prospectus Rules and the Disclosure Rules and Transparency Rules including (without limitation) to satisfy its obligations to, and comply with the requirements of, the FSA and the London Stock Exchange and all applicable laws and regulations in connection with the Rights Issue and the Company's applications for Admission and to provide to the FSA any information or explanation that the FSA may reasonably require for the purpose of verifying whether the Listing Rules, the Prospectus Rules and/or the Disclosure Rules and Transparency Rules are being, and have been complied with by the Joint Bookrunners and/or by the Company.

5.8 The Company confirms the appointment of each of the Joint Bookrunners as a joint bookrunner to the Rights Issue and each Joint Bookrunner confirms its acceptance of this appointment upon and subject to the terms and conditions set out in this Agreement.

5.9 The Company confirms that the appointments in Clause 5.8 confer on each of the Joint Bookrunners all powers, authorities and discretions which are necessary for, or incidental to, the performance of its functions as joint bookrunner (including the power to appoint sub agents or to delegate any of its powers, authorities or discretions to such of its affiliates as the Joint Bookrunner deems appropriate and/or to such non-affiliates as the Joint Bookrunner deems appropriate and to whom the Company consents (such consent not to be unreasonably withheld or delayed). The Company will ratify and confirm all actions which a Joint Bookrunner and its sub-agents and delegates lawfully and properly take pursuant to this appointment.

5.10 The Company confirms the appointment of each of the Joint Global Co-ordinators as a global co-ordinator to the Rights Issue and each Joint Global Co-ordinator confirms its acceptance of this appointment upon and subject to the terms and conditions set out in this Agreement.

5.11 The Company confirms that the appointments in Clause 5.10 confer on each of the Joint Global Co-ordinators all powers, authorities and discretions which are necessary for, or incidental to, the performance of its functions as joint global co-ordinator (including the power to appoint sub agents or to delegate any of its powers, authorities or discretions to such of its affiliates as the Joint Global Co-ordinator deems appropriate and/or to such non-affiliates as the Joint Global Co-ordinator deems appropriate and to whom the Company consents (such consent not to be unreasonably withheld or delayed). The Company will ratify and confirm all actions which a Joint Global Co-ordinator and its sub-agents and delegates lawfully and properly take pursuant to this appointment.

5.12 The Company will provide the Receiving Agent with all necessary authorisations and information to enable the Receiving Agent to perform its duties in connection with the Rights Issue.

6. ALLOTMENT

6.1 Subject to the UK Listing Authority having granted permission for the New Shares to be admitted to the Official List and the London Stock Exchange having granted permission for the New Shares (nil paid and fully paid) to be admitted to trading on its main market for listed securities the Company shall provisionally allot the New Shares (nil paid) on the Publication Date to all Qualifying Shareholders at the Issue Price pursuant to a resolution of

the Board. The allotment of the New Shares shall be made upon the terms and subject to the conditions set out in the Prospectus and to be set out in the Provisional Allotment Letter (to the extent that New Shares are to be allotted in certificated form) and on the basis referred to in Clause 6.3. New Shares representing the aggregate of fractions of New Shares shall be provisionally allotted as directed by the Joint Bookrunners and dealt with in accordance with Clause 7.

6.2 The Company may only exercise its right in paragraph 2.2.8 of Part III of the Prospectus in relation to Qualifying CREST Holders to allot and issue the Nil Paid Rights, the Fully Paid Rights or the New Shares in certificated form if it has first obtained the Joint Bookrunners' written consent (such consent not to be unreasonably withheld or delayed).

6.3 By not later than 7.00 a.m. on the first Dealing Day after the Acceptance Date the Company will confirm the provisional allotments of the New Shares which have been taken up pursuant to a resolution of the Board and cancel the provisional allotments of the New Shares which have not been taken up. By not later than the third Dealing Day after the Acceptance Date, the Company will allot a number of New Shares equal to the number of New Shares for which provisional allotments were not taken up in favour of the persons who, pursuant to Clauses 8.4 and/or 9.1, are to subscribe for such New Shares, pursuant to a resolution of the Board. The consideration received by the Company for the issue and allotment of the New Shares to Qualifying Shareholders and subscribers procured by the Joint Bookrunners shall be the transfer of the Newco Ordinary Shares and Newco Preference Shares by the Newco Subscriber to the Company in accordance with the Subscription and Transfer Agreement.

6.4 In the event of any Section 87G Matter (as defined in Clause 6.5) arising after publication of the Prospectus and prior to 11.00 a.m. on the Acceptance Date:

- (a) where a Supplementary Prospectus is (or is to be) issued two or fewer Business Days prior to the Acceptance Date, the Joint Bookrunners may give notice to the Company of an extension to the timetable for the Rights Issue, such that the timetable for the Acceptance Date shall be extended to the date which is three Business Days after the date of issue of the relevant Supplementary Prospectus (or such later date as agreed between the Company and the Joint Bookrunners) in which case Clauses 6.4(b) and (c) below shall apply;
- (b) the periods within which the Banks shall be required to perform their obligations under this Agreement which are due for performance after the Acceptance Date shall be extended *mutatis mutandis* and the Company shall make a public announcement, at the request of the Joint Bookrunners and at a time and in a form satisfactory to them (acting reasonably), of the extension of the timetable for the Rights Issue; and
- (c) the Company shall execute such documents and do such acts and things as are reasonably necessary for the purpose of giving full effect to the extension of the timetable for the Rights Issue as contemplated by Clause 6.4(a) above.

6.5 For the purpose of Clause 6.4, a **Section 87G Matter** means any matter referred to in Section 87G of the FSMA which arises between the time that the Prospectus is formally approved by the FSA and 11.00 a.m. on the Acceptance Date.

6.6 The New Shares, when issued and fully paid, will rank *pari passu* in all respects with the existing issued Ordinary Shares, save for the right to receive the final dividend of 24.84 pence per Ordinary Share proposed to be paid in respect of the financial year ended 31 March 2010, and will be free from all liens, charges, encumbrances and equitable interests.

7. PLACING OF FRACTIONAL ENTITLEMENTS

7.1 Immediately following the close of business on the Publication Date, the Company shall inform each of the Joint Bookrunners of the number of New Shares representing the aggregate of fractional entitlements. The Joint Bookrunners shall (acting as agents for the Company) use their reasonable endeavours to procure that all or as many as is reasonably practicable of those Nil Paid Rights in respect of such New Shares are placed through the London Stock Exchange at a premium in excess of the expenses of placing (including, without limitation, any applicable brokerage and commissions and any irrecoverable VAT) as soon as practicable prior to 11.00 a.m. on the Acceptance Date.

7.2 The Settlement Bank shall as soon as practicable inform the Company and the Receiving Agent of the number of New Shares to be issued to placees procured pursuant to Clause 7.1 (and specifying the number requested to be issued in certificated form and the number requested to be issued in uncertificated form). As soon as reasonably practicable after the Settlement Bank shall have so notified the Company:

- (a) the Company shall deliver to the Settlement Bank, or as it shall direct, nil paid split Provisional Allotment Letters in respect of those Nil Paid Rights so issued which placees have requested to receive in certificated form, in the names and denominations required by them; and
- (b) the Company shall procure that the Receiving Agent instructs Euroclear to credit the stock accounts in CREST (notified by the Settlement Bank) with the number of Nil Paid Rights that they require in respect of those Nil Paid Rights so placed which placees have requested to receive in uncertificated form,

and after the Company has complied with its obligations in Clauses 7.2(a) and 7.2(b), the Settlement Bank shall forthwith account to the Receiving Agent for the net proceeds of the placing of those Nil Paid Rights that have been placed and the Company shall ensure that the net proceeds of sale are dealt with in accordance with Clause 7.3.

7.3 It shall be a term of each placing referred to in Clause 7.1 that the proceeds of that placing shall be paid to the Transaction Bank Account.

7.4 The Joint Bookrunners shall have absolute discretion to procure such placees of Nil Paid Rights as they think fit and to determine the number of Nil Paid Rights with which each such placees is issued.

7.5 If the Nil Paid Rights referred to in Clause 7.1 have not been placed by the time set out in Clause 7.1, they shall be dealt with in accordance with Clause 8 and Clause 9 (to the extent relevant) as if they were New Shares not taken up. Any net proceeds of placing in respect of such Nil Paid Rights receivable by the Joint Bookrunners pursuant to Clause 8.4 or

payable by the Joint Bookrunners pursuant to Clause 9.2 will be paid to the Transaction Bank Account.

8. UNDERWRITTEN SHARES NOT TAKEN UP

8.1 If, by 11.00 a.m. on the Acceptance Date, all the Underwritten Shares shall have been taken up, or are subsequently deemed to have been taken up pursuant to Schedule 1, the Underwriters' obligations under Clauses 8 and 9 shall cease forthwith.

8.2 Whether or not any Underwritten Shares shall have been taken up shall be determined in accordance with the provisions of Schedule 1 and the parties agree to give effect to the provisions of Schedule 1.

8.3 By not later than 7.00 a.m. on the Business Day following the Acceptance Date, the Company will (or will procure that the Receiving Agent will) notify the Joint Bookrunners in writing of the number of Underwritten Shares which have not been taken up.

8.4 The Joint Bookrunners will severally endeavour to procure subscriber(s) for New Shares equivalent to the number of Underwritten Shares which are not taken up (or, at their discretion, for so many of the New Shares in respect of which subscribers can be found) upon the terms (in so far as the same are applicable) of the Prospectus and the Provisional Allotment Letter as soon as reasonably practicable and in any event by not later than 4.30 p.m. on the second Dealing Day after the Acceptance Date if an amount which is not less than the total of the Issue Price multiplied by the number of such New Shares for which subscriber(s) are able to be so procured and the expenses of procurement (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable) can be obtained. Any subscribers so procured by the Joint Bookrunners shall subscribe for the New Shares at the Issue Price and any amount in excess of the Issue Price shall be paid by the subscriber and received by the Settlement Bank on the basis that the same shall be applied in meeting the Joint Bookrunners' expenses of procuring such subscription (including any applicable brokerage and commissions and amounts in respect of VAT which are not recoverable) and that any balance remaining shall be received as agent for and payable to non-accepting Qualifying Shareholders in accordance with Clause 8.7. The Joint Bookrunners shall not be obliged to endeavour to procure such subscriber(s) and may, at any time on or after the Acceptance Date, cease or decline to endeavour to procure any such subscriber(s) if, in their opinion, it is unlikely that any such subscriber(s) can be so procured by such time and on the terms referred to above, or if the procurement of subscribers would give rise to a breach of law, whereupon the Joint Bookrunners shall not be under any obligation to endeavour to procure any such subscriber(s) pursuant to this Clause 8.4.

8.5 Each Joint Bookrunner severally agrees to comply with the terms of the Selling Restrictions in seeking to procure subscribers for the purpose of Clause 8.4. Subject to compliance with the Selling Restrictions, each Joint Bookrunner shall have absolute discretion to use its reasonable endeavours to procure such subscribers in the manner and otherwise as it thinks fit. The Joint Bookrunners shall, by agreement between themselves, determine the number of New Shares which each such subscriber subscribes for.

8.6 The Settlement Bank shall:

- (a) by not later than the third Dealing Day after the Acceptance Date inform the Company of the number of New Shares to be issued in each of certificated form and uncertificated form to subscribers procured pursuant to Clause 8.4; and
- (b) in respect of the amounts received by the Settlement Bank in accordance with Clause 8.4 (and after deduction of the expenses of procuring subscribers, including amounts in respect of VAT which are not recoverable), by not later than the fifth Dealing Day after the Acceptance Date (such date to be the Settlement Date) procure payment to:
 - (i) the Transaction Bank Account of the Issue Price (in accordance with the terms of the Receiving Agent's Agreement) in respect of the New Shares for which subscribers are procured pursuant to Clause 8.4; and
 - (ii) the Receiving Agent (in accordance with the terms of the Receiving Agent's Agreement) on behalf of the persons, and in the proportions, referred to in Clause 8.7 of the balance,

against the issue of (a) New Shares in certificated form in such names and denominations as specified by the Settlement Bank pursuant to Clause 8.6(a) in respect of the New Shares to be issued in certificated form; and (b) New Shares in uncertificated form by Euroclear crediting the Joint Bookrunners' (or their nominees') stock accounts in CREST (in each case as nominee for the subscribers for the New Shares) (notified by the Settlement Bank) with the number of New Shares specified by the Settlement Bank pursuant to Clause 8.6(a) in respect of the New Shares to be issued in uncertificated form.

8.7 The Company shall procure that the Receiving Agent makes payment of the amount received by the Receiving Agent pursuant to Clause 8.6(b)(ii) to the non-accepting Qualifying Shareholders to whom New Shares were provisionally allotted *pro rata* to their lapsed provisional entitlements as soon as practicable after receipt (save that individual amounts of less than £5.00 will not be so paid but will be paid to the Transaction Bank Account). If the Nil Paid Rights were in certificated form when they lapsed, such payment shall be made to the person whose name and address appears on page one of the Provisional Allotment Letter relating to those Nil Paid Rights. If the Nil Paid Rights were in uncertificated form when they lapsed, such payment shall be made to the person registered as the holder of those Nil Paid Rights when they were disabled in CREST.

8.8 No Joint Bookrunner shall be responsible, whether to the Company, any Qualifying Shareholder, any other shareholder or otherwise, for any loss or damage to any person arising from any such transactions as are mentioned in this Clause 8 or for any insufficiency or alleged insufficiency of any dealing price at which subscribers for Nil Paid Rights and New Shares may be procured by it or for the timing of any such subscription or for any determination by that Joint Bookrunner to cease or decline to endeavour to procure such subscribers save to the extent that such loss or damage is finally judicially determined to have resulted from the fraud or wilful default of such Joint Bookrunner.

9. UNDERWRITING

9.1 If and to the extent that the Joint Bookrunners are unable to procure subscribers in accordance with Clause 8.4, the Underwriters, each as underwriter, shall procure subscribers or themselves subscribe for, by direct issue at the Issue Price, the Underwritten Shares not otherwise taken up and for which subscribers are not procured under Clause 8.4. The obligations of the Underwriters in this Clause 9.1 are several and not joint or joint and several and each Underwriter shall be responsible only for its proportionate share of the Underwritten Shares not otherwise taken up as set out in Schedule 6 (the ***Due Proportions***) and for the avoidance of doubt no Underwriter shall have any liability or obligation in respect of any default by another.

9.2 Each Underwriter shall, not later than the close of business on the fifth Dealing Day after the Acceptance Date, pay, or procure payment of, the Issue Price for the New Shares subscribed for by it under Clause 9.1 (or for which it, or anyone on its behalf, has procured subscribers) to the Transaction Bank Account against credit of fully paid securities representing those New Shares to the uncertificated securities account of such Underwriter as notified by it to the Company and the Receiving Agent. Upon compliance with this Clause 9.2 by the relevant Underwriter, that Underwriter will be under no further liability to the Company, in respect of its obligations under Clause 9.1.

9.3 Any subscription for New Shares under Clause 8.4 or Clause 9.1 will be made on the terms and conditions and on the basis of the information contained in the Prospectus and the Provisional Allotment Letters (except as regards the time and method for acceptance and payment) so far as they are applicable, subject to the memorandum and articles of association of the Company and, in the case of any subscription under Clause 9.1, on the terms of this Agreement. The consideration received by the Company for the issue and allotment of the New Shares shall be the transfer of certain Newco Ordinary Shares and Newco Preference Shares by the Newco Subscriber to the Company in accordance with the Subscription and Transfer Deed.

9.4 The Company acknowledges and agrees that the Joint Bookrunners and the Underwriters may exercise any and all rights against subscribers for the New Shares procured by the Joint Bookrunners and/or the Underwriters pursuant to Clauses 8.4 and 9.1 in respect of failure to pay for any New Shares.

9.5 The Joint Bookrunners may, at their absolute discretion, arrange for the Rights Issue to be sub-underwritten either through entities pertaining to their respective groups or third parties outside their respective groups.

9.6 Each Joint Bookrunner undertakes to the Company to:

- (a) consult with the Company on the identity of persons with whom it proposes to enter into sub-underwriting letters and to offer sub-underwriting participation to a list of potential sub-underwriters (such list having been agreed with the Company prior to the date hereof, which list shall, for the avoidance of doubt, constitute a non-exclusive list of potential sub-underwriters). However, it is agreed that, subject to having offered sub-underwriting participations to the potential sub-underwriters on the aforementioned list, the final decision as to the identity of any sub-underwriters shall be for the Joint Bookrunners; and

- (b) procure that the sub-underwriting letters into which it enters contain undertakings by the relevant sub-underwriter in a substantially similar form to that in Clauses 9.7 and 9.8 (save that there shall not be scope for a sub-underwriter to seek consent of the Company) provided such letters may in addition include exceptions for:
 - (i) short selling activity in the ordinary course of business, either by a fund managed by the relevant sub-underwriter or the relevant sub-underwriter's fund manager which has not entered into a sub-underwriting commitment, or on a different trading book from the sub-underwriter's sub-underwriting commitment, provided that the resultant short position is not closed out directly or indirectly using shares subscribed for by the sub-underwriter by way of fulfilment of the sub-underwriting commitment;
 - (ii) short selling activity to delta hedge existing positions in convertible bonds or derivatives related to the Ordinary Shares; and
 - (iii) selling Ordinary Shares already held by the sub-underwriter or its affiliates at the date of the sub-underwriting commitment.

9.7 Without prejudice to Clause 9.5, each Underwriter severally undertakes that from the date of this Agreement up until the earlier of the Time of Procurement and: (i) the third Business Day following the Acceptance Date; (ii) the date following the Acceptance Date on which the Joint Bookrunners determine that it is reasonably likely that it will not be possible to place a significant portion of any New Shares not taken up; and (iii) the date following the Acceptance Date on which the Joint Bookrunners determine that the take up of New Shares pursuant to the Rights Issue has been such that it will not be necessary to undertake a rump placing, it will not, without the consent of the Company, enter into any transaction involving the Ordinary Shares or securities, derivatives or other instruments (other than any securities or derivatives that reference any existing and established sector or market index, provided that the weighting of the Ordinary Shares of any such sector or market index does not exceed 15%) relating to the Ordinary Shares, which is intended (directly or indirectly) to have the economic effect of hedging or otherwise mitigating the economic risk associated with the underwriting commitments under this Agreement.

9.8 The Company acknowledges that the restriction in Clause 9.7 shall not apply to:

- (a) transactions to facilitate client orders; or
- (b) any hedging activities in relation to the Nil Paid Rights and/or the Ordinary Shares undertaken with a view to achieving a substantially market-neutral position in respect of such Underwriter and/or its affiliates during the term of the undertaking contained in this Clause 9.8 (but allowing for daily trading fluctuations and it also be understood that the determination of what is a market-neutral position shall not take into account such Underwriter's underwriting commitment); or
- (c) proprietary positions in the Company's securities or in derivatives related to the Company's securities entered into prior to the date of this Agreement; or
- (d) transactions constituting ordinary course market making activity.

For the avoidance of doubt, none of the Underwriters shall be restricted in carrying out transactions for the account of their customers, in customer facilitation transactions, provided that those transactions are carried out in the ordinary course of their businesses.

10. COMMISSIONS AND EXPENSES

10.1 In consideration of the Banks agreeing to provide their services under this Agreement, the Company shall pay:

- (a) to the Underwriters, a commission of 2 per cent. of an amount equal to the Issue Price multiplied by the aggregate number of Underwritten Shares, to be divided amongst the Underwriters in accordance with their Due Proportions; and
- (b) to each of the Underwriters, at the discretion of the Company, an additional commission of up to 0.75 per cent. of an amount equal to the Issue Price multiplied by the aggregate number of Underwritten Shares multiplied by the Underwriter's Due Proportion.

10.2 The commissions and fees set out in Clause 10.1 shall be payable in full upon the Underwriters' obligations under this Agreement becoming unconditional and shall be paid by the Company together with an additional amount in respect of any applicable VAT (in accordance with Clause 10.6).

10.3 The Company shall pay the commissions and fees payable pursuant to this Agreement by not later than the fifth Dealing Day following the Acceptance Date or, if earlier, (in the case only of any costs and expenses incurred by the Banks in connection with the Rights Issue, which are payable under Clause 10.5) on the first Dealing Day after the date on which the Banks' obligations under this Agreement cease in accordance with Clauses 2.3, 2.4, 8.1 or 15. Without prejudice to their right to receive payment directly from the Company pursuant to this Clause 10.3, the Joint Bookrunners shall be entitled and are authorised to deduct some or all of such fees and any other fee and any expense which the Company has agreed to pay the Banks from (i) the Total Preference Subscription Price as set out in the Subscription and Transfer Agreement, as relevant, for the Newco Preference shares; and (ii) any amount otherwise payable by the Banks to the Company under this Agreement.

10.4 Out of the commissions referred to in this Clause 10, the Underwriters shall pay or procure the payment of any sub-underwriting commissions payable to such persons (if any) as the Joint Bookrunners may procure to subscribe for Underwritten Shares.

10.5 In addition to the commissions and fees referred to in Clause 10.1, the Company shall pay (whether or not the Banks' obligations under this Agreement become unconditional or this Agreement is terminated) all costs and expenses incurred in connection with the Rights Issue, the allotment and issue of the New Shares and this Agreement together with an additional amount in respect of any applicable VAT (to be payable in accordance with Clause 10.6) (other than, for the avoidance of doubt, Tax to the extent that it arises or is increased as a consequence of the receipt of remuneration payable under this Agreement including commissions payable pursuant to this Clause 10). This shall include (but shall not be limited to) the UK Listing Authority and the London Stock Exchange listing and trading fees, other regulatory fees and expenses, printing and advertising costs, postage, the Receiving Agent's charges, its own and the Banks' properly incurred legal and other properly incurred

out-of-pocket expenses, all accountancy and other professional fees, public relations fees and expenses and all Transfer Taxes pursuant to or in connection with the allotment, issue and/or delivery of the New Shares to or the subscription for the New Shares by the Qualifying Shareholders, the Underwriters or persons procured by the Joint Bookrunners or the Underwriters pursuant to the Rights Issue or the execution, delivery, performance or enforcement of this Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement, and the Company shall indemnify and hold harmless each Indemnified Person from and against any such Transfer Taxes. The Company shall not be liable for any Transfer Taxes (i) arising as a result of any subsequent sales of, transfers of or agreements to sell or transfer the New Shares by any person following the subscription for New Shares by such person under the Rights Issue, or (ii) which are payable under sections 67, 70, 93 or 96 of the Finance Act 1986 (save to the extent such Transfer Taxes arise in respect of Qualifying Shareholders taking up New Shares in accordance with their Provisional Allotment Letters) to the extent that such Transfer Taxes exceed the Transfer Taxes which would have arisen if the existence and effect of those sections were ignored, or (iii) to the extent that such Transfer Taxes are finally judicially determined to have resulted from the fraud, gross negligence or wilful default of such Indemnified Person or (iv) in relation to the allotment, issue, delivery or transfer of the Newco Ordinary Shares or the Newco Preference Shares (which Transfer Taxes (if any), shall, for the avoidance of doubt, be dealt with under the terms of the Option Agreement or Subscription and Transfer Agreement, as applicable). The Company shall as soon as reasonably practicable on request pay or reimburse the Banks the amount of any expenses which are to be borne by the Company and which the Banks have paid.

10.6 VAT

- (a) Amounts payable by the Company to a Bank or an Indemnified Person for any supply (for VAT purposes) made by a Bank or Indemnified Person under or pursuant to this Agreement are expressed exclusive of amounts payable in respect of VAT.
- (b) If the performance by a Bank or an Indemnified Person (for the purposes of this Clause 10.6 only, each a **payee**) of any of its obligations under this Agreement shall represent for VAT purposes the making by a payee of any supply to the Company (for the purposes of this Clause 10.6 only, a **payer**) that is subject to VAT at a positive rate, the relevant payer shall pay in addition to such consideration (if any) payable for the supply an amount equal to any VAT properly chargeable on such supply (if any) within 14 days presentation of a valid VAT invoice in respect of such supply.
- (c) Subject to Clause 10.6(d), where a sum (a **Relevant Sum**) is payable or is to be reimbursed by a payer to a payee in respect of any cost, charge, fee or expense, and such cost, charge, fee or expense includes an amount in respect of VAT, which is borne by the relevant payee on the supply or supplies for which the cost, charge, fee or expense in question is all or any part of the consideration, the relevant payer shall pay to the relevant payee in respect of such VAT an amount equal to the amount of such VAT which the relevant payee certifies is not recoverable by it (or by the representative member of a VAT group of which it is a member) by repayment or credit (such certificate to be conclusive in the absence of manifest error) such payment to be made within 14 days of the later of (i) the date upon which payment of

VAT in respect of the Relevant Sum has been made by the relevant payee and (ii) the date on which certification in accordance with this Clause 10.6(c) is produced to the relevant payer.

- (d) If the Relevant Sum constitutes for VAT purposes the reimbursement of costs, charges, fees or expenses incurred by a payee as agent of a payer excluding where the relevant payee acts as an agent for the payer and Section 47(2A) or 47(3) of the Value Added Tax Act 1994 or an equivalent provision in another relevant jurisdiction) applies, the relevant payer shall pay to the relevant payee an amount equal to the element included in the costs, charges, fees or expenses in respect of VAT (that is to say the part of the costs, charges, fees or expenses which relates to the VAT chargeable on any supply or supplies for which such costs or expenses are all or any part of the consideration) provided that in such case relevant payee shall use its reasonable endeavours to procure that, as soon as reasonably practicable, the person making the supply or supplies in respect of which the costs, charges, fees or expenses are incurred issues a valid VAT invoice to the relevant payer that names the relevant payer as the recipient of the relevant supply or supplies.

11. REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS

11.1 The Company represents, warrants and undertakes to the Banks that each Warranty is true and accurate and not misleading at the date of this Agreement, at the Publication Date, at Admission, at the Acceptance Date, at any Time of Procurement, at the Settlement Date and on the date of publication of any Supplementary Prospectus, in each case by reference to the facts and circumstances then existing. The Company acknowledges that each of the Banks is entering into this Agreement in reliance on such representations, warranties and undertakings. Each representation, warranty and undertaking shall be construed separately and shall not be limited or restricted by reference to or inference from the terms of any other representation, warranty and undertaking or any other term of this Agreement. Warranties shall be deemed to be given under this Clause in relation to the relevant document, announcement or event on the basis that any reference in any such Warranty to something being done or something being the case in relation to such document, announcement or event which is expressed in the future tense shall be regarded, to the extent the context requires, as being expressed in the present tense.

11.2 The Company shall not be liable under Clause 11.1 in respect of any Losses suffered or incurred by any Underwriter solely as a result of subscribing for, or a decision to subscribe for, New Shares pursuant to its obligations under Clause 9 of this Agreement which arise as a result of a breach by the Company of any of the Specified Warranties when repeated after Admission (or if any such Warranty when repeated after Admission ceases to be true, accurate and not misleading) to the extent such breach arises or occurs (or such Warranty when repeated ceases to be true, accurate and not misleading) as a direct or indirect result of, or is attributable to or would not have arisen but for, an event, fact, matter or circumstance which:

- (a) arises or occurs after Admission and on or before the Acceptance Date and which is fairly disclosed in any Supplementary Prospectus published before the time when the relevant Warranties are repeated;

(b) arises or occurs after the Acceptance Date and which is fairly disclosed by the Company through a Regulatory Information Service announcement published before the time when the relevant Warranties are repeated,

provided that the Company shall not be relieved from liability under this Clause 11 to the extent such breach arises or occurs (or such Warranty when repeated ceases to be true, accurate and not misleading) as a direct or indirect result of, or is attributable to or would not have arisen but for, any breach of law or regulation or agreement, or any fraud, neglect or default, of or by the Company, any member of the Group or any of their respective officers, employees or agents.

11.3 The Company shall not knowingly cause or permit (and shall procure that no other member of the Group nor any of its or their respective directors, officers, employees or agents shall cause or (so far as they are able using their best endeavours) permit) any event to occur or omit to do anything between the date of this Agreement and the earlier of (a) the date which is 90 days after the Settlement Date; or (b) the date on which the Banks' obligations under this Agreement cease in accordance with Clauses 2.3, 2.4, 8.1 or 15 which would make any statement in Schedule 3 untrue, inaccurate or misleading if, in such case, such statement were repeated at such date by reference to the facts and circumstances then existing.

11.4 The Company shall promptly notify the Joint Bookrunners (giving reasonable details) if it comes to the knowledge of the Company or any Director that (and the Company undertakes to make reasonable enquiries to ascertain whether) (a) any statement in Schedule 3 was breached or untrue, inaccurate or misleading at the date of this Agreement; or (b) any statement in Schedule 3 which relates to a fact, matter or event after such statement was given will or is reasonably likely to prove to be untrue, inaccurate or misleading; or (c) any statement in Schedule 3 would be breached or untrue, inaccurate or misleading if repeated by reference to the facts and circumstances existing at any time during the period referred to in Clause 11.2; or (d) if the Company is in breach of any of its obligations under this Agreement.

11.5 The Company agrees that the Banks and any sub-underwriter who subscribes for New Shares shall be entitled to the same remedies and rights of action against the Company, and to the same extent, as any person who subscribes for any New Shares pursuant to the Rights Issue on the basis of the Prospectus and the Provisional Allotment Letter.

11.6 The certificates to be delivered pursuant to paragraph 28 of Part B of Schedule 2, paragraph 17 of Part C of Schedule 2, paragraph 12 of Part D of Schedule 2, paragraph 4 of Part E of Schedule 2 and paragraph 8 of Part F of Schedule 2 will have effect as a representation and warranty, as of their date, by the Company to the Banks as to the matters contained therein.

11.7 References in this Agreement to a representation, warranty or undertaking being (or not being) true and accurate or not being (or being) misleading *in any material respect* or *in all material respects* (or similar expressions) and other references to materiality in relation to a representation, warranty or undertaking shall, save where expressly provided otherwise, mean material in the context of the Group, the Rights Issue or Admission. In that connection and otherwise in this Agreement in relation to references to a matter which would or might be *material in the context of the Group, the Rights Issue or Admission* (or similar expressions) a matter shall, without limitation, be deemed to be so material if it would, in the opinion of

any Bank (acting in good faith), have been material for disclosure to potential sub-underwriters or other subscribers for New Shares had such matter existed when such sub-underwriters or other subscribers for New Shares were sought for the New Shares.

11.8 The representations, warranties and undertakings referred to in this Clause 11 shall remain in full force and effect notwithstanding completion of all matters and arrangements referred to in, or contemplated by, this Agreement.

11.9 Where any of the warranties, representations and undertakings are qualified by reference to awareness and/or knowledge and/or information and/or belief, that reference shall be deemed to include a statement to the effect that it has been given after making due and careful enquiry.

11.10 The provisions of Schedule 7 of this Agreement shall have effect as undertakings, on the part of the persons specified in the relevant paragraphs of Schedule 7, to each of the Banks.

12. EXCLUSIONS OF LIABILITY

12.1 Without prejudice to Clause 12.2, no claim shall be made by the Company or any of its subsidiary undertakings, affiliates or associates, or any of the directors, officers or employees of any of them in any jurisdiction against any Indemnified Person to recover any Loss or Claim suffered or incurred by any person and which arises, directly or indirectly, out of or is attributable to, based upon or connected with, anything done or omitted to be done by any Indemnified Person in connection with the Rights Issue, Admission or acting as sponsor to the Company, or the arrangements contemplated by the Relevant Documents, or any of them (or any amendment or supplement to any of them), or this Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement or any other agreement relating to the Rights Issue except (solely in connection with the matters referred to in Clauses 13.1 (f) and (g)) to the extent that the Loss or Claim is finally judicially determined to have resulted from the fraud, gross negligence or wilful default of the relevant Indemnified Person.

12.2 The Company agrees that no Indemnified Person is acting as a financial adviser (other than [•] strictly on the basis set out in the [•] Engagement Letter and [•] strictly on the basis set out in the [•] Engagement Letter) or as fiduciary to the Company or any other person in providing the services contemplated in this Agreement or in respect of the timing, terms, structure or price of the Rights Issue, irrespective of whether any such Indemnified Person has provided input to the Company with respect thereto. No claim shall be made by the Company or any of its subsidiary undertakings, affiliates or associates or any of the directors, officers or employees of any of them against any Indemnified Person in respect of the timing, terms or structure of the Rights Issue, including the setting of the Issue Price at a level that is too high or too low. Nothing in this Clause shall exclude or restrict any duty or liability of any Indemnified Person which it has under the FSMA or arrangements for regulating any such Indemnified Person thereunder to any extent prohibited by those arrangements. It is acknowledged by all parties that:

- (a) the Indemnified Persons may be engaged in a broad range of transactions that involve interests that differ from those of the Company or any other person; and

- (b) no Indemnified Person has advised the Company or any other person as to any general financial or strategic advice or any legal, tax, investment, accounting or regulatory matters in any jurisdiction, the Company and any other person have consulted its own legal, tax, investment, accounting or regulatory advisers to the extent they deem appropriate, and no Indemnified Person shall have any responsibility to the Company or any other person with respect thereto.

12.3 Notwithstanding any rights or claims which the Company or any of its subsidiary undertakings, affiliates or associates or any of the directors, officers or employees of any of them may have or assert against the Banks in connection with this Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement, the Rights Issue, or any of the other arrangements contemplated by the Relevant Documents, or any of them, or this Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement, no claim will be brought by the Company and the Company will procure that no claim is brought by any of its subsidiary undertakings, affiliates or associates or any of the directors, officers, partners or employees of any of them against any director or any other officer and/or partner and/or employee of any Indemnified Person in respect of any conduct, action or omission by the individual concerned in connection with this Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement or the Rights Issue, or any of the other arrangements contemplated by the Relevant Documents, or any of them, or this Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement.

13. INDEMNITIES

13.1 The Company agrees to fully and effectively indemnify and hold harmless each Indemnified Person (and whether or not any Loss or Claim is suffered or incurred or arises in respect of circumstances or events existing or occurring before, on or after the date of this Agreement and regardless of the jurisdiction in which such Loss or Claim is suffered or incurred) from and against any and all Losses or Claims, whatsoever, as incurred, if such Losses or Claims, arise, directly or indirectly, out of, or are attributable to, based upon or connected with, anything done or omitted to be done by any person (including by the relevant Indemnified Person) in connection with the Rights Issue, Admission or acting as sponsor to the Company, or the arrangements contemplated by the Relevant Documents, or any of them (or any amendment or supplement to any of them), or this Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement or any other agreement relating to the Rights Issue, including but not limited to:

- (a) any and all Losses or Claims whatsoever, as incurred, arising out of the Relevant Documents, or any of them (or any amendment or supplement to any of them) not containing or fairly presenting, or being alleged not to contain or not to fairly present, all information required to be contained therein, or any statement therein being or being alleged to be in any respect not based on reasonable grounds, in the light of the circumstances in which they were made; and/or
- (b) any and all Losses or Claims whatsoever, as incurred, arising out of any untrue or inaccurate statement of a material fact contained in the Relevant Documents, or any of them (or any amendment or supplement to any of them), or any statement of a

material fact being alleged to be untrue or inaccurate, or an omission or alleged omission to state in the Relevant Documents, or any of them (or any amendment or supplement to any of them) a material fact, necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading; and/or

- (c) any and all Losses or Claims whatsoever, as incurred, arising out of any breach or alleged breach by the Company of any of its obligations, including any of the Warranties, representations, covenants and undertakings set out in this Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement or out of the arrangements contemplated by the Relevant Documents, or any of them (or any amendment or supplement to any of them) or this Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement or any other agreement entered into or to be entered into relating to the Rights Issue; and/or
- (d) any and all Losses or Claims whatsoever, as incurred, in connection with or arising out of the issue, publication or distribution of the Relevant Documents, or any of them (or any amendment or supplement to any of them) and/or any other documents or materials relating to the application for Admission; and/or
- (e) any and all Losses or Claims whatsoever, as incurred, in connection with or arising out of any failure or alleged failure by the Company or any of the Directors or any of its or his agents, employees or advisers to comply with the Companies Act, the FSMA, the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules, the Regulations and the rules, practices and procedures laid down by CREST, the rules and regulations of the London Stock Exchange and the Admission and Disclosure Standards or any other requirement or statute or regulation in any jurisdiction in relation to the application for Admission, the Rights Issue, or the allotment and issue of the New Shares or the arrangements contemplated by the Relevant Documents, or any of them (or any amendment or supplement to any of them), or this Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement or any other agreement entered into or to be entered into relating to the Rights Issue; and/or
- (f) any and all Losses or Claims whatsoever, as incurred or suffered by such Indemnified Person:
 - (i) as a person who has communicated or approved the contents of any financial promotion (other than the Relevant Documents, or any of them, or any amendment or supplement to any of them) made in connection with the Rights Issue or the application for Admission for the purpose of section 21 of the FSMA;
 - (ii) (in the case of each of the Joint Sponsors) in its capacity as sponsor to the Company's application for Admission; and/or
- (g) the carrying out, or performance, by any Indemnified Person of its duties, obligations and services under or in connection with the Rights Issue or Admission or this

Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement, either before or after the date of this Agreement,

PROVIDED THAT: (i) the indemnity contained in Clauses 13.1(d), (f) and (g) shall not apply to any Losses or Claims to the extent that such Losses or Claims are finally judicially determined to have resulted from the fraud, gross negligence or wilful default of that Indemnified Person; and (ii) the indemnity in this Clause 13.1 shall not apply to any Losses for which the Company is not liable under Clause 11.1 pursuant to Clause 11.2. An Indemnified Person shall also not be entitled to any indemnity from the Company under this Clause 13 to the extent it relates to (i) any Tax to the extent that it arises or is increased as a consequence of the receipt of remuneration payable under this Agreement including commissions payable pursuant to Clause 10, (ii) any amounts in respect of VAT as is covered by the provisions of Clause 10.6, and (iii) any Transfer Tax as is covered by the provisions of Clause 10.5 or which would be covered but for the application of any exclusion therein.

13.2 Each Indemnified Person shall give notice as promptly as reasonably practicable to the Company of any action commenced against it after receipt of a written notice of any Claim or the commencement of any action or proceeding in respect of which a Claim for indemnification may be sought under this Clause 13, insofar as may be consistent with the terms of any relevant insurance policy and provided that to do so would not, in such Indemnified Person's view be prejudicial to it (or to any Indemnified Person connected to it) or to any obligation of confidentiality or other legal or regulatory obligation which that Indemnified Person owes to any third party or to any regulatory request that has been made of it, but failure to so notify the Company shall not relieve the Company from any liability hereunder.

13.3 Legal advisers for an Indemnified Person shall be selected by the relevant Bank connected to that Indemnified Person. The Company may participate at its own expense in the defence of any action commenced against it provided however that legal advisers for the Company shall not (except with the consent of the relevant Indemnified Person) also be legal advisers for the Indemnified Person.

13.4 In no event shall the Company be liable for fees and expenses of more than one legal adviser (in addition to any local legal advisers) separate from its own legal advisers for all Indemnified Persons in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances.

13.5 The Company agrees that if it becomes aware of any Claim relevant for the purposes of this Clause 13 or any matters which may give rise to a Claim, it shall promptly notify the Banks thereof and shall provide the Banks with such information and copies of such documents relating to the claim as the Banks may reasonably request.

13.6 The Company shall not, without the prior written consent of the Banks, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Clause 13 or Clause 14 (whether or not the Indemnified Persons are actual or potential parties thereto), unless such settlement, compromise or consent:

- (a) includes an unconditional release of each Indemnified Person from all liability arising out of such litigation, investigation, proceeding or claim; and
- (b) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any Indemnified Person.

13.7 No Bank or any Indemnified Person shall, without consulting with the Company and having regard to any reasonable requests of the Company (provided that in the Joint Bookrunners' opinion, the Banks' and Indemnified Persons' interests will not be prejudiced in doing so), settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any Claim whatsoever in respect of which indemnification or contribution could be sought under this Clause 13 or Clause 14 (whether or not any of the Banks or Indemnified Persons are actual or potential parties thereto).

13.8 Each Indemnified Person which is not a party to this Agreement will have the right, under the Contracts (Rights of Third Parties) Act 1999, to enforce its rights against the Company under this Clause 13 as amended from time to time, provided that each of the Banks (without obligation) will have sole conduct of any action on behalf of each Indemnified Person connected to it. Save as set out above and other than in respect of Clause 14, a person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

13.9 The Company shall promptly notify each of the Banks of any limitation, restriction or exclusion (whenever arising and whether relating to the time period during which a Claim can be made, the quantum of a Claim or otherwise) on the extent to which the Company or any Group Company may claim against any third party or parties and/or of any waiver or release of any right of the Company or any Group Company to so claim (each a **Limitation**) in respect of anything which may arise, directly or indirectly, out of or is based upon or is in connection with the Rights Issue, Admission or the subject matter of the obligations or services to be performed under this Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement or in connection with the Rights Issue or the arrangements contemplated by the Relevant Documents, or any of them (and any amendment or supplement to any of them) or this Agreement. Where any damage or loss is suffered by the Company for which any Indemnified Person would otherwise be jointly and severally liable with any third party or third parties to the Company, or any of its relevant subsidiary undertakings, affiliates, or associates, the extent to which such damage or loss will be recoverable from the Indemnified Person shall be limited so as to be in proportion to the contribution of the Indemnified Person to the overall fault for such damage or loss, as agreed between the parties, or, in the absence of agreement, as determined by a court of competent jurisdiction, but in any event, the Indemnified Person shall have no greater liability than if the Limitation did not apply.

13.10 The degree to which any Indemnified Person shall be entitled to rely on the work of any adviser to the Company and/or any of its subsidiary undertakings, affiliates or associates or any other third party will be unaffected by any Limitation (as defined in Clause 13.9) which the Company may have agreed with any third party.

13.11 Insofar as the Company has engaged any adviser (a *capped adviser*) on the basis that its liability to the Company arising out of any default by it or otherwise in connection with the Rights Issue, Admission, or the arrangements contemplated by the Relevant Documents or this Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement is subject to any limitation, exclusion or restriction of liability, the liability of each Indemnified Person to the Company or any other person in respect of any default by that Indemnified Person under this Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement or otherwise in connection with the Rights Issue, or the arrangements contemplated by the Relevant Documents or this Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement shall not exceed the amount for which that Indemnified Person would have been liable after deducting any additional amount which that Indemnified Person would have been entitled to recover from the capped adviser, in the absence of the limitation, exclusion or restriction of the capped adviser's liability, by way of contribution to that Indemnified Person, in respect of the matter concerned.

13.12 If an Indemnified Person is liable for any liability suffered by, or is liable to make any contribution to, any person other than the Company in respect of the performance of its obligations under this Agreement, the Option Agreement, the Subscription and Transfer Agreement or the Receiving Agent Agreement, the Company will indemnify that Indemnified Person for any amount which it would have been entitled to recover from a third party or parties by way of contribution in respect of the matter concerned (pursuant to the Civil Liability (Contributions) Act 1978 or otherwise) but for a Limitation.

13.13 All sums payable to an Indemnified Person pursuant to this Clause 13 shall be paid within 14 days of written demand by such Indemnified Person.

13.14 No person guilty of fraud or fraudulent misrepresentations (within the meaning of section 11(f) of the Securities Act) will be entitled to contribution from any person who was not guilty of such fraud or fraudulent misrepresentation.

13.15 The provisions of this Clause 13 will remain in full force and effect notwithstanding the completion of all matters and arrangements referred to in or contemplated by this Agreement, the Option Agreement, the Subscription and Transfer Agreement and/or the Receiving Agent Agreement.

13.16 No party to this Agreement shall be entitled to recover damages or obtain recovery, payment, reimbursement or indemnity under a Transaction Document to the extent that such party has already obtained (and retained) recovery, payment, reimbursement or indemnity in respect of the same matter under any other Transaction Document.

14. CONTRIBUTION

14.1 If the indemnification provided for in Clause 13 is for any reason (including because such indemnification would be contrary to public policy), unavailable to or insufficient to hold harmless an Indemnified Person in respect of any Losses or Claims referred to therein, then the Company shall contribute to the aggregate amount of such Losses or Claims incurred by such Indemnified Person, as incurred:

- (a) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and of the Banks on the other hand from the Rights Issue and offering of New Shares pursuant to this Agreement; or
- (b) if the allocation provided by Clause 14.1(a) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in Clause 14.1(a) above but also the relative fault of the Company on the one hand and of the Banks on the other hand in connection with the acts or statements or omissions which resulted in such Losses or Claims as well as any other relevant equitable considerations.

14.2 The relative benefits received by the Company on the one hand and the Banks on the other hand in connection with the Rights Issue and the offering of New Shares pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of New Shares pursuant to this Agreement (before deducting commissions or expenses) received by the Company and the total fees and commissions received by the Banks bear to the total gross proceeds from the offering of New Shares.

14.3 The relative fault of the Company on the one hand and the Banks on the other hand will be determined by reference to, among other things, whether any such act or alleged act or untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company, or by the Banks and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such act, statement or omission.

14.4 The Company and the Banks agree that it would not be just and equitable if contribution pursuant to this Clause 14 were determined by *pro rata* allocation (even if the Banks were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Clause 14. The aggregate amount of Losses or Claims incurred by an Indemnified Person and referred to above in this Clause 14 will be deemed to include any legal or other expenses properly incurred by such Indemnified Person in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such act or alleged act or untrue or inaccurate or alleged untrue or inaccurate statement or omission or alleged omission.

14.5 Notwithstanding the provisions of this Clause 14:

- (a) no Indemnified Person shall be entitled to recover from any individual party more by way of a contribution under Clause 14 than it would have been able to recover from such party had the indemnities in Clause 13 been available to such Indemnified Person; and
- (b) the Company shall not be liable to pay any amount pursuant to Clause 14 in excess of the amount it would have been liable to pay had the indemnities in Clause 13 been available to such Indemnified Person.

14.6 Notwithstanding the provisions of Clauses 13 and 14, no Bank shall be required to contribute pursuant to this Clause 14 any amount in excess of the underwriting commission received by it (and which is not liable to pay to any other underwriter, sub-underwriter or intermediary under this Agreement or otherwise) in relation to the New Shares underwritten or subscribed for by such Bank pursuant to this Agreement.

14.7 No person guilty of fraudulent misrepresentation (whether within the meaning of Section 11(f) of the Securities Act or otherwise) will be entitled to contribution in respect of Losses or Claims arising from such fraudulent misrepresentation from any person who was not guilty of such fraudulent misrepresentation.

15. TERMINATION

15.1 If at any time on or before Admission:

- (a) any matter or circumstance arises as a result of which any of the Conditions (i) has become incapable of satisfaction (and will not be waived by the Joint Bookrunners, in accordance with Clause 2.2) at the required time(s) (if any); and (ii) will not continue to be satisfied at Admission; or
- (b) there has been (i) a breach by the Company of any of the Warranties or undertakings respectively contained in or given pursuant to Clause 11 or any other provision of this Agreement; or (ii) any of the Warranties contained in Clause 11 or Schedule 3 is not or has ceased to be, true, accurate and not misleading; or
- (c) it shall come to the notice of any Joint Bookrunner that any statement contained in any Relevant Document (or any amendment or supplement thereto), other than the Provisional Allotment Letters, the QIB Letter, the AI Letter or the QIB Rump Letter is or has become untrue, inaccurate or misleading in any respect, or any matter has arisen, which would, if such document had been issued at that time, constitute an omission from such Relevant Document (or any amendment or supplement thereto), and which all of the Joint Bookrunners consider, acting in good faith, to be (singly or in the aggregate) (i) material in the context of the Group, the Rights Issue or Admission or any of the transactions contemplated by this Agreement; or (ii) such as to make it impracticable, inappropriate or inadvisable to proceed with the Rights Issue or Admission; or
- (d) (i) in the opinion of all of the Joint Bookrunners, any matter referred to in section 87G of FSMA has arisen between the publication of the Prospectus and Admission, or (ii) any Supplementary Prospectus has been published or is due to be published by the Company, in each case the effect of which (either singly or together with any other event referred to in this Clause 15) is, in the opinion of all of the Joint Bookrunners, acting in good faith, material in the context of the Group, the Rights Issue or Admission, or such as to make it, in the opinion of all of the Joint Bookrunners, acting in good faith, impracticable, inappropriate or inadvisable to proceed with the Rights Issue or Admission; or
- (e) the Company's application to the FSA for admission of the New Shares to the Official List and/or the Company's application to the London Stock Exchange for

admission to trading of the New Shares on the London Stock Exchange's main market for listed securities is withdrawn by the Company and/or refused by the FSA or London Stock Exchange (as appropriate); or

- (f) in the opinion of all of the Joint Bookrunners, acting in good faith, there has been, whether or not foreseeable at the date of this Agreement, a Material Adverse Change; or
- (g) if:
 - (i) there has occurred any material adverse change in the financial markets in the United States, the United Kingdom, any member state of the European Union or the international financial markets, any outbreak of hostilities or escalation thereof, any act of terrorism or war or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions or exchange controls or exchange rates, in each case which all of the Joint Bookrunners consider to be (either singly or together with any other event referred to in this Clause 15) such as to make it, in the opinion of all of the Joint Bookrunners, acting in good faith, impracticable, inappropriate or inadvisable to proceed with the Rights Issue or Admission; or
 - (ii) trading in any securities of the Company has been suspended or limited by the London Stock Exchange on any exchange or over the counter market, or if trading generally on the American Stock Exchange, the New York Stock Exchange or any exchange in any member state of the European Union, the Nasdaq Global Market or the London Stock Exchange has been suspended or limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any of such exchanges or by such system or by order of any governmental authority, or a material disruption has occurred in commercial banking or securities settlement or clearance services in the United States, the United Kingdom or in the European Union, the effect of which (either singly or together with any other event referred to in this Clause 15) is, in the opinion of all of the Joint Bookrunners, acting in good faith, material in the context of the Group, the Rights Issue or Admission, or is such as to make it, in the opinion of all of the Joint Bookrunners, acting in good faith, impracticable, inappropriate or inadvisable to proceed with the Rights Issue or Admission;
 - (iii) a banking moratorium has been declared by the United Kingdom, the United States, a member state of the European Union, or New York authorities, the effect of which (either singly or together with any other event referred to in this Clause 15) is, in the opinion of all of the Joint Bookrunners, acting in good faith, material in the context of the Group, the Rights Issue or Admission, or is such as to make it, in the opinion of all of the Joint Bookrunners, acting in good faith, impracticable, inappropriate or inadvisable to proceed with the Rights Issue or Admission; or

- (iv) there has occurred an adverse change or a prospective adverse change since the date of this Agreement in taxation in the United Kingdom, United States or any member state of the European Union affecting the New Shares or the transfer thereof or exchange controls have been imposed by the United Kingdom, the United States or a member state of the European Union, the effect of which (either singly or together with any other event referred to in this Clause 15) is, in the opinion of all of the Joint Bookrunners, acting in good faith, material in the context of the Group, the Rights Issue or Admission, or is such as to make it, in the opinion of all of the Joint Bookrunners, acting in good faith, impracticable, inappropriate or inadvisable to proceed with the Rights Issue or Admission,

then (a) each of the Joint Sponsors, for itself in its capacity as sponsor only, acting in good faith (following consultation with the Company to the extent practicable), shall be entitled to terminate this Agreement insofar as it relates to the obligations of such Joint Sponsor in its capacity as sponsor and, in the event of such termination, the obligations of such Joint Sponsor in its capacity as sponsor shall cease and determine, and the provisions of Clause 2.3(b) shall apply, and (b) the Joint Bookrunners, acting in good faith (following consultation with the Company to the extent practicable), shall be entitled to terminate this Agreement in its entirety and, in the event of such termination, this Agreement shall cease to have any further effect and the provisions of Clause 2.4(a) shall apply. For the avoidance of doubt, the rights of the Joint Bookrunners under this Clause 15.1:

- (A) may be exercised by the Joint Bookrunners, and except where provided otherwise herein, for whatever reason or on whatever basis that they consider to be practicable, appropriate or advisable to them; and
- (B) are conferred on the Joint Bookrunners, and may be exercised by any Joint Bookrunner, in its capacity as such, and not in any representative or fiduciary capacity.

15.2 The termination of this Agreement (save to the extent specified in this Clause 15.2) pursuant to Clauses 2.3, 2.4 and 15.1 shall be without prejudice to:

- (a) any claim in respect of a breach of this Agreement prior to the termination;
- (b) any obligation of the Company in respect of New Shares which have already been issued, subscribed for and paid for at the time of such termination; and
- (c) the provisions of Clauses 1, 10.5, 11 (other than 11.10), 12, 13 and 14, this Clause 15.2, and Clauses 19 to 28 (inclusive), which will continue to apply.

15.3 Any notice of termination to be given by a Joint Sponsor or a Joint Bookrunner pursuant to Clause 15.1 may be given in accordance with Clause 15.4 or Clause 23. Any notice given in accordance with Clause 23 shall be copied to each other party to this Agreement provided however that failure to do so will not invalidate such notice.

15.4 The Joint Sponsors or the Joint Bookrunners may give a notice pursuant to Clause 15.1 by telephone to either the Chief Executive or the Group Tax & Treasury Director, or in

the event that such persons are unavailable, any Executive Director, on behalf of the Company, such notice to take effect at the time such notice is given by telephone.

The contact details for the Chief Executive and Group Tax & Treasury Director will be provided to the Joint Bookrunners by the Company on the date of this Agreement.

Where notice is given by telephone, the relevant Joint Sponsor or Joint Bookrunner shall as soon as reasonably practicable and, in any event, within 12 hours, give the Company (in accordance with Clause 23 and copied to each other party to this Agreement) a notice which:

- (a) states that notice pursuant to Clause 15.1 has been given by telephone on or around a certain time on a certain date;
- (b) specifies the name of (i) the representative of the Joint Sponsors or the Joint Bookrunners and (ii) the officer involved in such telephone call; and
- (c) sets out the substance of the text which was read over the telephone,

provided however that failure to do so will not invalidate such notice.

16. WITHHOLDING AND GROSSING UP

16.1 All sums payable to the Banks or any other Indemnified Person under this Agreement shall be paid free and clear of all deductions or withholdings without set-off or counterclaim unless the deduction or withholding is required by law, in which event the relevant person making the payment shall pay such additional amount as shall be required to ensure that the net amount received by the Banks or any other Indemnified Person will equal the full amount which would have been received by it had no such deduction or withholding been made.

16.2 If the HM Revenue & Customs or any other tax authority brings into charge to tax (or into any computation of income, profit or gains for the purposes of any charge to tax) or would do so but for the utilisation of any tax relief any sum payable to the Banks or any other Indemnified Person (in this clause 16 only a **payee**) under this Agreement (other than any remuneration paid pursuant to this Agreement including the commissions due under Clause 10) then the person liable to make such payment shall pay such additional amount as shall be required to ensure that the total amount paid, less the tax chargeable thereon or that which would be so chargeable but for the availability of relief in respect of that charge to tax (except to the extent that such relief arises in respect of the losses, costs, expenses or other items which have given rise to the sum payable, in which case such relief (or part thereof) shall be ignored) is equal to the amount that would otherwise be so received under this Agreement (any such additional payments being made on demand of the Bank, or the Indemnified Person concerned).

16.3 If any payment is made by the Company to a person (the “**recipient**”) pursuant to this Agreement which results in the Company making an additional payment under Clause 16.1 or Clause 16.2, and the recipient subsequently in its sole and absolute discretion determines that: (i) a refund of tax or a credit against tax is attributable to any deduction or withholding giving rise to the payment or part thereof, and that refund or credit has actually been obtained by the recipient; or (ii) tax has actually been saved as a result of incurring the relevant loss, liability, damage, cost, charge or expense to which the payment relates, in each case the recipient shall pay an amount to the Company which the recipient determines in its sole opinion (such

determination to be conclusive) will leave the recipient (after that payment) in no better or worse position than it would have been in had the additional payment not been required to be made by the Company. Nothing in this Clause 16.3 shall oblige a recipient to disclose any information nor shall anything herein prevent a recipient from arranging its tax and commercial affairs in whatever manner it thinks fit.

17. MISCELLANEOUS

17.1 For the avoidance of doubt, the Company acknowledges and agrees that it is responsible for any due diligence carried out in relation to the Rights Issue and that none of the Banks nor any of their advisers shall be responsible to the Company or any Director for any due diligence in relation thereto or for verifying the accuracy or fairness of any information published by or on behalf of the Company in connection with the Rights Issue.

17.2 The Company agrees that for the purpose of the Rights Issue (including for the purposes of seeking to procure any sub-underwriters for the Underwritten Shares) and of obtaining Admission, none of the Banks shall be responsible for the provision of or obtaining advice as to the requirements of any applicable laws or regulations of any jurisdictions nor shall any such person be responsible where it or the Company has acted in the absence of such advice or in reliance on any advice obtained by the Company in respect thereof.

17.3 The Company acknowledges that the representations, warranties, undertakings and indemnities contained in this Agreement are given to the Banks in connection with Admission and the Rights Issue in each case whether in their capacities as underwriters or sponsors and references in this Agreement to Banks shall be construed accordingly.

17.4 Notwithstanding that each Bank may act as the Company's agent in connection with the Rights Issue, each of such persons and its agents may:

- (a) receive and keep for its own benefit any commissions, fees, brokerage or other benefits paid to or received by it in connection with the Rights Issue, and shall not be liable to account to the Company for any such commissions, fees, brokerage or other benefits; and
- (b) keep or deal in any New Shares for which it may subscribe for its own use and benefit.

17.5 For the avoidance of doubt, the rights and obligations of each of the Banks under this Agreement are several, not joint or joint and several. Each of the Banks shall (except as otherwise agreed among them) have the right separately to protect and enforce its rights under this Agreement by whatever lawful means it deems fit, including, without limitation, commencing any legal proceedings without joining any of the others in any proceedings.

17.6 The Company acknowledges and agrees that (i) each of the Banks is acting solely pursuant to a contractual relationship with the Company on an arm's length basis with respect to the Rights Issue (including in connection with determining the terms of the Rights Issue) and not, in relation to the Rights Issue, as a financial advisor or a fiduciary to the Company or any other person; and (ii) none of the Banks owes any duties or obligations to the Company of any nature whatsoever, save as expressly set out in this Agreement, provided however in each

case that this shall not exclude or restrict any duty or liability that any of them have under FSMA or arrangements for regulating any of them thereunder to any extent prohibited thereby.

17.7 The Company understands (i) that [•]([•]) is the parent company of [•] of which [•] is a wholly-owned subsidiary and that [•] and its subsidiaries and affiliates are a financial services group, and (ii) that each of [•], [•] and [•] is part of its own financial services group (for the purposes of this Clause 17.7, each referred to as a **group**). Each of the Banks and [•] is a full service securities firm and commercial bank engaged in activities and businesses including among others, securities, commodities and derivatives trading, foreign exchange and other brokerage activities, research publication, and principal investing, as well as providing investment, corporate and private banking, asset and investment management, financing and financial advisory services and other commercial services and products to a wide range of corporations, governments and individuals from which conflicting interests or duties, or a perception thereof, may arise. Accordingly, in no circumstance shall any Bank or any other member of their respective groups have any liability by reason of members of the group conducting such other businesses or activities, acting in their own interests or in the interests of other clients in respect of matters affecting the Company, its affiliates or any other company, including where in so acting members of the group act in a manner which is adverse to the interests of the Company or its affiliates. In addition, as a result of duties of confidentiality, each of the Banks and the other members of their respective groups may be prohibited from disclosing information to the Company or such disclosure may be inappropriate and the Company agrees that no member of the respective groups will be under a duty to use or to disclose any non-public information acquired from, or during the course of carrying on business for, any other person. The Company expressly acknowledges and agrees that, in the ordinary course of business, each of the Banks and other parts of their respective groups at any time (i) may invest on a principal basis or manage funds that invest, make or hold long or short positions, finance positions or trade or otherwise effect transactions, for their own accounts or the accounts of customers, in equity, debt or other securities or financial instruments (including derivatives, bank loans or other obligations) of the Company or any other company that may be involved in any proposed transaction, and (ii) may provide or arrange financing and other financial services to other companies that may be involved in any proposed transaction or a competing transaction, in each case whose interests may conflict with those of the Company.

17.8 The Company agrees to indemnify each Bank against any loss incurred by such Bank as a result of any judgment or order being given or made for any amount due hereunder and such judgment or order being expressed and paid in a currency (the **Judgment Currency**) other than pounds sterling and as a result of any variation between: (i) the rate of exchange at which the pounds sterling amount is converted into the Judgment Currency for the purpose of such judgment or order; and (ii) the rate of exchange at which such Bank is able to purchase pounds sterling, at the business date nearest the date of judgment, with the amount of the Judgment Currency actually received by the relevant Bank. The foregoing indemnity shall continue in full force and effect notwithstanding any such judgment or order as aforesaid. The terms **rate of exchange** shall include any premiums and costs or exchange payable in connection with the purchase of, or conversions into, the relevant currency.

18. RECEIVING AGENT

The Company confirms that it has instructed the Receiving Agent to act as receiving agent in connection with the Rights Issue and as registrar in relation to the Nil Paid Rights and the Fully Paid Rights and to perform the obligations assigned to it under the Prospectus, the Provisional Allotment Letters and this Agreement as receiving agent.

19. TIME OF THE ESSENCE

Any time, date or period mentioned in this Agreement may be extended by mutual agreement between the Company and the Banks but as regards any time, date or period originally fixed, or any time, date or period so extended, time shall be of the essence.

20. WAIVER

20.1 Any right or remedy of the Banks under this Agreement shall only be waived or varied by an express waiver or variation in writing.

20.2 No failure or delay by the Banks in exercising any right or remedy under this Agreement shall impair such right or remedy or operate or be construed as a waiver or variation of the right or remedy or preclude its exercise at any subsequent time. No single or partial exercise of any such right or remedy shall preclude any other or further exercise of such right or remedy or the exercise of any other right or remedy. The rights, powers and remedies of the Banks provided in this Agreement are cumulative and not exclusive of any rights, powers and remedies provided by law.

21. THIRD PARTY RIGHTS

21.1 Except as provided in Clause 13.8, a person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement. The Banks and the Company may agree to terminate this Agreement or vary any of its terms without the consent of any Indemnified Person which is not a party to this Agreement or any other third party. The Banks will have no responsibility to any Indemnified Person which is not a party to this Agreement or any other third party under or as a result of this Agreement.

21.2 No variation of this Agreement shall be valid unless it is in writing and signed by or on behalf of each of the Banks and the Company.

22. SEVERABILITY

If any provision of this Agreement is or is held to be invalid or unenforceable, then so far as it is invalid or unenforceable it has no effect and is deemed not to be included in this Agreement. This shall not invalidate any of the remaining provisions of this Agreement. The parties shall use all reasonable endeavours to replace any invalid or unenforceable provision by a valid provision the effect of which is as close as possible to the intended effect of the invalid or unenforceable provision.

23. NOTICES

23.1 Any notice to be given under, or in connection with, this Agreement shall be in writing and be signed by or on behalf of the party giving it. It shall be served by sending it by fax to the number set out in Clause 23.2 or by delivering it by hand, or sending it by pre-paid recorded delivery, special delivery or registered post, to the address set out in Clause 23.2 marked for the attention of the relevant party (or as otherwise notified from time to time under this Agreement).

Any notice so served shall be deemed to have been duly received:

- (a) in the case of delivery by hand, when delivered;
 - (b) in the case of fax, at the time of transmission; and
 - (c) in the case of pre paid recorded delivery, special delivery or registered post, on the Dealing Day following the date of posting,
- provided that if delivery by hand or fax occurs on a day which is not a Dealing Day or after 6.00 p.m. on a Dealing Day, service shall be deemed to occur at 9.00 a.m. on the following Dealing Day.

23.2 The fax numbers and addresses of each of the Banks and the Company for the purpose of Clause 23.1 are:

- (i) the Company: 1-3 Strand
London WC2N 5EH
Fax number: +44 (0)20 7004 3221

For the attention of: Company Secretary and General Counsel
- (ii) [•] [•]

Fax Number: [•]

For the attention of: ECM Syndicate Desk
- (iii) [•] [•]

Fax Number: [•]

For the attention of: ECM Syndicate Desk
- (iv) [•] [•]

Fax number: [•]

For the attention of: Head of Equity Capital Markets

(v) [•] [•]

Fax number: [•]

For the attention of: Head of Equity Capital Markets

24. FURTHER ASSURANCES

The Company shall register the New Shares in the names of the successful applicants, and shall provide, and shall procure that the Directors shall provide, all information and assistance that a Bank may reasonably require for the purposes of this Agreement and execute (or procure to be executed) each document and do (or procure to be done) each act and thing that an Underwriter may reasonably request in order to give effect to the Rights Issue or Admission.

25. ASSIGNMENT

No party may assign, or purport to assign: (i) this Agreement; (ii) all or any of their respective rights or obligations arising under or out of this Agreement; or (iii) the benefit of all or any of the other parties' obligations under this Agreement.

26. ENTIRE AGREEMENT

This Agreement, together with the Option Agreement, the Subscription and Transfer Agreement, the Banks' Engagement Letters and any other documents referred to in this Agreement, constitutes the entire agreement between the parties relating to the subject matter of this Agreement and supersedes all agreements, understandings, undertakings, representations, warranties and arrangements of any nature whatsoever between the parties relating to the subject matter of this Agreement. In the event of any inconsistency between this Agreement or any other agreement referred to in, or entered into in connection with, this Agreement, the terms of this Agreement shall prevail.

27. COUNTERPARTS

27.1 This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

27.2 Delivery of an executed counterpart signature page of this Agreement by e-mail (PDF) or telecopy shall be as effective as delivery of a manually executed counterpart of this Agreement. In relation to each counterpart, upon confirmation by or on behalf of the signatory that the signatory authorises the attachment of such counterpart signature page to the final text of this Agreement, such counterpart signature page shall take effect together with such final text as a complete authoritative counterpart.

28. GOVERNING LAW

28.1 This Agreement and the relationship among the parties to it and any non-contractual obligations which may arise out of or in connection with this Agreement shall be governed by and interpreted in accordance with English law.

28.2 All parties to this Agreement agree that the courts of England are (subject to Clause 28.3(a)) to have exclusive jurisdiction to settle any dispute (including claims for set-off and counterclaims) which may arise out of or in connection (i) with the creation, validity, effect, interpretation or performance of, or of the legal relationships established by, this Agreement or otherwise arising out of or in connection with this Agreement, and (ii) with any non-contractual obligations which may arise out of or in connection with this Agreement and for such purposes all parties irrevocably submit to the exclusive jurisdiction of the English courts.

28.3 Notwithstanding the provisions of Clause 28.2, in the event that any Bank or any of such Bank's Indemnified Persons becomes subject to proceedings brought by a third party (the **Foreign Proceedings**) in the courts of any country other than England (including, without prejudice to the generality of the foregoing, in any court of competent jurisdiction in the United States) (the **Foreign Jurisdiction**), such Bank shall be entitled, without objection by the Company, either:

- (a) to join the Company or any other person to the Foreign Proceedings; and/or
- (b) to bring separate proceedings for any breach of this Agreement and/or for a contribution or an indemnity against the Company or any other person in the Foreign Jurisdiction, provided that such separate proceedings arise out of or are in connection with the subject matter of the Foreign Proceedings.

28.4 Each of the parties to this Agreement irrevocably waives any objection to the jurisdiction of any courts referred to in this Clause 28.

28.5 Each party to this Agreement irrevocably agrees that a judgment and/or order of any court referred to in this Clause 28 based on any matter arising out of or in connection with this Agreement (including but not limited to the enforcement of any indemnity) shall be conclusive and binding on it and may be enforced against it in any other jurisdiction, whether or not (subject to due process having been served on it) it participates in the relevant proceedings.

28.6 The Company agrees to appoint an agent for service of process in any Foreign Jurisdiction other than England in which any other party is subject to legal suit, action or proceedings based on or arising under this Agreement within 14 days of receiving written notice of such legal suit, action or proceedings and the request to appoint such agent for service. In the event that the Company does not appoint such an agent within 14 days of the notice requesting it to do so, such other party may appoint a commercial agent for service for the Company on the Company's behalf and at the Company's expense and the Company agrees that subject to being notified of such appointment in writing, service upon such commercial agent will constitute service upon the Company.

SCHEDULE 1
NEW SHARES TAKEN UP

1. Subject to paragraph 2 below, in this schedule **MTM instruction** means a many-to-many instruction which:

- (a) on its settlement has the effect as described in paragraph 2.2.2 of Part III of the Prospectus;
- (b) has been properly authenticated in accordance with Euroclear's specifications as referred to in that paragraph; and
- (c) contains the information required by that paragraph.

2. The Company may, having consulted with the Joint Bookrunners and taken into account their reasonable comments, treat an MTM instruction which constitutes a properly authenticated dematerialised instruction (the **first instruction**) as not constituting a valid acceptance in accordance with paragraph 2.2.2(iii) of Part III of the Prospectus if at the time at which the Registrar receives a properly authenticated dematerialised instruction giving details of the first instruction, the Company or the Registrar is or has received actual notice from Euroclear of any of the matters specified in regulation 35(5)(a) of the Regulations in relation to the first instruction.

3. A New Share shall, for the purposes of this Agreement, be treated as having been **taken up** if:

- (a) the New Share in nil paid form is in certificated form and the following requirements have been satisfied by 11.00 a.m. on the Acceptance Date:
 - (i) a Provisional Allotment Letter relating to that New Share has been lodged for acceptance by the person to whom it was provisionally allotted or by a renounee of the right to accept allotment together with a cheque or other remittance for the full amount payable in respect of that New Share, in accordance with the terms of the Prospectus and the Provisional Allotment Letter (or the Company exercises any discretion it has in the Prospectus to treat the Provisional Allotment Letter as binding notwithstanding these requirements); and
 - (ii) the Company has not, with the Joint Bookrunners' consent, rejected the Provisional Allotment Letter for any reason; and
 - (iii) the Receiving Agent has not been notified that the cheque or other remittance has not been accepted by the drawee on first presentation.
- (b) the New Share in nil paid form is in uncertificated form and:
 - (i) an MTM instruction in respect of those New Shares settles by 11.00 a.m. on the Acceptance Date; or

- (ii) an MTM instruction in respect of those New Shares constitutes a valid acceptance in accordance with paragraph 2.2.2(iii) of Part III of the Prospectus and settles by 2.00 p.m. on the Acceptance Date; or
- (c) the following has occurred:
 - (i) an MTM instruction in respect of those New Shares constitutes a valid acceptance in accordance with paragraph 2.2.2(iii) of Part III of the Prospectus; and
 - (ii) the MTM instruction has not settled by 2.00 p.m. on the Acceptance Date (or by such later time or date as the Company and the Joint Bookrunners decide); and
 - (iii) the Company and the Joint Bookrunners are not entitled to assume, in accordance with sub-paragraph (vii) of paragraph 2.2.2 of Part III of the Prospectus, that there has been a breach of any of the representations, warranties or undertakings set out or referred to in paragraph 2.2.2(vi) of Part III of the Prospectus because it is aware of a reason outside the control of the CREST member or CREST sponsor that sent the MTM instruction for its failure to settle; or
- (d) the following has occurred:
 - (i) an MTM instruction in respect of those New Shares constitutes a valid acceptance in accordance with paragraph 2.2.2(iii) of Part III of the Prospectus;
 - (ii) the MTM has not settled by 2.00 p.m. on the Acceptance Date (or by such later time or date as the Company and the Joint Bookrunners decide);
 - (iii) the Company is entitled to assume, in accordance with sub-paragraph (vii) of paragraph 2.2.2 of Part III of the Prospectus, that there has been a breach of any of the representations, warranties or undertakings set out or referred to in paragraph 2.2.2(iv) of Part III of the Prospectus because it is not aware of a reason outside the control of the CREST member or CREST sponsor that sent the MTM instruction for its failure to settle; and
 - (iv) the Company exercises its discretion not to reject the acceptance constituted by the MTM instruction; or
- (e) an MTM instruction in respect of those New Shares does not constitute a valid acceptance in accordance with paragraph 2.2.2(vii) of Part III of the Prospectus and the Company exercises its discretion not to reject the acceptance constituted by the MTM instruction; or
- (f) a Director has irrevocably undertaken to the Company to subscribe for such New Share.

4. For the avoidance of doubt the Banks have no liability or obligation under this Agreement in relation to any New Shares if the New Shares in nil paid form are in certificated form and:
- (a) the acceptance of the Provisional Allotment Letter in respect of those New Shares is rejected after 11.00 a.m. on the Acceptance Date due to the failure to provide satisfactory evidence of identity to comply with the Money Laundering Regulations 2003 in the manner contemplated in the Press Announcement, the Prospectus and the Provisional Allotment Letter; or
 - (b) the cheque or other remittance for which is dishonoured after 11.00 a.m. on the Acceptance Date except if each party has been notified that the cheque or other remittance has been dishonoured by 11.00 a.m. on the Acceptance Date.
5. If (but only if) the parties so agree, New Shares will be deemed to have been taken up by 11.00 a.m. on the Acceptance Date if the New Shares in nil paid form are in certificated form and:
- (a) a cheque or other remittance for the full amount payable in respect of those New Shares (and whether or not the cheque or other remittance is honoured) is received by 11.00 a.m. on the Acceptance Date from an authorised person (as defined in the FSMA) identifying those New Shares and agreeing to lodge the relevant Provisional Allotment Letter properly completed in due course; or
 - (b) the relevant Provisional Allotment Letter and a cheque or other remittance for the full amount payable in respect of those New Shares (and whether or not the cheque or other remittance is honoured) are received by 11.00 a.m. on the first Dealing Day after the Acceptance Date by post and the cover bears a legible postmark of not later than 11.00 a.m. on the Acceptance Date.
6. If the parties decide to extend the time for settlement of MTM instructions in accordance with paragraphs 3(c)(iii) or 3(d)(ii) of this Schedule 1 the Company shall forthwith ask Euroclear not to disable the Nil Paid Rights until the end of that extension.
7. As soon as practicable after 11.00 a.m. on the Acceptance Date and by not later than 2.30 p.m. on the Acceptance Date, the Company shall, following consultation with the Joint Bookrunners, exercise its discretion in paragraphs 3(d)(iv) and 3(e) of this Schedule 1 reasonably.
8. If the Company, having consulted with the Joint Bookrunners and taken into account their reasonable comments, accepts:
- (a) an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor in accordance with paragraph 2.2.2(vii)(c) of Part III of the Prospectus; or
 - (b) an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor in accordance with paragraph 2.2.2(vii)(e) of Part III of the Prospectus,

as constituting a valid acceptance in respect of any New Shares, those New Shares are deemed to have been taken up.

9. Without prejudice to paragraphs 4 and 5 of this Schedule 1, in all other cases, with respect to all Qualifying Shareholders, a New Share shall, for the purposes of this Agreement, be treated as not having been taken up.

10. Notwithstanding anything in this Schedule 1, a New Share shall not be treated as taken up for the purposes of this Agreement in circumstances where the relevant acceptance has been withdrawn pursuant to section 87Q of the FSMA provided that such New Share shall not subsequently be treated as taken up in accordance with this Schedule 1.

SCHEDULE 2 DELIVERY OF DOCUMENTS

Part A

Immediately after the execution of this Agreement and, in any event, before the release of the Press Announcement, the Company shall deliver, or procure the delivery, to Banks' Counsel (on behalf of each of the Banks) in the agreed form, or to the extent not in agreed form, in a form acceptable to the Joint Bookrunners, of:

1. Certified copy of the Press Announcement.
2. Copy of the Draft Prospectus.
3. Copy of the Draft Annual Report, in the agreed form.
4. Certified copy of the Presentation Materials, in the agreed form.
5. Certified copy of the Verification Materials duly signed by or on behalf of each Director prepared in connection with the Press Announcement and dated the date of this Agreement and copies of all evidence supporting answers in the notes.
6. Certified copy of the Verification Materials duly signed by or on behalf of each Director prepared in connection with the Presentation Materials and dated the date of this Agreement and copies of all evidence supporting answers in the notes.
7. Certified copy of the signed minutes of the meetings of the Board, or a duly authorised committee thereof, approving the Draft Annual Report, the Draft Prospectus, the Press Announcement, this Agreement, the Option Agreement, the Subscription and Transfer Agreement, the Receiving Agent Agreement, the Verification Materials and (where appropriate) the other documents referred to in this Agreement and authorising the steps to be taken by the Company in connection with the Rights Issue, including the execution, delivery and performance of this Agreement, the Option Agreement, the Subscription and Transfer Agreement and the Receiving Agent Agreement in the agreed form and the execution of any powers of attorney in relation to the execution of this Agreement, the Option Agreement, the Subscription and Transfer Agreement, the Receiving Agent Agreement and any other agreement to be entered into in connection with the Rights Issue.
8. Certified copy of the minutes of the meeting of the Board appointing any committee such as is referred to in paragraph 7 above.
9. Certified copy of the Option Agreement, the Subscription and Transfer Agreement and the Receiving Agent Agreement dated the date of this Agreement.
10. A certified copy of any power of attorney under which any party executes this Agreement.

The Joint Bookrunners may, in their absolute discretion, elect that delivery of any of the documents referred to in this Part A of Schedule 2 may be deferred and in lieu of any such

delivery require delivery of the relevant document in a form reasonably satisfactory to them at a later time specified by the Joint Bookrunners.

Part B

Prior to publication of the Prospectus, the Company shall deliver, or procure the delivery, to Banks' Counsel (on behalf of each of the Banks), in the agreed form, or to the extent not in agreed form, in a form acceptable to the Joint Bookrunners, of:

1. Certified copy of the Prospectus bearing evidence of the formal approval of the FSA, pursuant to the Listing Rules and the Prospectus Rules.
2. Certified copy of the signed Application for Admission of Securities to the Official List certified by a Director or the Secretary of the Company.
3. Certified copy of the signed Application for Admission to Trading issued by the London Stock Exchange certified by a Director or the Secretary of the Company (Form 1 of the Admission and Disclosure Standards).
4. Certified copy of the security application forms in respect of the Nil Paid Rights and the Fully Paid Rights that have been given to Euroclear.
5. Letter from the Company to the FSA identifying any items from the schedules or building blocks of the Prospectus Rules which have not been included because they are not applicable.
6. Certified copy of "Form A" to be submitted to the FSA in accordance with paragraph 3.1.1(1) of the Prospectus Rules for approval of a prospectus in accordance with Part VI of the FSMA.
7. Original letter from the Company to the Banks relating to the following: (i) paragraphs 8.3.4, 8.4.8 and 8.4.9 of the Listing Rules; (ii) the fact that there has been no significant change in the financial and trading position (including the indebtedness position) of the Group since the Accounts Date, (iii) the sufficiency of the Company's working capital, and (iv) extraction of financial information, in the agreed form and dated the Publication Date.
8. Original letter from the Company's Counsel to the Banks relating to the declaration required from the Joint Sponsors pursuant to paragraphs 8.3.4, 8.4.8 and 8.4.9 of the Listing Rules, in the agreed form and dated the Publication Date.
9. Original letters to the Banks signed by each of the Directors authorising the publication of the Prospectus, accepting responsibility for information contained in the Prospectus and acknowledging their understanding of their responsibilities under the Listing Rules and the Disclosure Rules and Transparency Rules in accordance with paragraph 8.3.4 of the Listing Rules, in the agreed form.
10. Original letters to the Company and the Banks by each of the Directors accepting responsibility for the information contained in the Prospectus including a power of attorney granting power to any one director to execute and deliver documents in connection with the Rights Issue.

11. Certified copy of the Verification Materials, duly signed by or on behalf of each Director and by each of the other persons responsible for the replies thereto prepared in connection with the Prospectus and dated the Publication Date and copies of all evidence supporting answers in the notes.
12. Certified copy of the minutes of the meeting of the Board, or a duly authorised committee thereof, approving the Relevant Documents and (where appropriate) the other documents referred to in this Agreement and authorising the steps to be taken by the Company in connection with the Rights Issue, the Option Agreement, the Subscription and Transfer Deed and/or the arrangements contemplated by this Agreement.
13. Copy of the Auditor's UK engagement letter and international arrangement letter signed by the Auditor and addressed to the Company and each Bank.
14. Original of the Working Capital Report, duly signed by the Auditors, dated the Publication Date.
15. Original of the Working Capital Memorandum, duly signed by the Company and dated the Publication Date.
16. Original of the pro forma financial information report duly signed by the Auditors and dated the Publication Date.
17. Original letters duly signed by the Auditors in the agreed form and dated the Publication Date:
 - (a) in relation to the Working Capital Report;
 - (b) (i) confirming the correct extraction of financial information contained in the Prospectus; (ii) in respect of the capitalisation and indebtedness statement included in the Prospectus; and (iii) in relation to the statement in the Prospectus that there has been no significant change in the financial and trading position of the Group;
 - (c) in relation to paragraphs 8.4.8(1), 8.4.8(2) and 8.4.9(3) of the Listing Rules (to be addressed to the Joint Sponsors);
 - (d) consenting to the inclusion of their reports and of references thereto in the form and context in which they appear in the Prospectus; and
 - (e) in relation to the accuracy of the tax information included in Part X of the Prospectus.
18. Original of a SAS 72 letter duly signed by the Auditors in the agreed form and dated the Publication Date.
19. Original of a SAS 72 "lookalike" letter duly signed by the Auditors in the agreed form and dated the Publication Date.
20. Original of a signed Rule 10b-5 disclosure letter of each of Company's Counsel, in the agreed form, and Banks' Counsel dated the Publication Date.

21. Original of a signed “no registration”, “Investment Company Act” and “US tax disclosure” opinion of Company’s Counsel in the agreed form and dated the Publication Date.
22. Original of a signed “no registration” opinion of Banks’ Counsel dated the Publication Date.
23. Original of a signed opinion of each : (i) of Company’s Counsel, in the agreed form, as English legal advisers to the Company; and (b) Banks’ Counsel, as English legal advisers to the Banks dated the Publication Date.
24. Original of a signed legal opinion of Newco Counsel, as Jersey legal advisers to the Company, in the agreed form dated the same date as the date of this Agreement.
25. Certified copy of each of the other documents stated in the Prospectus as being available for inspection.
26. Certified copy of the Provisional Allotment Letter.
27. Memorandum of advice on Directors’ responsibilities for the Prospectus and potential liabilities in connection with the Rights Issue, in the agreed form.
28. Original letter in the form of Part A of Schedule 4 signed by a director or secretary of the Company authorised to do so.

The Banks may, in their absolute discretion, elect that delivery of any of the documents referred to in this Part B of Schedule 2 may be deferred and in lieu of any such delivery require delivery of the relevant document in a form reasonably satisfactory to them at a later time specified by the Banks.

Part C

Prior to Admission, the Company shall deliver, or procure the delivery, to Banks' Counsel (on behalf of each of the Banks), in the agreed form, or to the extent not in agreed form, in a form acceptable to the Joint Bookrunners, of:

1. Certified copy of the resolution of the Board provisionally allotting the New Shares as referred to in Clause 6.1 and approving and authorising the despatch or publication of the Provisional Allotment Letters.
2. Copy of the signed Application for Admission of Securities to the Official List in relation to the New Shares in the form required by paragraph 3.3.2(1)R of the Listing Rules, signed by a Director or the Secretary of the Company.
3. Original and signed Application for Admission to Trading on the London Stock Exchange (LSE Form 1) in relation to the New Shares, signed by a Director or the Secretary of the Company.
4. Copy of the Participating Securities application forms in respect of the Fully Paid Rights and the Nil Paid Rights given by the Company to Euroclear certified by a Director or the Secretary of the Company.
5. Copy of an undated letter from the Company addressed to Euroclear confirming that the conditions for admission of the Nil Paid Rights and the Fully Paid Rights to CREST are satisfied.
6. Certified copy of the CREST enablement letter confirming that the conditions for admission of the New Shares to CREST are satisfied.
7. Original letter from the Company to the Banks relating to the following: (i) paragraphs 8.3.4, 8.4.8 and 8.4.9 of the Listing Rules; (ii) the fact that there has been no significant change in the financial and trading position (including indebtedness) of the Group since the Accounts Date, (iii) the sufficiency of the Company's working capital, and (iv) extraction of financial information, in the agreed form and dated the date of Admission.
8. Original signed letter to the Banks from Company's Counsel relating to the declaration required from the Joint Sponsors pursuant to paragraphs 8.3.4, 8.4.8 and 8.4.9 of the Listing Rules, in the agreed form and dated the date of Admission.
9. Original of a signed bring-down UK letter of the Auditors to the Banks, in the agreed form and dated the date of Admission.
10. Original of a bring-down SAS 72 comfort letter duly signed by the Auditors, in the agreed form and dated the date of Admission.
11. Original of a bring-down SAS 72 "lookalike" comfort letter duly signed by the Auditors, in the agreed form and dated the date of Admission.
12. Original of a signed Rule 10b-5 disclosure letter of each of Company's Counsel, in the agreed form, and Banks' Counsel dated the date of Admission.

13. Original of a signed “no registration”, “Investment Company Act” and “US tax disclosure” opinion of Company’s Counsel, in the agreed form and dated the date of Admission.
14. Original of a signed “no registration” opinion of Banks’ Counsel dated the date of Admission.
15. Original of a signed opinion of each of: (i) Company’s Counsel, in the agreed form, as English legal advisers to the Company; and (b) Banks’ Counsel, as English legal advisers to the Banks dated the date of Admission.
16. Original of a signed legal opinion of Newco Counsel, as Jersey legal advisers to the Company, in the agreed form dated the same date as the date of Admission.
17. Original letter in the form of Part A of Schedule 4 signed by a director or secretary of the Company authorised to do so.

Part D

Before despatching and publishing any Supplementary Prospectus, the Company shall deliver, or procure the delivery, to Banks' Counsel (on behalf of each of the Banks) in the agreed form, or to the extent not in agreed form, in a form acceptable to the Joint Bookrunners, of:

1. Original letter from the Company to the Banks relating to the following: (i) paragraphs 8.3.4, 8.4.8 and 8.4.9 of the Listing Rules; (ii) the fact that there has been no significant change in the financial and trading position (including indebtedness) of the Group since the Accounts Date, (iii) the sufficiency of the Company's working capital, and (iv) extraction of financial information, in the agreed form and dated the date of such Supplementary Prospectus.
2. Original signed letter to the Banks from the Company's Counsel relating to the declaration required from the Joint Sponsors pursuant to paragraphs 8.3.4, 8.4.8 and 8.4.9 of the Listing Rules, in the agreed form and dated the date of such Supplementary Prospectus.
3. Original signed bring-down UK comfort letter from the Auditors, in the agreed form and dated the date of such Supplementary Prospectus.
4. Original signed letter from the Auditors relating to the declaration required from the Joint Sponsors pursuant to paragraphs 8.4.8 and 8.4.9 of the Listing Rules, in the agreed form and dated the date of such Supplementary Prospectus.
5. Original of a signed bring-down SAS 72 letter from the Auditors, in the agreed form and dated the date of such Supplementary Prospectus.
6. Original of a signed bring down SAS 72 "lookalike" letter from the Auditors, in the agreed form and dated the date of such Supplementary Prospectus.
7. Original of a signed Rule 10b-5 disclosure letter of each of Company's Counsel, in the agreed form, as US legal advisers to the Company and Banks' Counsel dated the date of such Supplementary Prospectus.
8. Original of a signed "no registration", "Investment Company Act" and "US tax disclosure" opinion of Company's Counsel, in the agreed form and dated the date of such Supplementary Prospectus.
9. Original of a signed "no registration" opinion of Banks' Counsel dated the date of such Supplementary Prospectus.
10. Original of a signed opinion of each of: (i) Company's Counsel, in the agreed form, as English legal advisers to the Company; and (b) Banks' Counsel, as English legal advisers to the Banks, dated the date of such Supplementary Prospectus.
11. Original of a signed legal opinion of Newco Counsel, as Jersey legal advisers to the Company, in the agreed form dated the same date as the date of such Supplementary Prospectus.

12. Original letter in the form of Part B of Schedule 4 signed by a director or secretary of the Company authorised to do so.

Part E

On or prior to the Time of Procurement the Company will deliver, or procure the delivery, to Banks' Counsel (on behalf of each of the Banks), of:

1. Original signed bring-down UK comfort letter from the Auditors, in the agreed form and dated the Time of Procurement.
2. Original of a signed bring-down SAS 72 letter from the Auditors, in the agreed form and dated the Time of Procurement.
3. Original of a signed bring-down SAS 72 "look-a-like" letter from the Auditors, in the agreed form and dated the Time of Procurement.
4. Original letter in the form of Part B of Schedule 4 signed by a director or secretary of the Company authorised to do so.

Part F

On or prior to 7.00 a.m. on the Settlement Date the Company will deliver, or procure the delivery, to Banks' Counsel (on behalf of each of the Banks), of:

1. Original of a signed bring-down SAS 72 letter from the Auditors, in the agreed form and dated the Settlement Date.
2. Original of a signed bring-down SAS 72 "look-a-like" letter from the Auditors, in the agreed form and dated the Settlement Date.
3. Original of a signed Rule 10b-5 disclosure letter of each of Company's Counsel, in the agreed form, and Banks' Counsel pertaining to the Time of Procurement and the Settlement Date, dated the Settlement Date.
4. Original of a signed "no registration", "Investment Company Act and US tax disclosure" opinion of Company's Counsel, in the agreed form pertaining to the Time of Procurement and the Settlement Date, dated the Settlement Date.
5. Original of a signed "no registration" opinion of Banks' Counsel pertaining to the Time of Procurement and the Settlement Date, dated the Settlement Date.
6. Original of a signed opinion of each of: (i) Company's Counsel in the agreed form, as English legal advisers to the Company; and (b) Banks' Counsel, as English legal advisers to the Banks, pertaining to the Time of Procurement and the Settlement Date, dated the Settlement Date.
7. Original of a signed legal opinion of Newco Counsel, as Jersey legal advisers to the Company, in the agreed form dated the Settlement Date.
8. Original letter in the form of Part B of Schedule 4 signed by a director or secretary of the Company authorised to do so.

SCHEDULE 3
REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS

1. COMPLIANCE

1.1 The Company and each Principal Group Company (and any holding company thereof) has been duly incorporated and is validly existing as a company with limited liability under the laws of the country of its incorporation with full corporate power and authority to own, lease and operate the properties which it owns, leases and operates and to own its other assets and carry on its business as presently carried on and as intended to be carried on as described in the Prospectus.

1.2 The Group has conducted and is conducting its business, in all material respects, in accordance with all applicable laws and regulations of the United Kingdom, the United States and, to the knowledge of the Company, elsewhere and there is no order, decree or judgment of any court or any governmental or other competent authority or agency of the United Kingdom, the United States or elsewhere outstanding against any Group Company or any person for whose acts any Group Company is vicariously liable which adversely affects or is reasonably likely to have a material adverse effect on the financial position of the Company or the Group as a whole.

1.3 All orders, registrations, licences, qualifications, permissions, clearances, approvals, authorisations and consents which are material for carrying on the business of the Group have been obtained and are in full force and effect and, so far as the Company is aware, there are no circumstances which might lead to any of such orders, registrations, licences, qualifications, permissions, clearances, approvals, authorisations and consents being revoked, suspended, varied (in any material respect) or refused renewal.

1.4 All sums due in respect of the issued share capital of the Company at the date of this Agreement have been paid to and received by the Company. None of the owners or holders of any of the share capital of the Company shall, with effect from Admission, have any pre-emptive or other rights, in his capacity as such, in relation to the Group other than as set out in the articles of association of the Company.

1.5 The Company is the beneficial owner free from all Adverse Interests of the whole of the issued share capital of each Principal Group Company, other than for the Niagara Mohawk Power Corporation, KeySpan Gas East Corporation and the Brooklyn Union Gas Company, each of which has issued or will be issuing a golden share under the order of the NY Public Service Commission, which in each case is held by GSS Holdings, Inc. or another nominee of the NY Public Service Commission.

1.6 The Company and the Directors have at all times complied with the provisions of the Company's memorandum and articles of association and the Companies Act in all material respects and have the right, power and authority under the memorandum and articles of association of the Company, or pursuant to a resolution passed in a general meeting, to enter into and perform this Agreement (including, without limitation, the power to pay commissions, fees, costs and expenses provided for in this Agreement), the Option Agreement, the Subscription and Transfer Agreement and the Receiving Agent Agreement, to make the Rights Issue, to allot and issue the New Shares in certificated and uncertificated form, to issue the Relevant Documents in the manner proposed without any sanction or

consent by members of the Company or any class of them and to enter into any other agreement in connection with the Rights Issue to which it is, or is to be, a party, and, subject to Admission, there are no other consents, authorisations or approvals required by the Company in connection with the entering into and the performance of this Agreement, the Option Agreement, the Subscription and Transfer Agreement and the Receiving Agent Agreement and the actions referred to in this paragraph 1.6 which have not been irrevocably and unconditionally obtained. The Company's existing Ordinary Shares are participating securities in, and have not been suspended from, CREST.

1.7 The allotment and issue of the New Shares, the Rights Issue, the issue and distribution of the Relevant Documents and any other document by or on behalf of the Company in connection with Admission or the Rights Issue (a) will comply, in all material respects, with all agreements to which any Group Company is a party or by which any such Group Company is bound; (b) will comply, in all material respects, with all applicable laws and regulations of the United Kingdom (including, without limitation, the Companies Act, the FSMA, the Listing Rules, the Prospectus Rules, the Disclosure Rules and Transparency Rules, the Admission and Disclosure Standards) and all applicable laws and regulations of the United States and, to the knowledge of the Company, elsewhere; (c) will comply with the memorandum and articles of association of the Company; (d) will not exceed or infringe any restrictions or the terms of any contract, indenture, security, obligation, commitment or arrangement by or binding upon the board of directors of any Group Company or their respective properties, revenues or assets or result in the implementation of any right of pre-emption or any other material provision thereof, or result in the imposition or variation of any rights or obligations of the Company save where any such excess or infringement would not be, singly or in the aggregate, material in the context of the Group, the Rights Issue or Admission; and (e) is not likely to result in any other party being relieved of any material obligation or becoming entitled to exercise any material right (including any termination right or option) or in the Company or the Group losing any material benefit, right or licence which it currently enjoys or in a material liability or obligation of the Company or the Group being created or a liability or obligation of the Company or the Group being materially increased.

1.8 The New Shares will, upon allotment, be free from all Adverse Interests and will rank *pari passu* in all respects with the existing issued shares in the issued share capital of the Company save for the right to receive the final dividend of 24.84 pence per Ordinary Share proposed to be paid in respect of the year ended 31 March 2010, and there will be no restrictions on the subsequent transfer of the New Shares pursuant to the memorandum and articles of association of the Company or under English law.

1.9 The New Shares conform to all statements relating thereto contained in the Prospectus, and such description conforms to the rights set out in the Company's articles of association.

1.10 The Company has complied and is in compliance in all material respects with the requirements of Euroclear and the Uncertificated Securities Regulations 2001.

1.11 This Agreement, the Option Agreement, the Subscription and Transfer Agreement, the Receiving Agent Agreement and the other agreements to be entered into by the Company in connection with Admission and the Rights Issue have been duly authorised, executed and

delivered on behalf of the Company and constitute valid and legally binding obligations of the Company enforceable against it in accordance with their terms.

1.12 The Rights Issue (including without limitation, the creation, allotment and issue of the New Shares and the publication and distribution of the Relevant Documents) will be conducted in all material respects in accordance with the terms and conditions of the Relevant Documents and the Company has not contravened in any material respect the laws, rules and regulations applicable to the Rights Issue in each jurisdiction in which the New Shares are offered.

1.13 Save as pursuant to the employee share plans described in paragraph 13 of Part XI of the Prospectus, there are no rights (conditional or otherwise) (i) to require the issue of any shares or other securities (including without limitation, any loan capital) or securities convertible into or exchangeable for, or warrants, rights or options to purchase, or obligations, commitments or intentions to create the same or (ii) to sell or otherwise dispose of any shares or other securities of the Company or any Principal Group Company (or any holding company thereof) other than for the Niagara Mohawk Power Corporation, KeySpan Gas East Corporation and the Brooklyn Union Gas Company, each of which has issued or will be issuing a golden share under the order of the NY Public Service Commission, which in each case is held by GSS Holdings, Inc. or another nominee of the NY Public Service Commission.

1.14 No member of the Group or any person acting on its behalf (for the avoidance of doubt no representation is being made with respect to the Banks or any of their respective affiliates) has taken, directly or indirectly, any action designed to or which has constituted or which might reasonably be expected to cause or result in stabilisation or manipulation of the price of any security of the Company.

1.15 The Company has not paid or agreed to pay to any person any compensation for soliciting another to purchase any New Shares (except as contemplated in this Agreement).

2. RELEVANT DOCUMENTS

2.1 The Prospectus (when read together with any Supplementary Prospectus) fairly presents (or when issued and published will fairly present) the information contained therein and does not and will not, as of its date and on the dates on which this Warranty is deemed repeated (and if amended or supplemented as of the date of such amendment or supplement), contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

2.2 All statements of fact included in the Relevant Documents are (or when issued and published will be) fairly presented and true and accurate in all material respects and are not (or when made will not be) misleading in any material respect.

2.3 Without prejudice to the representations in 2.1 and 2.2 above, the Relevant Documents contain, or will when published contain, all particulars and information required by, and comply, or will when published comply with (to the extent applicable) the memorandum and articles of association of the Company, the Companies Act, the FSMA, the

Listing Rules, the Disclosure Rules and Transparency Rules, the Prospectus Rules, the rules and requirements of the London Stock Exchange and the FSA and, in all material respects, all other requirements of statute, statutory regulation or any regulatory body.

2.4 All expressions of opinion, intention, belief or expectation contained in any Relevant Document (following publication, if applicable) are, and were on the respective dates thereof, or will be, when published, truly and honestly held by the Directors, are fairly based and have been made on reasonable grounds after due and careful consideration and enquiry.

2.5 There are no facts or matters known, or which could on due and careful enquiry have been known, to the Company or any of the Directors omitted from any Relevant Document (following publication, if applicable), the omission of which would make any expression of opinion, intention, belief or expectation contained in a Relevant Document misleading in any material respect.

2.6 Having regard to the particular nature of the Company and the Group and the Company's share capital and the other matters referred to in section 87A of the FSMA, the Prospectus contains all information about the Group which is or might be material for disclosure to potential investors and their professional advisers and which they would reasonably require and reasonably expect to find there for the purpose of making an informed assessment of the matters specified in section 87A(2) of the FSMA in a form which is comprehensible and easy to analyse.

2.7 Statements in Parts, V, X, and XI of the Prospectus, insofar as they purport to constitute a summary of the laws and documents referred to therein, are accurate in all material respects.

2.8 There are no matters other than those disclosed with sufficient prominence in the Prospectus or otherwise in writing to the UK Listing Authority which the Company considers should be taken into account by the UK Listing Authority in considering the application for Admission.

2.9 All information provided by the Company, its subsidiary undertakings or any of its or their officers or employees to the Banks and/or the Auditors in connection with their due diligence enquiries or similar requests for information (including, without limitation, for the purposes of the Working Capital Report and/or any other report prepared by the Auditors in connection with the Rights Issue and in respect of any updates thereto) has been supplied in good faith and, so far as the Company is aware, such information was when supplied, and remains, true and accurate in all material respects and not misleading in any material respect and no further information has been withheld, the absence of which might reasonably be considered to make such information inaccurate or misleading in any material respect or which might reasonably have affected the contents of the Working Capital Report and/or any other such report.

3. VERIFICATION MATERIALS

The Verification Materials have been approved at a meeting of the Board or a duly authorised committee thereof and have been prepared in good faith with due care and the replies given

have been prepared or approved by persons having appropriate knowledge and responsibility to enable them properly to provide such replies.

4. PREVIOUS ANNOUNCEMENTS

With respect to all Previous Announcements, all statements of fact contained therein were at the date of the relevant Previous Announcement and, save to the extent corrected in any document or announcement issued or made by or on behalf of the Company subsequent thereto, remain true and accurate in all material respects and not misleading in any material respect and all material estimates, expressions of opinion or intention or belief or expectation contained therein were at the date of the relevant Previous Announcement made on reasonable grounds and were truly and honestly held and were fairly based and there were no facts known (or which could on reasonable enquiry have been known) the omission of which would make any statement of a material fact or estimate or statement or expression of opinion, intention, belief or expectation in any of the Previous Announcements misleading and all Previous Announcements complied in all material respects with the memorandum and articles of association of the Company, the Companies Act, the FSMA, the Listing Rules, the Disclosure Rules and Transparency Rules, the Prospectus Rules, all applicable rules and requirements of the London Stock Exchange and the FSA and all other requirements of applicable statute, statutory regulation or any regulatory body. There is no existing profit forecast outstanding in respect of the Company, the Group taken as a whole, or any member thereof.

5. DEROGATION

All statements made or information provided by or on behalf of the Company to the London Stock Exchange or the UK Listing Authority (including in connection with any application for certain information to be omitted from the Prospectus) are (or, when made, will be) true, complete and accurate in all material respects and are not (or, when made, will not be) misleading in any material respect. There is no information which has not been disclosed in writing to the London Stock Exchange or the UK Listing Authority in connection with such an application which by its omission makes such a statement untrue, inaccurate or misleading in any material respect or which is otherwise material for disclosure to the London Stock Exchange or the UK Listing Authority.

6. ACCOUNTS

6.1 The Accounts:

- (a) have been prepared and audited in accordance with and comply with IFRS, the Companies Act, the Companies Act 1985 and all applicable laws and regulations in the United Kingdom;
- (b) give a true and fair view of the financial condition and of the state of affairs of the Company and the Group as at the end of each of the relevant financial periods (including the Accounts Date) and of the profit, loss, cash flow and changes in equity of the Company and the Group for such periods;

- (c) are in accordance with IFRS applied on a consistent basis throughout the periods involved;
- (d) either make proper provision for or, where appropriate, in accordance with IFRS, include a note in respect of all liabilities (which includes, for the avoidance of doubt, the tax liabilities) or commitments, whether actual, deferred, contingent or disputed of the Group; and
- (e) have been prepared after due and careful enquiry by the Company and, where applicable, its subsidiaries, and are prepared on the basis set out in the Prospectus consistently with the accounting policies of the Group.

6.2 The summary and selected financial information on the Group set out in the Prospectus has been duly and carefully extracted from the Accounts and has been properly compiled on a basis consistent with the accounting policies applied in the Accounts.

6.3 The information contained in the statement of capitalisation and indebtedness set out in the Prospectus presents fairly the information contained therein, has been accurately extracted from the Company's records and properly compiled on the basis described therein and on a basis that is consistent with the accounting policies applied in the Accounts. The information contained in the statement of capitalisation and indebtedness is in accordance with the Listing Rules, the Prospectus Rules and the Admission and Disclosure Standards, and the assumptions used in the preparation of such statement are reasonable and the adjustments used therein are appropriate to give effect to the transactions and circumstances referred to therein.

6.4 Save to the extent set out in the Accounts, no Group Company has any off-balance sheet financing, investment or liability material for disclosure in the Prospectus.

6.5 The Company maintains a system of internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that complies with the requirements of the Exchange Act and has been designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, 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.

6.6 The Directors have established procedures which provide a reasonable basis for them to make proper judgements on an ongoing basis as to the financial position and prospects of the Company and each Group Company.

6.7 Each of the Company and its consolidated subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurances that:

- (a) transactions are executed in accordance with management's general or specific authorisation;

- (b) transactions are recorded as necessary to permit preparation of financial statements by the Company on a consolidated basis in conformity with IFRS and the Companies Act and the rules and regulations thereunder and to maintain accountability for assets;
- (c) access to assets is permitted only in accordance with management's general or specific authorisation; and
- (d) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

6.8 There are no, and during the past three years have been no (i) material weaknesses in the Company's internal controls over financial reporting (whether or not remedied) of the Company or the Group, (ii) change in the Company's internal controls over financial reporting of the Company or the Group that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting, of the Company or the Group, or (iii) fraud that involves any member of management of the Company or of any member of the Group, in each case of grade A or B status, or, to the extent material, any other employee of the Company or any member of the Group.

6.9 The Auditors, who have audited the Company's consolidated financial statements and supporting notes as at and for the years ended 31 March 2008, 2009 and 2010, are independent auditors with respect to the Group, as required by the Listing Rules and the Prospectus Rules.

7. POSITION SINCE ACCOUNTS DATE

7.1 Since the Accounts Date:

- (a) each Group Company has carried on its respective business in all material respects in the ordinary course, and there has been no Material Adverse Change;
- (b) there has been no material impairment to charges in respect of any assets of the Company or of any Group Company and there has been no material increase in the provisions of the Company or of any Group Company;
- (c) save as expressly disclosed in paragraph 16 of Part XI of the Prospectus, no Group Company has, otherwise than in the ordinary course of business, entered into or assumed or incurred any material contract, oral or written commitment (whether in respect of capital expenditure or otherwise), borrowing, indebtedness in the nature of borrowing, guarantee, liability (including contingent liability) or any other material agreement or obligation;
- (d) no debtor has been released by the Company to an extent which is material in relation to the Group taken as a whole on terms that he pays less than the book value of his debt and no debt of such material amount owing to the Company or any Group Company has been deferred, subordinated or written off or has proven irrecoverable to any material extent;
- (e) no Group Company has been involved in any transaction which has resulted or is likely to result in any material liability for Tax on the Company or any Group

Company other than a transaction in the ordinary course of business or which is provided for in the Accounts; and

- (f) no Group Company has been in default in any material respect under any agreement or arrangement to which any Group Company is a party and which is or might be material and there are no circumstances likely to give rise to such violation or default.

8. PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma financial information in Part IX of the Prospectus presents fairly the information shown therein, has been duly and carefully prepared in accordance with the Prospectus Rules and all other applicable requirements and guidelines, has been properly compiled on the bases described therein and is presented on a basis consistent with the accounting policies of the Group; all the assumptions used in the preparation thereof are reasonable and appropriate to give effect to the transactions and circumstances referred to therein.

9. WORKING CAPITAL REPORT

9.1 The Working Capital Report has been approved by the Directors or a duly authorised committee thereof and has been made after due and careful enquiry and consideration. All statements of fact therein are true and accurate in all material respects and not misleading in any material respect, all expressions of opinion, intention, belief or expectation contained therein are made on reasonable grounds after due and careful enquiry and consideration and are honestly held by the Directors and are fairly based, there are no other facts known or which could on reasonable enquiry have been known to the Company, the omission of which would make any such statement or expression in the Working Capital Report misleading in any material respect, all the bases and assumptions on which the Working Capital Report is based are, in the opinion of the Company, reasonable and, in the Company's opinion, there are no other material assumptions on which the Working Capital Report ought to have been based which have not been made. In this paragraph 9.1 and in paragraph 9.2, "material" shall mean material in the context of the cash flow and working capital projections or the Working Capital Report.

9.2 The cash flow and working capital projections contained in the Working Capital Report have been prepared by the Company on a reasonable basis after due and careful enquiry and take into account all material matters and sensitivities of which the Company is aware concerning the Company and each of its consolidated subsidiaries.

9.3 The Company is of the opinion that, after taking into account existing available bank and other facilities and the net proceeds of the Rights Issue, the Group has sufficient working capital for its present requirements, that is for at least 18 months from the date of the Prospectus.

10. NO SIGNIFICANT CHANGE

Since the Accounts Date, there has been no significant change in the financial or trading position of the Group.

11. GUARANTEES, INDEMNITIES, BORROWINGS AND DEFAULT

11.1 Save for guarantees or indemnities given by any Group Company in the ordinary course of business and save for any indemnities given by the Company pursuant to this Agreement and save as expressly disclosed in Part VIII of the Prospectus, no Group Company has given or has agreed to give any guarantee or indemnity or similar obligation in favour of a third party and no Group Company has any current or prospective liability in respect of such guarantee, indemnity or similar obligation, howsoever arising, which could have a material adverse effect on the Group or on the Rights Issue or Admission.

11.2 No event has occurred nor have any circumstances arisen (and the making and completion of the Rights Issue and the allotment and issue of the New Shares will not give rise to any such event or circumstance) so that any person is or would be entitled, or could, with the giving of notice or lapse of time or the fulfilment of any condition or the making of any determination, become entitled, to require repayment before its stated maturity of, or, so far as the Company is aware, to take any step to enforce any security for, any indebtedness of any member of the Group which is material in the context of the Group's borrowings or working capital projections and no person to whom any indebtedness, which is material in the context of the Group's borrowings or working capital projections, of any member of the Group is owed has demanded or, so far as the Company is aware, threatened to demand repayment of, or taken or threatened to take any step to enforce any guarantee, indemnity or other security for, the same.

11.3 All of the Group's borrowing facilities referred to in the Working Capital Report (together, for the purpose of this paragraph 11.3, the **Facilities**) have been duly executed on behalf of the relevant Group Company and are in full force and effect. To the best of the knowledge, information and belief of the Company, all undrawn amounts under such Facilities are or will be capable of drawdown and there is nothing known, or which could on reasonable enquiry be known, to the Company that would give cause for undrawn amounts under any Facilities not being available for drawing as and when required.

11.4 Save as expressly disclosed in paragraph 5.4 of Part IV, paragraphs 2.1.3 and 2.4 of Part V and Appendix A to the Chairman's Letter in Part I of the Prospectus, there are no companies, undertakings, partnerships or joint ventures in existence whose results are not consolidated with the results of the Group, but whose default would affect the indebtedness or increase the contingent liabilities of the Group to an extent which would be reasonably likely to have a material adverse effect on the financial or trading position of the Group or on the Rights Issue or Admission.

11.5 The amounts borrowed by each Group Company do not exceed any limitation on its borrowing contained in its articles of association, any debenture or other deed or document binding upon it.

11.6 No event or circumstance exists, has occurred or arisen or, so far as the Company is aware, is about to occur which constitutes or results in, or would with the giving of notice and/or lapse of time and/or the making of a relevant determination, constitute, or result in, termination of or a default or the acceleration or breach of any obligation under any agreement, instrument or arrangement to which any Group Company is a party or by which any such Group Company or any of its properties, revenues or assets are bound, which would,

or could reasonably be expected (singly or in the aggregate) to give rise to a Material Adverse Change.

12. TAXATION

Taxation Compliance

12.1 Each Group Company (duly and within appropriate time limits) has made all material returns, given all material notices and supplied all material information required to be supplied to all relevant tax authorities and maintained all material records required to be maintained for tax purposes and all such information was and remains complete and accurate in all material respects and all such returns and notices were and remain complete and accurate in all material respects and were made on a proper basis and each Group Company has, paid all material taxes required to be paid by it and any other material assessment, fine or penalty levied against it to the extent that any of the foregoing is due and payable and except to the extent that any of the foregoing is currently being contested in good faith.

12.2 Save as expressly disclosed in the Prospectus, no Group Company is involved in any dispute or investigation with any tax authority, nor has any enquiry been raised by any tax authority in respect of any Group Company, which could give rise to a Material Adverse Change.

13. JERSEYCO

13.1 JerseyCo is and has since the date of its first board meeting been resident in the United Kingdom and nowhere else for UK tax purposes and JerseyCo will, whilst the JerseyCo Ordinary Shares and/or the JerseyCo Preference Shares are held by JerseyCo Subscriber (and immediately following the transfer of the JerseyCo Ordinary Shares and/or the JerseyCo Preference Shares to the Company) remain resident in the United Kingdom and nowhere else for UK tax purposes;

13.2 No share register of JerseyCo is, nor at any time up to the date on which JerseyCo Subscriber is no longer to hold an interest in JerseyCo's share capital will be, located or kept in the United Kingdom by or on behalf of JerseyCo.

14. LITIGATION

14.1 Save as expressly disclosed in paragraph 15 of Part XI of the Prospectus, no Group Company nor any of its officers or agents or employees is involved, or has within the last 12 months immediately preceding the date of this Agreement been involved, in any civil, criminal, arbitration, administrative, governmental or other proceedings or governmental regulatory or similar investigation or enquiry, whether as plaintiff, defendant or otherwise which, by itself or with other proceedings, is of material importance in the context of the Group or may have a significant effect on the Group's financial position or profitability.

14.2 Save as expressly disclosed in paragraph 15 of Part XI of the Prospectus, no litigation or arbitration, administrative, governmental, civil, criminal or other proceedings nor governmental, regulatory or similar investigation or enquiry are pending or, so far as the Company is aware, have been threatened by or against any Group Company or any of their

respective officers or (so far as the Company is aware) agents or employees in relation to the affairs of any Group Company and, to the best of the knowledge, information and belief of the Company and the Directors, there are no facts or circumstances likely to give rise to any such litigation or arbitration, administrative, criminal, governmental, civil, or other proceedings or governmental, regulatory or similar investigation or enquiry, in each case, to an extent which, by itself or with other proceedings, is of material importance in the context of the Group or may have a significant effect on the Company's or the Group's financial position or profitability taken as a whole.

14.3 Save as expressly disclosed in paragraph 15 of Part XI of the Prospectus, no Group Company nor any of its officers or agents or employees in relation to the affairs of any Group Company has been a party to any undertaking or assurance given to any court or governmental agency or the subject of any injunction which is still in force and which, by itself or with other proceedings, is of material importance in the context of the Group or may have a significant effect on the Company's or the Group's financial position or profitability taken as a whole.

14.4 For the purpose of this paragraph 14, **proceedings** includes any action by any governmental, public or regulatory authority (including any investment exchange or any authority or body which regulates investment business or takeovers or which is concerned with regulatory, licensing, competition taxation matters or matters concerning Intellectual Property Rights).

15. ARRANGEMENTS WITH DIRECTORS AND SHAREHOLDERS

15.1 There are no loans made by any Group Company to any of the shareholders of the Company and/or any of the directors of any Group Company and/or any associate of any of them to the extent material.

15.2 There are no debts owing to any Group Company by any of the shareholders of the Company and/or any of the directors of any Group Company and/or any associate of any of them to the extent material.

15.3 Except for the articles of association of the Company and any service agreement with a Director, there are no existing contracts or engagements to which any Group Company is a party and in which any of the directors of any Group Company and/or any associate of any of them is interested other than matters subject to paragraph 1 of Annex 1R to Chapter 11 of the Listing Rules.

15.4 The Company is not aware of any claim, demand or right of action against any Group Company otherwise than for accrued remuneration in accordance with their contracts of employment by any officer or employee (or former officer or employee) of the Group and/or any associate of them which is or might reasonably be expected to be material.

15.5 So far as the Company is aware, (a) no Director nor any person connected with such Director is in breach of any restrictive covenant, employment agreement or contract for services which would or might affect the Company or any other Group Company; (b) no employees of the Group nor any person connected with any such employee is in breach of any restrictive covenant, employment agreement or contract for services which would or might

have a material adverse effect on the Company or any other Group Company; and (c) so far as the Company is aware, there are no circumstances which might give rise to any claim of such a breach or any other dispute with any employer, former employer or other person for whom any Director or employee of the Group provides or has provided services which is or might reasonably be expected to be material.

15.6 No Director has given notice of termination of his contract of employment or terms of appointment or has indicated an intention to resign from the Company or Group Company. So far as the Company is aware, no director of any Group Company has given notice of termination of his terms of appointment or has indicated to the Company or to the relevant Group Company an intention to resign where such termination or resignation is or might reasonably be expected to be material.

16. RELATED PARTY TRANSACTIONS

16.1 Save as expressly disclosed in paragraph 17 of Part XI of the Prospectus, the Company or any Group Company has not entered into any related party transaction (within the meaning set out in the IFRS) in the period covered by the financial information contained in the Prospectus.

17. COMPETITION

17.1 No Group Company is a party to (or is concerned in) any agreement, arrangement, concerted practice or course of conduct which infringes, or of which particulars have or should have been delivered to any relevant governmental or other authority in any jurisdiction under any relevant legislation in any territory regarding anti-competitive or restrictive trade or business practices or which falls within Articles 81 and/or 82 of the EC Treaty, or otherwise.

17.2 No Group Company is, or has been, in connection with its business or that of any other Group Company, engaged in any practice which contravenes any such legislation as is referred to in the preceding paragraph or, so far as the Company is aware, is under investigation by any authority referred to in the preceding paragraph or which is the subject of undertakings to any such authority and, so far as the Company is aware, none of the practices carried on by any Group Company contravenes or may contravene any such legislation or is likely to be subject to such investigation.

18. INSURANCE

(i) The Group is insured to what the Company reasonably believes to be adequate levels for its business and the businesses of the Group Companies, (ii) all such insurances are in full force and effect and to the best knowledge, information and belief of the Company, there are no circumstances existing which could render any such insurances void or voidable and (iii) so far as the Company is aware, there is no material insurance claim pending, threatened or outstanding in relation to any Group Company and all premiums due in respect of all insurances have been duly paid. Neither the Company nor any Group Company has been refused any insurance coverage sought or applied for in the 12 months prior to the date of this Agreement and neither the Company nor any other Group Company has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its

business. The Company reasonably believes that the Group has appropriate disaster recovery arrangements in place if its premises or systems become unusable for any reason.

19. INFORMATION TECHNOLOGY

19.1 In the 12 months prior to the date of this Agreement, the Group did not suffer any failures or bugs in or breakdowns of any IT Systems used in connection with the businesses of the Group which have caused any material disruption or interruption in or to its use and the Company is not aware of any fact or matter which may so materially disrupt, interrupt or affect the use of such equipment following the date of this Agreement on the same basis as it is presently used.

19.2 Each Group Company is validly licensed to use the software which is material for use in its business.

20. RATING

The Company has not received notice of any intended or potential downgrading of the rating assigned to any of the Company's (or any other member of its Group's) credit or debt by a "nationally recognized statistical rating organization", as that term is defined by the US Securities and Exchange Commission for the purposes of Rule 436(g)(2) under the Securities Act, which would or might reasonably be expected to be material.

21. SHARE OPTIONS

21.1 The particulars of the share option schemes or share incentive plans contained in the Prospectus and, in particular, the information as to the dates on which options and awards may be exercised or vest and the number of options and awards granted (conditionally or otherwise) on or before the date of this Agreement are accurate in all material respects and not misleading in any material respect.

22. PENSION SCHEMES

Save as expressly disclosed in paragraphs 8 and 14 of Part XI of the Prospectus (it being acknowledged that arrangements referred to in paragraph 7 of Part XI of the Prospectus may also be available to other employees) or in note 30 to the National Grid plc financial statements, the Group is not paying, and is not under any liability (actual or contingent) to pay or secure (other than by payment of employers' contributions under national insurance or social security legislation), any pension or other benefit on retirement, death or disability or on the attainment of a specified age or on the completion of a specified number of years of service.

23. LABOUR MATTERS

No labour problem, dispute, slow-down, stoppage or disturbance involving the employees of the Company or any other Group Company exists, or so far as the Company is aware, is threatened and the Company is not aware of any existing or threatened labour disturbances by the employees of any suppliers, manufacturers, clients or contractors of the Company or any other Group Company, which, in each case, is or is reasonably likely to be material.

24. AGREEMENTS

There is no agreement, undertaking, instrument or arrangement requiring the creation, allotment, issue, redemption or repayment, or the grant to any person of the right (whether conditional or not) to require the allotment, issue, redemption or repayment, of any shares in the capital of the Company or any Principal Group Company (or any holding company thereof) (including, without limitation, an option or right of pre-emption or conversion) which is or might reasonably be expected to be material.

25. INSOLVENCY

25.1 No Group Company is unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986.

25.2 Since April 2007, no order has been made, petition presented (other than such petitions that the Company reasonably believes to be frivolous) or resolutions passed for the winding up of any Group Company and no meeting has been convened for the purpose of winding up any Group Company.

25.3 Since April 2007, so far as the Company is aware, no steps have been taken for the appointment of an administrator or receiver (including an administrative receiver) of all or any part of the assets of any Group Company.

26. ENVIRONMENTAL

26.1 Save as expressly disclosed in paragraph 7 of Part V of the Prospectus, and so far as the Company is aware, neither the Company nor any other Group Company is in violation of any federal state, local or foreign statute, law, rule, regulation, ordinance, code, policy or rule of common law or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health, the environment (including, without limitation, ambient air, noise, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, biological materials, wastes, toxic substances, hazardous substances, petroleum or petroleum products or nuclear or radioactive material (collectively, **Hazardous Materials**) or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials (collectively, **Environmental Laws**)) which is or might reasonably be expected to be material.

26.2 Save as expressly disclosed in paragraph 7 of Part V of the Prospectus, there are no material claims, proceedings, actions or investigations pending against the Group with respect to non-compliance with or liability (whether actual or prospective), obligation or duty under Environmental Laws nor, so far as the Company is aware, have any such claims, proceedings, actions or investigations been threatened.

26.3 The Company and all other Group Companies have all material permits, licences, authorisations and approvals for their respective businesses required under any applicable Environmental Laws and are each in compliance with their requirements in all material respects.

27. REGULATORY

27.1 Each Group Company required to be licensed is duly licensed in its jurisdiction of incorporation and domicile and, except as would not reasonably be expected to be material, is duly licensed or authorised in each other jurisdiction where it is required to be licensed or authorised to conduct its business as described in the Prospectus.

27.2 Save as expressly disclosed in paragraph 15 of Part XI of the Prospectus, no Group Company nor any of its officers has failed to comply in any material respect with any statutory provision or any rules, regulations, directions, requirements, notices and provisions of any regulatory body applying to such Group Company in relation to its business.

28. MONEY LAUNDERING

The operations of the Company and its subsidiaries are and have been conducted at all times in compliance with the money laundering statutes of all applicable jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any applicable governmental agency (collectively, the **Money Laundering Laws**) and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries with respect to the Money Laundering Laws is pending or, to the best knowledge, information and belief of the Company, threatened.

29. UNITED STATES SECURITIES REGULATIONS

29.1 None of the Company, nor any other Group Company, nor to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company, is aware of or has taken any action that could result in a violation by such persons of the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the rules and regulations thereunder (the **FCPA**) (including, without limitation, making use of the mail or any means or instrument of interstate commerce corruptly in furtherance of an offer, payment, promise to pay or authorisation of the payment of any money, or other property, gift, promise to give, or authorisation of the giving of anything of value to any “foreign official” (as such term is defined in the FCPA) or any foreign political office, in contravention of the FCPA), the OECD Convention on Bribery of Foreign Public Officials in International Business Transactions (the **OECD Convention**) or any similar law or regulation, to which the Company, any other member of the Group, any director, officer, agent, employee of any member of the Group or, to the knowledge of the Company, any affiliate is subject; and the Company, each Group Company and to the knowledge of the Company, any director, officer, agent or employee of any Group Company or affiliate have conducted their businesses in compliance with the FCPA, the OECD Convention and any applicable similar law or regulation applicable to it or to them and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith.

29.2 None of the Company, its affiliates (as defined in Rule 405 under the Securities Act, or any person acting on its or their behalf (which, for the avoidance of doubt, shall not include the Banks or any of their affiliates or persons acting on its or their behalf, as to whom the Company makes no representation, warranty or undertaking) has engaged or will engage in

any “directed selling efforts” (within the meaning of Rule 902(c) of Regulation S under the Securities Act) with respect to the New Shares, the Nil Paid Rights or the Fully Paid Rights.

29.3 The Company is a “foreign issuer” (as defined in Regulation S under the Securities Act).

29.4 The Company reasonably believes that there is no “substantial U.S. market interest” (as defined in Rule 902(j) of Regulation S under the Securities Act) in any of the New Shares, the Nil Paid Rights or the Fully Paid Rights or any security of the same class or series as the New Shares, the Provisional Allotment Letters, the Nil Paid Rights or the Fully Paid Rights.

29.5 None of the Company, its affiliates or any person acting on behalf of any of them (which, for the avoidance of doubt, shall not include the Banks or any of their affiliates or persons acting on its or their behalf, as to whom the Company makes no representation, warranty or undertaking) has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Rule 502(c) of Regulation D under the Securities Act) in the United States in connection with any offer or sale of the New Shares, the Nil Paid Rights or the Fully Paid Rights and nor will any such person offer or solicit any offers to buy any New Shares the Fully Paid Rights or Nil Paid Rights in any manner involving a public offering in the United States within the meaning of Section 4(2) of the Securities Act.

29.6 None of the Company, its affiliates or any person acting on behalf of any of them (which, for the avoidance of doubt, shall not include the Banks or any of their affiliates or persons acting on its or their behalf, as to whom the Company makes no representation, warranty or undertaking) has, directly or indirectly, (a) made or will make offers or sales to buy any security, (b) solicited or will solicit offers or sales to buy any security, or (c) otherwise negotiated or will negotiate in respect of any security, in any case under circumstances that would require the registration of the New Shares the Nil Paid Rights or the Fully Paid Rights under the Securities Act.

29.7 The Company is not and, immediately after giving effect to the Rights Issue and the application of the proceeds thereof as set forth in the Prospectus or any Supplementary Prospectus, will not be, an “investment company” as such term is defined in the U.S. Investment Company Act of 1940.

29.8 Neither the Company nor, so far as the Company is aware, any officer, agent, employee or other person associated with or acting on behalf of the Company or any Group Company has, in connection with the business of the Company or any of its subsidiaries: (i) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; (ii) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; or (iii) made any unlawful bribe, rebate, payoff, influence payment, kickback or other unlawful payment.

29.9 None of the Company, any Group Company, any director, officer or, to the knowledge of the Company, agent, employee or Affiliate of the Company, is currently the subject of any sanctions administered by The Office of Foreign Assets Control of the U.S. Department of the Treasury (**OFAC**) or any similar sanctions or measures imposed by the European Union and for the United Nations and/or her Majesty’s Treasury or other relevant sanctions authority (collectively, **Sanctions**) and the Company will not directly or indirectly

use the proceeds of the Rights Issue or lend, contribute or otherwise make available such proceeds to any other joint venture partner or entity, for the purpose of financing the activities of any person subject to any Sanctions.

29.10 The Company does not believe that it is and does not expect to become (whether as a result of the receipt and application of the proceeds of the sale of the New Shares, the Provisional Allotment Letters, or the Fully Paid Rights or otherwise) a “passive foreign investment company” within the meaning of section 1297 of the US Internal Revenue Code of 1986.

29.11 The Company shall use all reasonable endeavours to ensure that the Registrar shall attach a legend substantially to the following effect to each of the certificates for, or other written evidence of, the New Shares, the Nil Paid Rights or the Fully Paid Rights, which are delivered to subscribers in the United States in certificated form:

“THE SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (B) IN A TRANSACTION PURSUANT TO ANOTHER EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, AND, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THE SHARES REPRESENTED HEREBY. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE SHARES MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK. EACH HOLDER, BY ITS ACCEPTANCE OF THESE SHARES, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.”

29.12 For so long as any of the New Shares, the Nil Paid Rights or the Fully Paid Rights are “restricted securities” as defined in Rule 144(a)(3) of the US Securities Act, the Company will not, and will not permit any of its affiliates (as defined in Rule 144 of the Securities Act), to resell in the United States any of the New Shares, the Provisional Allotment Letters, the Nil Paid Rights or the Fully Paid Rights that have been re-subscribed for by them.

Save where expressly otherwise provided and subject to the definition of *Material Adverse Change* in Clause 1.1, when the scope of any warranty, representation or undertaking given in this Schedule 3 is otherwise qualified by expressions such as material, in any material respect or any similar or analogous expression, such expression shall be construed to mean material in the context of the Company, the Group, the Rights Issue or Admission.

SCHEDULE 4
LETTER OF CONFIRMATION

Part A

[On the letterhead of the Company]

To: [•]

[•]

[•]

[•]

[] 2010

Dear Sirs

We refer to the Underwriting Agreement between us dated 20 May 2010 (the ***Underwriting Agreement***) and to the conditions set out in Clause 2.1 of the Underwriting Agreement (the ***Conditions***). References in this letter to Clauses are to Clauses of the Underwriting Agreement and words and expressions defined in the Underwriting Agreement have the same meaning herein.

We hereby confirm that:

- (a) we have complied in all material respects with all our obligations under the Underwriting Agreement which fall to be performed to date;
- (b) each of the Conditions, other than that contained in Clause 2.1(g), is satisfied as at the delivery of this letter;
- (c) we are not aware of any reason why the Conditions will not continue to be satisfied until Admission; and
- (d) none of the representations, warranties or undertakings referred to in Clause 11 of the Underwriting Agreement was breached or unfulfilled or untrue, inaccurate or misleading at the date of the Underwriting Agreement in any respect and, so far as we are aware, there has been no change in circumstances such that if repeated by reference to the facts and circumstances subsisting at the date hereof any of such representations, warranties or undertakings would be breached or unfulfilled or untrue or inaccurate or misleading in any respect.

We undertake to notify you immediately if the confirmations contained in this letter could not continue to be given by us at any time prior to Admission (in each case by reference to the facts and circumstances then existing).

Yours faithfully

Director/Secretary

Part B
[On the letterhead of the Company]

To: [•]

[•]

[•]

[•]

[] 2010

Dear Sirs

We refer to the Underwriting Agreement between us dated 20 May 2010 (the ***Underwriting Agreement***). Words and expressions defined in the Underwriting Agreement have the same meaning herein.

We hereby confirm that:

- (a) we have complied in all material respects with all of our obligations under the Underwriting Agreement which fall to be performed to date; and
- (b) none of the representations, warranties or undertakings referred to in Clause 11 of the Underwriting Agreement was breached or unfulfilled or untrue, inaccurate or misleading at the date of the Underwriting Agreement in any respect and so far as we are aware there has been no change in circumstances such that if repeated by reference to the facts and circumstances subsisting at the date hereof any of such representations, warranties or undertakings would be breached or unfulfilled or untrue or inaccurate or misleading in any respect.

Yours faithfully

Director/Secretary

SCHEDULE 5 SELLING RESTRICTIONS

United States

1. Each of the Banks severally, and not jointly or jointly and severally, acknowledges that none of the Nil Paid Rights, Fully Paid Rights or the New Shares have been or will be registered under the Securities Act and may not be offered or sold within the United States, except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act; and agrees, represents, warrants and undertakes that (i) neither the Prospectus nor any Provisional Allotment Letter will be sent directly or indirectly by it to the Excluded Shareholders, with the exception of persons reasonably believed to be QIBs; (ii) none of the Banks nor any of their respective affiliates, nor any person acting on its or their behalf has solicited or will solicit offers for, or has offered, sold or procured subscribers or purchasers for or will offer, sell or procure subscribers or purchasers for, Nil Paid Rights, Fully Paid Rights or New Shares by means of, or has engaged or will engage in any form of, any general solicitation or general advertising (within the meaning of Regulation D under the Securities Act) or otherwise in any manner involving a public offering within the meaning of Section 4(2) of the Securities Act, (iii) the Banks, nor any of their respective affiliates, nor any person acting on its or their behalf, has engaged or will engage in any directed selling efforts (within the meaning of Regulation S under the Securities Act) with respect to the Nil Paid Rights, Fully Paid Rights or New Shares, and (iv) neither the Banks, nor any person acting on its or their behalf, has offered or sold or solicited offers for or procured subscribers or purchasers for and will offer or sell, or solicit offers for or procure subscribers or purchasers for, the Nil Paid Rights, Fully Paid Rights or New Shares, as contemplated by this Agreement at any time, except (A) through its US registered broker-dealer affiliate to or from persons in the United States whom it reasonably believes are QIBs, or if any such person is buying for one or more institutional accounts of which such person is acting as fiduciary or agent, only when such Bank reasonably believes that each such account is a QIB, and pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act (*US Sales*); or (B) in offshore transactions within the meaning, and meeting the requirements, of Rule 903 under Regulation S of the Securities Act. In connection with any US Sales, each of the Banks severally agrees that it will procure an executed QIB Rump letter from any subscriber for the New Shares that were not originally taken up in the Rights Issue, who is located in the United States. European Economic Area

European Economic Area

2. In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive 2003/71/EC (each, a *Relevant Member State*), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the *Relevant Implementation Date*), each of the Company, and the Banks severally, and not jointly or jointly and severally, represents and warrants it has, to the best of its knowledge, not made and will not make an offer of any Nil Paid Rights, Fully Paid Rights or New Shares to the public in that Relevant Member State prior to the publication of the Prospectus in relation to the Nil Paid Rights, Fully Paid Rights or New Shares 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 the Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of any Nil Paid Rights, Fully Paid Rights or New Shares to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) 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;
 - (b) to any legal entity which has two or more of: (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
 - (c) 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 Joint Bookrunners for any such offer; and
 - (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive, subject to obtaining the prior consent of the Joint Bookrunners for any such offer, provided that no such offer of Nil Paid Rights, Fully Paid Rights or New Shares shall result in a requirement for the publication by the Company, or any of the Banks of a prospectus pursuant to Article 3 of the Prospectus Directive.
3. For the purposes of this provision, the expression “an offer of any Nil Paid Rights, Fully Paid Rights or New Shares to the public” in relation to any Nil Paid Rights, Fully Paid Rights or New Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Rights Issue and any Nil Paid Rights, Fully Paid Rights or New Shares to be offered so as to enable an investor to decide to purchase or subscribe for any Nil Paid Rights, Fully Paid Rights or New Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

United Kingdom

4. Each of the Banks represents, warrants and undertakes to the Company that it has only communicated or caused to be communicated and will only communicate or cause to be communicated in the United Kingdom any invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) received by it in connection with the issue and or sale of the Nil Paid Rights, Fully Paid Rights or New Shares in circumstances in which Section 21(1) of FSMA does not apply to the Company.

SCHEDULE 6
UNDERWRITERS AND DUE PROPORTIONS

Name	Address	Underwriting commitment (no. of Underwritten Shares)	Due Proportion (%)
[•]	[•] Fax number: [•] For the attention of: ECM Syndicate Desk	330,146,339	33 1/3
[•]	[•] Fax number: [•] For the attention of: ECM Syndicate Desk	330,146,339	33 1/3
[•]	[•] Fax number: [•] For the attention of: Head of Equity Capital Markets	330,146,339	33 1/3

SCHEDULE 7 UNDERTAKINGS

1. The Company will duly perform all of its obligations in connection with the Rights Issue arising pursuant to this Agreement, any of the Relevant Documents, the Option Agreement, the Subscription and Transfer Agreement and the Receiving Agent Agreement (and will, in the case of the Option Agreement and the Subscription and Transfer Agreement, procure that Newco duly performs all of its obligations thereunder) or otherwise and (a) will not, without the prior written consent (not to be unreasonably withheld or delayed) of the Joint Bookrunners, seek to modify, vary or supplement any of the terms and conditions of any of those agreements, or of the Rights Issue or to extend the period(s) during which the Rights Issue is open for application or acceptance, and will not seek to modify, vary or supplement any of the terms and conditions of any such agreement or grant any release, waiver or indulgence in relation to any obligation of another party to any such agreement or extension of time for performance of any such obligation and will duly and promptly enforce all rights it may have under each such agreement.
2. The Company will promptly provide to the Banks, during the period commencing on the Publication Date and ending on the date that is 90 days after the Settlement Date, as many copies of the Prospectus and any Supplementary Prospectus thereto as they may reasonably request.
3. The Company will comply with the FSMA, the Listing Rules and the Prospectus Rules so as to permit the completion of the distribution of the New Shares as contemplated in this Agreement and in the Relevant Documents in compliance therewith and in compliance with all other applicable laws or regulations, in each case, insofar as they are relevant to the Rights Issue.
4. If it shall be necessary, in the reasonable opinion of the Company and its advisers or the Joint Bookrunners or their legal advisers, at any such time, until the Settlement Date to amend or supplement any Relevant Documents in order to comply with the requirements of the FSMA, the Listing Rules and/or the Prospectus Rules (as the case may be) and/or ensure that the Relevant Documents remain true and accurate in all respects and not misleading up to the Settlement Date, the Company will promptly prepare and (if required) file with the FSA (or procure the filing with the FSA of) such amendment or supplement as may be necessary to correct such statement or omission or to make such Relevant Documents comply with such requirements. Before amending or supplementing any Relevant Documents, the Company will furnish the Joint Bookrunners with a copy of each such proposed amendment or supplement, and will not make any such proposed amendment or supplement without the prior written consent (not to be unreasonably withheld or delayed) of the Joint Bookrunners, provided always that, subject to the terms of Clause 3.4, (i) nothing in this paragraph shall prevent the Company or the Directors from complying with their obligations at law or under the Prospectus Rules, the Listing Rules or the FSMA having taken into account any requests of the Joint Bookrunners which are reasonable in the context of the Rights Issue or the Banks' obligations under this Agreement; and (ii) this paragraph shall be without prejudice to the rights of the Banks pursuant to Clauses 2.3, 2.4 and Clause 15.
5. As at the date of any amended Relevant Document or supplement to a Relevant Document prepared by the Company in accordance with the terms of this Agreement, the

Warranties contained in Schedule 3 hereof will be true and accurate with respect to any Relevant Document as so amended or supplemented as if repeated as at such date.

6. The Company undertakes to use all reasonable endeavours to procure Admission not later than 8.00 a.m. on 26 May 2010 (or such later time and/or date, being no later than 1 June 2010, as the Company and the Joint Bookrunners may agree).

7. The Company undertakes that:

- (a) the Company shall not and the Company shall procure that no member of the Group will, between the date hereof and the Settlement Date, circulate, distribute, despatch, publish, issue or make (or authorise any other person to circulate, distribute, despatch, publish, issue or make), either individually or jointly with any other person, any press or public announcement or communication concerning the Company, the Group or any member of the Group or the Rights Issue, or any other transaction, or otherwise relating to the assets, liabilities, profits, losses, financial or trading condition or the earnings, business affairs or business prospects of the Company, the Group or any member of the Group (except for routine communications in the ordinary course of business and consistent with past practice), whether in response to enquiries or otherwise, without the prior written consent of the Joint Bookrunners (such consent not to be unreasonably withheld or delayed) and the Company shall not, and the Company shall procure that no member of the Group will, without the prior written consent of the Joint Bookrunners (such consent not to be unreasonably withheld or delayed), take any steps which may lead to the Company being required by law, the FSA or the London Stock Exchange to make any such announcement or communication, except in the ordinary course of business and consistent with past practice;
- (b) for a period from the Settlement Date to 27 July 2010, the Company shall not and the Company shall procure that no member of the Group will circulate, distribute, despatch, publish, issue or make (or authorise any other person to circulate, distribute, despatch, publish, issue or make), either individually or jointly with any other person, any press or public announcement or communication concerning the Company, the Group or any member of the Group or the Rights Issue, or any other transaction, or otherwise relating to the assets, liabilities, profits, losses, financial or trading condition or the earnings, business affairs or business prospects of the Company, the Group or any member of the Group (except for routine communications in the ordinary course of business and consistent with past practice), whether in response to enquiries or otherwise, without having first consulted with the Joint Bookrunners and the Company shall not, and the Company shall procure that no member of the Group will, without having first consulted with the Joint Bookrunners, take any steps which may lead to the Company being required by law, the FSA or the Exchange to make any such announcement or communication, except in the ordinary course of business and consistent with past practice; and
- (c) the Company shall use all reasonable endeavours to procure that employees of the Company and its subsidiaries and advisers to and agents of the Company observe the restrictions set out in paragraph 7(a) and paragraph 7(b) of this Schedule 7 as if they were parties thereto.

8. The Company shall not, and the Company shall procure that no member of the Group will: (i) between the date hereof and the Settlement Date, without the prior written consent of the Joint Bookrunners (such consent not to be unreasonably withheld or delayed); and (ii) from the day immediately following the Settlement Date until 27 July 2010, without having first consulted with the Joint Bookrunners (and taken into account any of their requests which are reasonable in the context of the Rights Issue or the Joint Bookrunners' obligations under this Agreement), take any step which would be materially inconsistent with, or represent a material departure from or new development in, any disclosure or expression of policy or intention or statement contained in the Prospectus or which could be material and adverse to the condition of the Company or the Group.

Furthermore, for a period from the date hereof up until 27 July 2010, the Company will discuss with the Joint Bookrunners the entry into or variation of any agreement, commitment, transaction or arrangement which is or may be material in the context of the business or affairs of the Company or the Group or in relation to the Rights Issue or any material new developments in its sphere of activity and any material change in the Company's financial condition or in the performance of its business.

9. The Company undertakes to each of the Banks that, during a period of 6 months from the date of Admission, it will not, without the prior written consent of the Joint Bookrunners, directly or indirectly, offer, issue, lend, sell or contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering or issue of, any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, Ordinary Shares or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing, save that the above restrictions shall not apply in respect of (a) the issue of New Shares pursuant to the Rights Issue; (b) Ordinary Shares issued following the Record Date pursuant to the exercise of options under share option schemes or otherwise pursuant to share incentive plans in existence on the date of Admission and described in paragraph 13 of Part XI of the Prospectus; or (c) Ordinary Shares issued pursuant to the Company's scrip dividend scheme.

10. The Company undertakes that it will not take, directly or indirectly, any action which was or is designed to, or might reasonably have been expected to, constitute or result in, the stabilisation, maintenance or manipulation of the price of the Ordinary Shares or any other security of the Company or any instrument evidencing rights to Ordinary Shares or any such other security.

11. The Company will provide the Registrar with all necessary authorisations, information and instructions to enable the Registrar to perform their duties in accordance with and as contemplated by the terms and conditions of the Rights Issue, this Agreement and the Relevant Documents.

12. The Company undertakes that it will use the net proceeds received by it from the sale of New Shares in the manner specified in the Prospectus under the heading "Use of Proceeds" and that it will not, directly or indirectly, use the proceeds of the Rights Issue, or lend, contribute or otherwise make available such proceeds to any affiliate, joint venture partner or other person or entity, for the purpose of financing the activities of any person or entity who, at the time of such financing, is the subject of any Sanctions or in any other manner that will

result in a violation by any such person (including any person participating in the Rights Issue, whether as underwriter, advisor, investor or otherwise) of the Sanctions.

13. The Company undertakes to observe and comply with the provisions in respect of overseas shareholders set out in paragraph 2.5 Part III of the Prospectus.

14. In connection with the offer, allotment, issue and sale of Nil Paid Rights, Fully Paid Rights and New Shares, the Company undertakes that (i) inside the United States, it will offer and sell the Nil Paid Rights, Fully Paid Rights and New Shares only to, and allow subscription only by, those persons whom it reasonably believes to be QIBs or, in the case of Directors only, Accredited, Investors; and (ii) and outside the United States, the Company will offer and sell and allow the subscription for the Nil Paid Rights, Fully Paid Rights and New Shares only in compliance with Regulation S of the Securities Act. In connection with any sales under (i) of this paragraph, the Company agrees that it will procure an executed QIB letter or, in the case of the Directors only, an executed AI Letter from any Qualifying Shareholder who participates in the Rights Issue.

IN WITNESS whereof this Agreement has been duly executed under hand by the Company and by each of [•], [•], [•] and [•] or its duly authorised attorneys the day and year first above written.

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for and on behalf of
NATIONAL GRID PLC

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20 MAY 2010

NATIONAL GRID PLC

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**RIGHTS ISSUE UNDERWRITING
AGREEMENT**

EXHIBIT 8: LIST OF SUBSIDIARIES

	Name	Country of Incorporation
1.	65 WILLIS LANE, INC.	USA
2.	ADRIAN ASSOCIATES L.P. (effectively 7.03%)	USA
3.	ALBERTA NORTHEAST GAS LTD (29.6%)	Canada
4.	ARLINGTON ASSOCIATES LP (99%)	USA
5.	ASSETHALL LIMITED	England & Wales
6.	BEEGAS NOMINEES LIMITED	England & Wales
7.	BIRCH SITES LIMITED	England & Wales
8.	BLACKWATER A LIMITED	England & Wales
9.	BLACKWATER B LIMITED	England & Wales
10.	BLACKWATER C LIMITED	England & Wales
11.	BLACKWATER D LIMITED	England & Wales
12.	BLACKWATER E LIMITED	England & Wales
13.	BLACKWATER H LIMITED	England & Wales
14.	BLACKWATER J LIMITED	England & Wales
15.	BLUE-NG (HOLDINGS) LIMITED (50%)	England & Wales
16.	BLUE-NG LIMITED (via Blue-NG Holdings Ltd in which National Grid Blue Power Ltd holds 50%)	England & Wales
17.	BOSTON GAS COMPANY (d/b/a National Grid)	USA
18.	BRITISH TRANSCO CAPITAL INC	USA
19.	BRITISH TRANSCO FINANCE (NO 1) LIMITED	Cayman Islands
20.	BRITISH TRANSCO FINANCE (NO 2) LIMITED	Cayman Islands
21.	BRITISH TRANSCO FINANCE (NO 3) LIMITED	England & Wales
22.	BRITISH TRANSCO FINANCE (NO 5) LIMITED	England & Wales
23.	BRITISH TRANSCO FINANCE INC	USA
24.	BRITISH TRANSCO INTERNATIONAL FINANCE BV	The Netherlands
25.	BRITNED DEVELOPMENT LIMITED (50%)	England & Wales
26.	BROKEN BRIDGE CORP.	USA
27.	C4GAS SAS (47.5%)	France
28.	COLONIAL GAS COMPANY (d/b/a National Grid)	USA
29.	CONNECTICUT YANKEE ATOMIC POWER COMPANY (19.5%)	USA
30.	CORESO SA	Belgium
31.	DIRECT GLOBAL POWER, INC. (26%)	USA
32.	EASTERN ASSOCIATED SECURITIES CORP.	USA
33.	EASTERN RIVERMOOR COMPANY, INC.	USA
34.	ELEXON LIMITED	England & Wales
35.	ENERGIS PLC (33.06%)	England & Wales
36.	ENERGYNORTH NATURAL GAS, INC. (d/b/a National Grid)	USA
37.	ENPORION, INC. (12.71%)	USA
38.	ESSEX GAS COMPANY (d/b/a NATIONAL GRID)	USA
39.	EUA ENERGY INVESTMENT CORPORATION	USA
40.	EUA FRC II ENERGY ASSOCIATES	USA
41.	EVIONYX, INC. (16%)	USA
42.	FIRST POINT ENERGY CORPORATION (10%)	USA
43.	FULCRUM CONNECTIONS LIMITED	England & Wales
44.	FULCRUM GAS SERVICES LIMITED	England & Wales
45.	FULCRUM GROUP HOLDINGS LIMITED	England & Wales
46.	FULCRUM INFRASTRUCTURE SERVICES LIMITED	England & Wales
47.	FULCRUM PIPELINES LIMITED	England & Wales
48.	GRANITE STATE ELECTRIC COMPANY (d/b/a National Grid)	USA
49.	GRIDAMERICA HOLDINGS INC	USA
50.	GRIDCOM LIMITED	England & Wales
51.	HONEOYE STORAGE CORPORATION (52.2%)	USA
52.	INVERSIONES ABC LTDA (50%)	Chile
53.	IROQUOIS GAS TRANSMISSION SYSTEM, L.P. (20.4%)	USA
54.	IROQUOIS PIPELINE OPERATING COMPANY (effectively 20.4% via Iroquois Gas Transmission System, L.P.)	USA
55.	ISLAND ENERGY SERVICES COMPANY, INC.	USA
56.	ISLANDER EAST PIPELINE COMPANY, LLC (50%)	USA
57.	JOINT RADIO COMPANY LIMITED (50%)	England & Wales
58.	KEYSPAN (U.K.)	England & Wales
59.	KEYSPAN C.I. II, LTD	Cayman Islands
60.	KEYSPAN C.I., LTD	Cayman Islands
61.	KEYSPAN CI MIDSTREAM LIMITED	USA
62.	KEYSPAN CORPORATION	USA
63.	KEYSPAN ENERGY CORPORATION	USA
64.	KEYSPAN ENERGY DEVELOPMENT CO.	USA
65.	KEYSPAN ENERGY SERVICES INC. (d/b/a National Grid Energy Services)	USA
66.	KEYSPAN ENERGY SERVICES NEW JERSEY, LLC	USA
67.	KEYSPAN ENERGY SOLUTIONS, LLC (d/b/a National Grid Energy Services)	USA
68.	KEYSPAN GAS EAST CORPORATION (d/b/a National Grid)	USA
69.	KEYSPAN INTERNATIONAL CORPORATION	USA
70.	KEYSPAN LUXEMBOURG S.A.R.L.	Luxembourg
71.	KEYSPAN MHK, INC.	USA
72.	KEYSPAN MIDSTREAM INC.	USA

EXHIBIT 8: LIST OF SUBSIDIARIES

Name	Country of Incorporation
73. KEYSpan PLUMBING & HEATING SOLUTIONS, LLC (90%) (d/b/a National Grid Energy Services)	USA
74. KEYSpan PLUMBING SOLUTIONS, INC. (d/b/a National Grid Energy Services)	USA
75. KSI CONTRACTING, LLC	USA
76. KSI ELECTRICAL, LLC	USA
77. KSI MECHANICAL, LLC	USA
78. LAND MANAGEMENT AND DEVELOPMENT, INC	USA
79. LANDRANCH LIMITED	England & Wales
80. LANDWEST, INC	USA
81. LATTICE ENERGY SERVICES LIMITED	England & Wales
82. LATTICE GROUP EMPLOYEE BENEFIT TRUST LIMITED	England & Wales
83. LATTICE GROUP INTERNATIONAL HOLDINGS LIMITED	England & Wales
84. LATTICE GROUP PLC	England & Wales
85. LATTICE GROUP TRUSTEES LIMITED	England & Wales
86. LATTICE OPSCO LIMITED	England & Wales
87. LATTICE TELECOM FINANCE (NO 1) LIMITED	Isle of Man
88. MAINE YANKEE ATOMIC POWER COMPANY (24%)	USA
89. MAINSTREAM FORTY-SEVEN LIMITED	England & Wales
90. MARQUEZ DEVELOPMENT CORP.	USA
91. MASSACHUSETTS ELECTRIC COMPANY (d/b/a National Grid)	USA
92. MEERESTEIJN FINANCE BV	Netherlands
93. MELMAR LIMITED	Isle of Man
94. METRO ENERGY, L.L.C.	USA
95. METROWEST REALTY LLC	USA
96. MILLENNIUM PIPELINE COMPANY, LLC (26.25%)	USA
97. MINOA FARMS DEVELOPMENT CO, LLC (50%)	USA
98. MYHOMEGATE, INC.	USA
99. MYHOMEKEY.COM, INC. (18.2%)	USA
100. MYSTIC STEAMSHIP CORPORATION	USA
101. NANTUCKET ELECTRIC COMPANY (d/b/a National Grid)	USA
102. NATGRID FINANCE HOLDINGS LIMITED	England & Wales
103. NATGRID FINANCE LIMITED	England & Wales
104. NATGRID INVESTMENTS LIMITED	England & Wales
105. NATGRID LIMITED	England & Wales
106. NATGRID ONE LIMITED	England & Wales
107. NATIONAL GRID (IOM) UK LTD	Isle of Man
108. NATIONAL GRID (IRELAND) 1 LIMITED	Republic of Ireland
109. NATIONAL GRID (IRELAND) 2 LIMITED	Republic of Ireland
110. NATIONAL GRID (SOUTHALL) GENERAL PARTNER LIMITED	England & Wales
111. NATIONAL GRID (SOUTHALL) LP LIMITED	England & Wales
112. NATIONAL GRID (US) HOLDINGS LIMITED	England & Wales
113. NATIONAL GRID (US) INVESTMENTS	England & Wales
114. NATIONAL GRID (US) INVESTMENTS 2 LIMITED	England & Wales
115. NATIONAL GRID (US) INVESTMENTS 3	England & Wales
116. NATIONAL GRID (US) INVESTMENTS 4 LIMITED	England & Wales
117. NATIONAL GRID (US) PARTNER 1 LIMITED	England & Wales
118. NATIONAL GRID (US) PARTNER 2 LIMITED	England & Wales
119. NATIONAL GRID AUSTRALIA PTY LIMITED	Australia
120. NATIONAL GRID BLUE POWER FINANCE LIMITED	England & Wales
121. NATIONAL GRID BLUE POWER LIMITED	England & Wales
122. NATIONAL GRID BRAZIL B.V.	The Netherlands
123. NATIONAL GRID BRAZIL FINANCE	England & Wales
124. NATIONAL GRID BRAZIL TRANSMISSION B.V.	The Netherlands
125. NATIONAL GRID CARBON LIMITED	England & Wales
126. NATIONAL GRID CHILE B.V.	The Netherlands
127. NATIONAL GRID COMMERCIAL HOLDINGS LIMITED	England & Wales
128. NATIONAL GRID CORPORATE SERVICES LLC	USA
129. NATIONAL GRID DEVELOPMENT HOLDINGS CORP.	USA
130. NATIONAL GRID EIGHT	England & Wales
131. NATIONAL GRID EIGHTEEN LIMITED	England & Wales
132. NATIONAL GRID ELECTRIC SERVICES LLC	USA
133. NATIONAL GRID ELECTRICITY TRANSMISSION PLC	England & Wales
134. NATIONAL GRID ELEVEN	England & Wales
135. NATIONAL GRID ENERGY MANAGEMENT, LLC	USA
136. NATIONAL GRID ENERGY SERVICES (NEW ENGLAND), LLC	USA
137. NATIONAL GRID ENERGY SERVICES, LLC	USA
138. NATIONAL GRID ENERGY SUPPLY, LLC	USA
139. NATIONAL GRID ENERGY TRADING SERVICES LLC	USA
140. NATIONAL GRID ENGINEERING & SURVEY INC.	USA
141. NATIONAL GRID EXPLORATION AND PRODUCTION, LLC	USA
142. NATIONAL GRID FIFTEEN LIMITED	England & Wales
143. NATIONAL GRID FINANCE B.V.	The Netherlands
144. NATIONAL GRID FIVE LIMITED	England & Wales

EXHIBIT 8: LIST OF SUBSIDIARIES

Name	Country of Incorporation
145. NATIONAL GRID FOUR LIMITED	England & Wales
146. NATIONAL GRID FOURTEEN LIMITED	England & Wales
147. NATIONAL GRID GAS FINANCE (NO 1) PLC	England & Wales
148. NATIONAL GRID GAS HOLDINGS LIMITED	England & Wales
149. NATIONAL GRID GAS PLC	England & Wales
150. NATIONAL GRID GENERATION LLC	USA
151. NATIONAL GRID GLENWOOD ENERGY CENTER, LLC	USA
152. NATIONAL GRID GOLD LIMITED	England & Wales
153. NATIONAL GRID GRAIN LNG LIMITED	England & Wales
154. NATIONAL GRID HOLDINGS B.V.	The Netherlands
155. NATIONAL GRID HOLDINGS INC.	USA
156. NATIONAL GRID HOLDINGS LIMITED	England & Wales
157. NATIONAL GRID HOLDINGS ONE PLC	England & Wales
158. NATIONAL GRID HOLDINGS PTY LIMITED	Australia
159. NATIONAL GRID IGTS CORP.	USA
160. NATIONAL GRID INDIA B.V.	The Netherlands
161. NATIONAL GRID INDUS B.V.	The Netherlands
162. NATIONAL GRID INSURANCE COMPANY (IRELAND) LIMITED	Republic of Ireland
163. NATIONAL GRID INSURANCE COMPANY (ISLE OF MAN) LIMITED	Isle of Man
164. NATIONAL GRID INSURANCE COMPANY (VERMONT)	USA
165. NATIONAL GRID INTERCONNECTORS LIMITED	England & Wales
166. NATIONAL GRID INTERNATIONAL LIMITED	England & Wales
167. NATIONAL GRID ISLANDER EAST PIPELINE LLC	USA
168. NATIONAL GRID JERSEY HOLDINGS FIVE LIMITED	Jersey
169. NATIONAL GRID JERSEY INVESTMENTS LIMITED	Jersey
170. NATIONAL GRID LAND AND PROPERTIES LIMITED	England & Wales
171. NATIONAL GRID LAND DEVELOPMENTS LIMITED	England & Wales
172. NATIONAL GRID LAND INVESTMENTS LIMITED	England & Wales
173. NATIONAL GRID LNG GP LLC	USA
174. NATIONAL GRID LNG LP	USA
175. NATIONAL GRID LNG LP LLC	USA
176. NATIONAL GRID MANQUEHUE B.V.	The Netherlands
177. NATIONAL GRID METERING LIMITED	England & Wales
178. NATIONAL GRID MIDDLE EAST FZCO	United Arab Emirates
179. NATIONAL GRID MILLENNIUM LLC	USA
180. NATIONAL GRID NE HOLDINGS 2 LLC	USA
181. NATIONAL GRID NETHERLANDS ONE BV	The Netherlands
182. NATIONAL GRID NETHERLANDS THREE BV	The Netherlands
183. NATIONAL GRID NETHERLANDS TWO BV	The Netherlands
184. NATIONAL GRID NINE LIMITED	England & Wales
185. NATIONAL GRID NINETEEN LIMITED	England & Wales
186. NATIONAL GRID NORTH EAST VENTURES INC	USA
187. NATIONAL GRID OFFSHORE LTD	England & Wales
188. NATIONAL GRID ONE LIMITED	England & Wales
189. NATIONAL GRID OVERSEAS LIMITED	England & Wales
190. NATIONAL GRID OVERSEAS TWO LIMITED	England & Wales
191. NATIONAL GRID PLC	England & Wales
192. NATIONAL GRID POLAND B.V.	The Netherlands
193. NATIONAL GRID PORT JEFFERSON ENERGY CENTER, LLC	USA
194. NATIONAL GRID PROCUREMENT BV	The Netherlands
195. NATIONAL GRID PROPERTY (HIGH WYCOMBE) LIMITED	England & Wales
196. NATIONAL GRID PROPERTY (NORTHAMPTON) LIMITED	England & Wales
197. NATIONAL GRID PROPERTY (TAUNTON) LIMITED	England & Wales
198. NATIONAL GRID PROPERTY (WARWICK) LIMITED	England & Wales
199. NATIONAL GRID PROPERTY DEVELOPMENTS LIMITED	England & Wales
200. NATIONAL GRID PROPERTY HOLDINGS LIMITED	England & Wales
201. NATIONAL GRID PROPERTY LIMITED	England & Wales
202. NATIONAL GRID PROPERTY (NORTHFLEET) LIMITED	England & Wales
203. NATIONAL GRID SERVICES, INC.	USA
204. NATIONAL GRID SEVEN LIMITED	England & Wales
205. NATIONAL GRID SEVENTEEN LIMITED	England & Wales
206. NATIONAL GRID SIX LIMITED	England & Wales
207. NATIONAL GRID SIXTEEN LIMITED	England & Wales
208. NATIONAL GRID TECHNOLOGIES INC.	USA
209. NATIONAL GRID TELEMETRY SOLUTIONS, LLC	USA
210. NATIONAL GRID TEN	England & Wales
211. NATIONAL GRID THREE LIMITED	England & Wales
212. NATIONAL GRID TRANSMISSION SERVICES CORPORATION	USA
213. NATIONAL GRID TWELVE LIMITED	England & Wales
214. NATIONAL GRID TWENTY FOUR LIMITED	England & Wales
215. NATIONAL GRID TWENTY LIMITED	England & Wales
216. NATIONAL GRID TWENTY ONE LIMITED	England & Wales

EXHIBIT 8: LIST OF SUBSIDIARIES

Name	Country of Incorporation
217. NATIONAL GRID TWENTY THREE LIMITED	England & Wales
218. NATIONAL GRID TWO LIMITED	England & Wales
219. NATIONAL GRID UK LIMITED	England & Wales
220. NATIONAL GRID UK PENSION SERVICES LIMITED	England & Wales
221. NATIONAL GRID US 6 LLC	USA
222. NATIONAL GRID US 7 INC.	USA
223. NATIONAL GRID US LLC	USA
224. NATIONAL GRID USA	USA
225. NATIONAL GRID USA SERVICE COMPANY, INC.	USA
226. NATIONAL GRID UTILITY SERVICES LLC	USA
227. NATIONAL GRID ZAMBIA LIMITED	England & Wales
228. NEES ENERGY, INC.	USA
229. NEW ENGLAND ELECTRIC TRANSMISSION CORPORATION	USA
230. NEW ENGLAND ENERGY INCORPORATED	USA
231. NEW ENGLAND HYDRO FINANCE COMPANY, INC. (53.704%)	USA
232. NEW ENGLAND HYDRO-TRANSMISSION CORPORATION (53.704%)	USA
233. NEW ENGLAND HYDRO-TRANSMISSION ELECTRIC COMPANY, INC. (53.704%)	USA
234. NEW ENGLAND POWER COMPANY(d/b/a National Grid)	USA
235. NEW ENGLAND WHOLESALE ELECTRIC COMPANY	USA
236. NEWHC, INC.	USA
237. NEWPORT AMERICA CORPORATION	USA
238. NG CHICAGO I, LLC	USA
239. NG CHICAGO II, LLC	USA
240. NG FINANCING PARTNERSHIP 1	Luxembourg
241. NG FINANCING PARTNERSHIP 2	Luxembourg
242. NG JERSEY LIMITED	Jersey
243. NG LEASING LIMITED	England & Wales
244. NG LUXEMBOURG 3 SARL	Luxembourg
245. NG LUXEMBOURG 4 SARL	Luxembourg
246. NG LUXEMBOURG 5 SARL	Luxembourg
247. NG LUXEMBOURG 6 SARL	Luxembourg
248. NG LUXEMBOURG 7 SARL	Luxembourg
249. NG LUXEMBOURG HOLDINGS LIMITED	England & Wales
250. NG LUXEMBOURG SA	Luxembourg
251. NG LUXEMBOURG TWO SARL	Luxembourg
252. NG NOMINEES LIMITED	England & Wales
253. NG PROCUREMENT HOLDINGS LIMITED	England & Wales
254. NG VILLIERS LIMITED PARTNERSHIP	England & Wales
255. NGC DO BRASIL PARTICIPACOES LTDA	Brazil
256. NGC EMPLOYEE SHARES TRUSTEE LIMITED	England & Wales
257. NGC INDUS LIMITED	England & Wales
258. NGC TWO LIMITED	England & Wales
259. NGC ZAMBIA LIMITED	England & Wales
260. NGET / SPT UPGRADES LTD	England & Wales
261. NGG (DELAWARE) LLC	USA
262. NGG FINANCE (NO 1) LIMITED	England & Wales
263. NGG FINANCE PLC	England & Wales
264. NGG TELECOMS HOLDINGS LIMITED	England & Wales
265. NGG TELECOMS LIMITED	England & Wales
266. NGM1 (GBR) LIMITED	Gibraltar
267. NGNE LLC	USA
268. NGRID INTELLECTUAL PROPERTY LIMITED	England & Wales
269. NGT FIVE LIMITED	Cayman Islands
270. NGT FOUR LIMITED	Cayman Islands
271. NGT HOLDING COMPANY (ISLE OF MAN) LIMITED	Isle of Man
272. NGT LUXEMBOURG ONE LIMITED	England & Wales
273. NGT ONE LIMITED	England & Wales
274. NGT TELECOM NO. 1 LIMITED	England & Wales
275. NGT TELECOM NO. 2 LIMITED	England & Wales
276. NGT THREE	England & Wales
277. NGT TWO LIMITED	England & Wales
278. NIAGARA MOHAWK ENERGY, INC.	USA
279. NIAGARA MOHAWK HOLDINGS, INC.	USA
280. NIAGARA MOHAWK POWER CORPORATION (d/b/a National Grid)	USA
281. NICODAMA BEHEER V B.V.	Netherlands
282. NM PROPERTIES, INC.	USA
283. NM URANIUM, INC.	USA
284. NMP LIMITED	England & Wales
285. NORTH EAST TRANSMISSION CO., INC.	USA
286. NORTHEAST GAS MARKETS LLC (90%)	USA
287. ONSTREAM METERING SERVICES LIMITED	England & Wales
288. OPINAC NORTH AMERICA, INC.	USA

EXHIBIT 8: LIST OF SUBSIDIARIES

Name	Country of Incorporation
289. PATIENCE REALTY CORP.	USA
290. PCC LAND COMPANY, INC.	USA
291. PHILADELPHIA COKE CO., INC.	USA
292. PORT GREENWICH LIMITED	England & Wales
293. PORT OF THE ISLANDS NORTH LLC	USA
294. PRUDENCE CORPORATION	USA
295. SCC UNO SA	Chile
296. SECOND STREET ASSOCIATES, LLC (50%)	USA
297. SENECA UPSHUR PETROLEUM, INC. (d/b/a National Grid)	USA
298. STARGAS NOMINEES LIMITED	England & Wales
299. STEUBEN GAS STORAGE COMPANY (effectively 30.29% via Arlington Associates LP 75% ownership)	USA
300. SUPERGRID ENERGY TRANSMISSION LIMITED	England & Wales
301. SUPERGRID LIMITED	England & Wales
302. TELECOM INTERNATIONAL HOLDINGS LIMITED	England & Wales
303. THAMESPORT INTERCHANGE LIMITED	England & Wales
304. THE BROOKLYN UNION GAS COMPANY (d/b/a National Grid NY)	USA
305. THE NARRAGANSETT ELECTRIC COMPANY (d/b/a National Grid)	USA
306. THE NATIONAL GRID GROUP QUEST TRUSTEE COMPANY LTD	England & Wales
307. THE NATIONAL GRID INVESTMENTS COMPANY	England & Wales
308. TRANSCO LIMITED	England & Wales
309. TRANSGAS, INC.	USA
310. UMICO HOLDINGS INC (34.29%)	USA
311. UNIT 40 SUBLESSOR LLC	USA
312. UPPER HUDSON DEVELOPMENT INC	USA
313. UTILITY METERING SERVICES LIMITED	England & Wales
314. VALLEY APPLIANCE AND MERCHANDISING COMPANY	USA
315. VILLIERS FINANCE SA (44%)	Luxembourg
316. WAYFINDER GROUP, INC.	USA
317. XOSERVE LIMITED (56.5%)	England & Wales
318. YANKEE ATOMIC ELECTRIC COMPANY (34.5%)	USA

I, Steve Holliday, certify that:

1. I have reviewed this annual report on Form 20-F of National Grid plc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 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

May 25, 2010

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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 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

May 25, 2010

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, 2010 (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.

May 25, 2010

/s/ STEVE HOLLIDAY

Steve Holliday

Title: Chief Executive

National Grid plc

May 25, 2010

/s/ STEVE LUCAS

Steve Lucas

Title: Finance Director

National Grid plc

This document is an extracted form of the Annual Report and Accounts 2009/10. 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



Steve Lucas Sir John Parker Tom King Nick Winsor



Mark Fairbairn Maria Flichter Steve Holliday



Stephen Pettit Linda Adamany Philip Allen Ken Harvey



John Allan Helen Mahy George Fosse

Sir John Parker, Chairman

[Nominations Committee \(chairman\)](#)

Sir John Parker became Chairman in October 2002 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 Chairman of Anglo American plc and Deputy Chairman of DP World (Dubai). He is also 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 was previously Senior Non-executive Director (Chair) of the Court of the Bank of England, a former joint Chairman of Mondi plc, 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

[Executive Committee \(chairman\)](#), [Finance Committee](#)

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, becoming responsible for the electricity and gas transmission businesses in October 2002. 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 and Chairman of the UK Business Council for Sustainable Energy, Chair of the National Technician Council and a member of both the Board of Trustee Directors for Business in the Community and Infrastructure UK.

Steve Lucas, Finance Director

[Executive Committee](#), [Finance Committee](#)

Steve Lucas has been Finance Director since his appointment in October 2002 following the merger of National Grid Group plc and Lattice Group plc and is additionally responsible for Property and Shared Services. 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 7 years in Africa and the Far East. Steve is also a Non-executive Director of Compass Group PLC.

Nick Winsor, Executive Director

[Executive Committee](#)

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

[Executive Committee](#)

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. 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. Mark is a member of Living with Environmental Change Business Advisory Board.

Tom King, Executive Director

[Executive Committee](#)

Tom King was appointed to the Board as Executive Director in August 2007 with responsibility for Electricity Distribution & Generation operations. Tom was President of PG&E Corporation and Chairman and CEO of Pacific Gas and Electric Company from 2003 to 2007. Before that, he served as Senior Vice President of PG&E Corporation, and as President of PG&E National Energy Group, having joined PG&E Gas Transmission as President in 1998. Prior to PG&E, he served as President and Chief Operating Officer of Kinder Morgan Energy Partners and served for nine years in officer positions in Enron's inter-state pipeline businesses.

Ken Harvey, Non-executive Director and Senior Independent Director

[Nominations Committee](#), [Remuneration Committee](#), [Risk & Responsibility Committee](#)

Ken Harvey joined the Board in October 2002 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

[Audit Committee](#), [Risk & Responsibility Committee](#)

Linda Adamany joined the Board in November 2006. Until April 2008, she was Group Vice President, BP plc. Linda has over 35 years' business experience, with 27 years in the international energy sector, having held various executive roles for BP in both the UK and the US, in refining & marketing, exploration & production and petrochemicals businesses, including Chief Executive of BP Shipping and Group Vice President and Commercial Director, BP Refining & Marketing. She also serves as a member of various not-for-profit boards, and formerly held board level positions in international shipping bodies. She is also a certified public accountant, qualifying in 1975.

Philip Aiken, Non-executive Director

[Audit Committee](#), [Risk & Responsibility Committee](#)

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 a Non-executive Director of Miclyn Express Offshore and Essar Energy. Formerly, Group President of BHP Billiton's Energy business, Executive Director of BTR plc and senior positions in BOC Group plc and senior advisor to Macquarie Capital (Europe) Limited.

John Allan, Non-executive Director

[Finance Committee](#), [Remuneration Committee](#) (chairman)

John Allan joined the Board in May 2005. He is Chairman of DSG International plc and a Non-executive Director of 3i Group plc and ISS. He is an advisor to Deutsche Bank and a member of the University of Edinburgh Campaign Board. John was previously Chairman of Samsonite Corporation, a Non-executive Director of PHS Group plc, Wolseley plc, Hamleys plc and Connell plc. He retired as CFO of Deutsche Post in 2009, having been appointed to the Management Board following its acquisition of Exel plc in December 2005 where he was Chief Executive. He is a former member of the Supervisory Boards of both Lufthansa AG and Deutsche Postbank.

Stephen Pettit, Non-executive Director

[Finance Committee](#), [Remuneration Committee](#), [Risk & Responsibility Committee](#) (chairman)

Stephen Pettit was appointed to the Board in October 2002 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

[Audit Committee](#), [Finance Committee](#) (chairman), [Nominations Committee](#)

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

[Audit Committee](#) (chairman), [Nominations Committee](#), [Remuneration Committee](#)

George Rose was appointed to the Board in October 2002 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 UK Industrial Development Advisory Board. Formerly a member of the Financial Reporting Review Panel and a Non-executive Director of Orange plc.

Helen Mahy, Company Secretary & General Counsel

[Executive Committee](#)

Helen Mahy was appointed Company Secretary in October 2002 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 General Counsel from October 2003. She is a barrister and an Associate of the Chartered Insurance Institute. Helen is a Non-executive Director of Stagecoach Group plc and was formerly a Non-executive Director of Aga Rangemaster Group plc. She is a former Chair of the GC100 Group.

Operating and Financial Review

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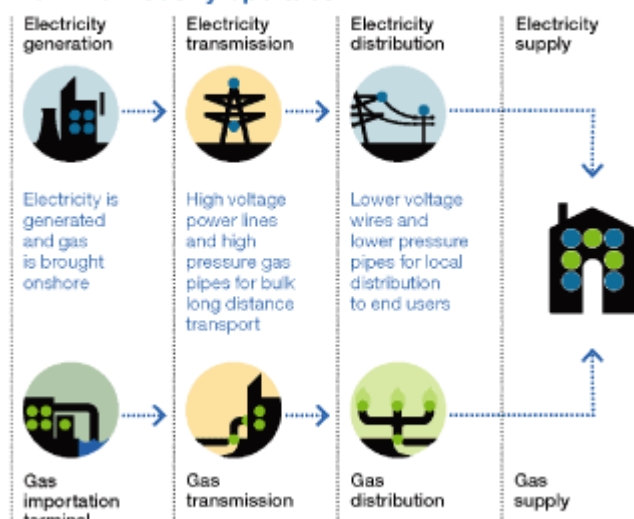
Principal operations

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.

We have over 28,000 employees in the UK and 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 described on this page and further details are available on pages 46 to 73.

How the industry operates



Transmission

UK

The transmission of electricity and gas in the UK as owner and operator of the high voltage electricity transmission network in England and Wales, the gas national transmission system in Great Britain, electricity interconnector with France and storage facilities for LNG. The operation, but not ownership, of the electricity transmission networks in Scotland.

US

The transmission of electricity in the northeastern US as owner and operator of high voltage electricity transmission networks in upstate New York, Massachusetts, New Hampshire, Rhode Island and Vermont.

Gas Distribution

UK

The distribution of gas 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 and as a generator of electricity on Long Island.

Non-regulated businesses and other

Other services related to our main operations, principally in the UK. Includes metering services, property management, electricity interconnectors and liquefied natural gas (LNG) importation.

This Operating and Financial Review describes the main trends and factors underlying our development, performance and position during the year ended 31 March 2010 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 managed locally, those managed by line 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 the day-to-day management of National Grid and for the execution of our strategy as approved by the Board.

Board of Directors	
Executive Committee	
Chief Executive: Steve Holliday	
Finance and shared services: Steve Lucas	
Transmission: Nick Winner	Gas Distribution: Mark Fairbairn
Electricity Distribution & Generation: Tom King	Non-regulated businesses* and other (including corporate functions and information services)

* Responsibility for 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. These are the Audit, Finance, Nominations, Remuneration, Risk & Responsibility and Disclosure Committees.

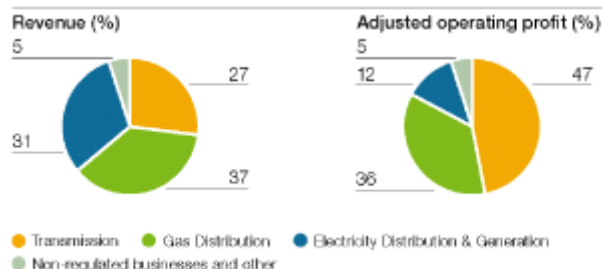
More information on the roles of the Board and its Committees can be found in the Corporate Governance section on pages 87 to 91

Business and geographic analysis

Our continuing operations are organised by lines of business as follows:

Business analysis 2009/10

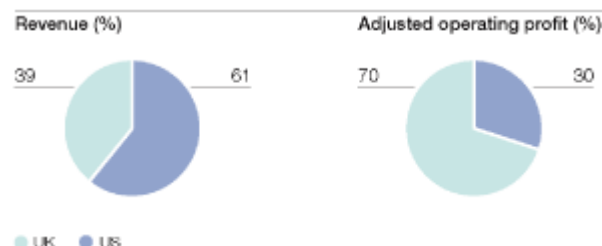
Continuing operations



Our businesses are divided between the UK and the US as follows:

Geographical analysis 2009/10

Continuing operations



The charts show revenue and adjusted operating profit from continuing operations for the year ended 31 March 2010. Adjusted operating profit excludes exceptional items, remeasurements and stranded cost recoveries.

More information on these adjustments is available on pages 38 and 39 and in Accounting policies on page 116

In the US, we purchase electricity and gas for onward sale to customers, and the amount we receive from customers for these commodities is included in revenue. We make no margin on these purchases and sales. In the UK, we do not purchase or sell the commodities, so there is no equivalent amount included in UK revenue.

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.

More information on the history of National Grid is available in the Shareholder information section on page 191

External market

Markets in which we operate

The principal markets in which we operate are the electricity and gas markets in Great Britain and in Massachusetts, New York, Rhode Island and New Hampshire in the US.

The supply of electricity and gas in the UK and in most of the states in which we operate in the northeastern US is competitive in that consumers can choose their energy supplier. Those suppliers are then responsible for sourcing the 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 because, for the majority of consumers, there are no alternative methods of receiving electricity or gas.

Energy delivery in the UK

In general, in the UK, 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. This is shown in figure 1. Certain end users, primarily large industrial consumers, receive electricity or gas directly from the relevant transmission network, rather than through a distribution network (not shown in diagram).

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 electricity and gas suppliers, electricity generators and gas shippers for our services. There are 14 electricity distribution networks in the UK, owned by 7 different companies. Two companies each own an electricity transmission network in Scotland, which we operate in both cases, and three companies own the four gas distribution networks in Great Britain that we do not own. The ownership of the networks we do not own is set out below.

Network	Owner (and parent where relevant)
Electricity distribution networks in Great Britain (non National Grid)	
West Midlands	Central Networks (E.ON)
East Midlands	
North West	Electricity North West
North East	CE Electric UK (Berkshire Hathaway)
Yorkshire	
South Wales	Western Power Distribution
South West England	
London	EDF Energy Networks (Electricité de France)
South East England	
East of England	Scottish Power (Iberdrola)
Central and Southern Scotland	
Cheshire, Merseyside and North Wales	Scottish and Southern Energy
Northern Scotland	
Central Southern England	Scottish Power (Iberdrola)
Electricity transmission networks in Scotland (non National Grid)	
Northern Scotland	Scottish and Southern Energy
Southern Scotland	Scottish Power (Iberdrola)
Gas distribution networks in Great Britain (non National Grid)	
North of England	Northern Gas Networks
Scotland	Scotland Gas Networks (Scotia Gas)
South and South East England	Southern Gas Networks (Scotia Gas)
Wales and West of England	Wales & West Utilities

Energy delivery in the northeastern US

In most of our operating areas 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 many consumers use for domestic heating purposes.

Electricity is transported either directly from generators or independent suppliers into local electricity distribution networks or via electricity transmission networks, while gas is obtained from importation terminals, gas producers or independent suppliers transported on gas transmission pipelines and then transported through local gas distribution networks. This is shown in figures 2 and 3. Certain end users, primarily large industrial customers, receive electricity or gas directly from the electricity transmission networks or inter-state gas transmission pipelines (not shown in diagram).

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 purchase 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 57 electricity generation plants on Long Island that supply power under contract to LIPA. Our agreements with LIPA also cover our provision of fuel procurement and management services.

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 other companies and organisations that own or operate fuel delivery infrastructure in the northeastern US.

Other markets in which we operate

Our other businesses primarily operate in energy related markets in the UK and the US or are directly related to our regulated businesses described above. This includes our metering services businesses in the UK, incorporating our legacy regulated metering business which owns approximately 75% of the domestic gas meters in the UK, and our competitive metering services business which owns a further 11%. In addition, we have a significant property portfolio and property management business.

Current and future developments

Market structure and ownership

There have been no significant changes in either the structure or ownership of the UK energy infrastructure market during 2009/10. In the northeastern US, there have been no significant changes to the structure or ownership of the electricity and gas networks during the year, although First Energy Corp. has announced a planned acquisition of Allegheny Energy Inc., and PPL Corp. has announced a planned acquisition of E.ON AG's US utilities, both subject to regulatory approval.

Energy market developments

Both the UK and the US energy markets continue to undergo developments driven by: new sources of electricity generation, including renewables; increased focus on security of supply; and the projected increased reliance in the UK on imported gas.

In the UK, the energy sector faces significant challenges relating to the declining gas reserves in the North Sea. Our latest forecast is that the UK will import around 46% of its gas requirements by 2010/11 and 69% by 2018/19. Other challenges include meeting the government's targets on renewable generation, and the retirement of significant parts of the current generation capacity.

In November 2009, the Department of Energy and Climate Change (DECC) issued a consultation document on reforming the planning consent system for nationally significant energy infrastructure projects. The consultation period closed in February 2010 and the outcome is expected to be finalised later in 2010.

In January 2010, The Crown Estate announced the successful bidders for each of the nine Round 3 offshore wind zones within UK waters. These zones have the potential to deliver up to 32 GW of renewable offshore wind generation.

In March 2010, the DECC established a new Office of Carbon Capture and Storage, which is tasked with facilitating the delivery of carbon capture and storage in the UK, and helping to promote its rapid deployment globally.

Following the UK government's support for new nuclear generation announced in January 2008, the Health and Safety Executive is currently assessing generic designs. This assessment is expected to be completed in June 2011 and consideration of specific designs can then begin. The first new nuclear generation is currently expected to be operational by 2017.

Progress is continuing on phase III of our LNG importation facility on the Isle of Grain, with commissioning expected in winter 2010/11. 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, greater use of renewables and the provision of information to utilities and their customers that will lead to greater investment in energy efficiency and reduced peak load demands.

These changes are expected to have an impact on 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 new transmission investment, asset replacement and renewable power developments will require increasing investment in our US electricity transmission and distribution networks.

Figure 1 – Energy transportation in the UK

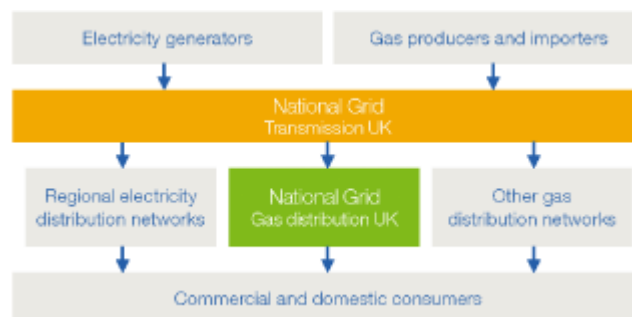


Figure 2 – Electricity transportation in the US

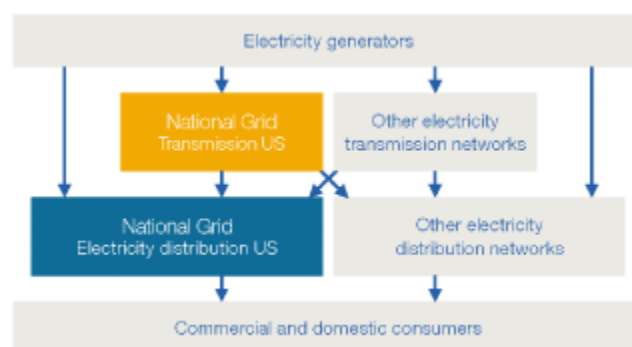
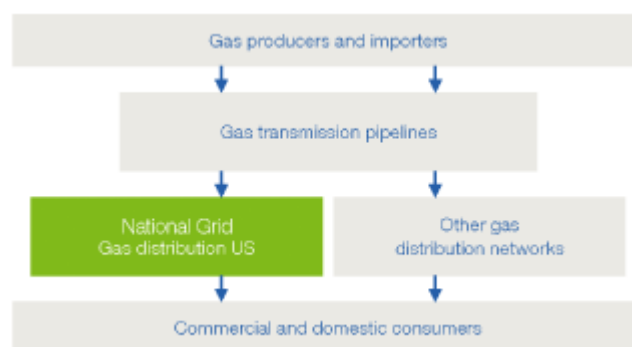


Figure 3 – Gas transportation in the US



Regulatory environment

Utility 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 a number of regulators, each of which exercises power over how we operate within their respective jurisdictions.

Our principal market regulators and associated rate plans and price controls are illustrated opposite and 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, one covering our role as transmission owner (TO), and the other for our role as system operator (SO); two for our gas transmission operations, again one as TO and one as SO; and one for each of our four regional gas distribution networks. The revenue that we can earn from charging for access to our UK electricity and gas systems is 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 on capital invested in the business, as measured by the regulatory asset value. They provide a financial incentive to operate and invest efficiently 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, approve an allowed cost base, determine cost recovery and allowable levels of return and approve mergers and acquisitions of public utilities. The FERC also regulates public utility holding companies, including the US businesses of National Grid.

We have four electricity rate plans and nine sets of gas rates, 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. The rates for our electricity transmission network in New England are subject to federal regulatory approval.

Our rate plans are designed to produce a specific allowed return on equity, by reference to an allowed cost base and an agreed regulatory asset base. 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.

We have regulatory arrangements that provide for the recovery of our historical investments in generating plants that were stranded when some of our US subsidiaries divested their generation business as part of the industry restructuring and wholesale power deregulation process in New England and New York, and the recovery of certain above market costs of commodity purchase contracts that were in place at the time of restructuring and deregulation. We recover most of these costs through the rates charged to electricity customers. This revenue stream will decline as the recovery of stranded costs is completed.

Our reliability performance under certain rate plans is subject to performance targets established by the relevant regulator, under which we may be subject to monetary penalties in cases where we do not meet those targets.

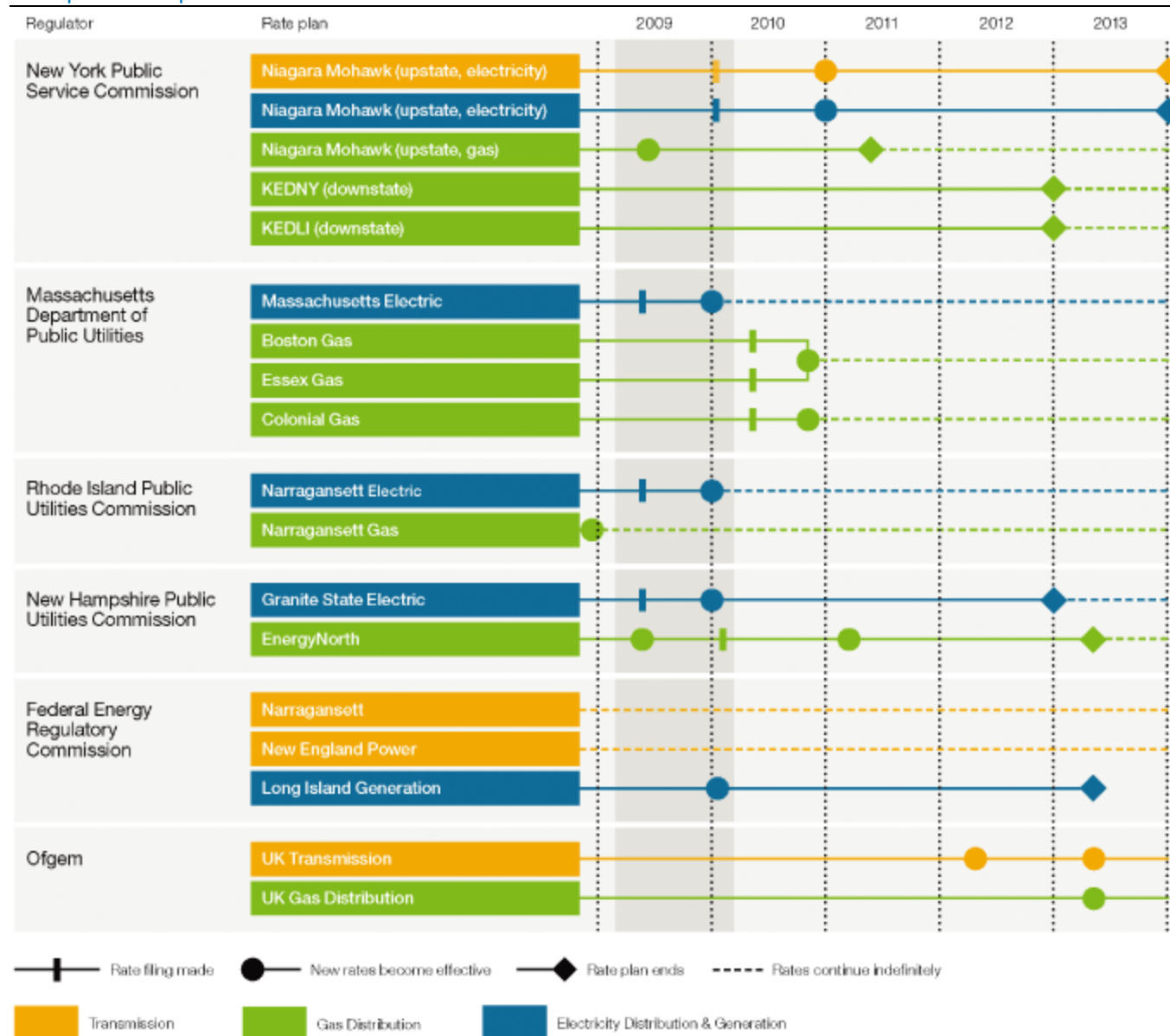
More information about the regulatory environments in which we operate, and on the nature of our rate plans and price controls, is provided in each of the regulated business sections on pages 46 to 53 (Transmission), 54 to 61 (Gas Distribution) and 62 to 69 (Electricity Distribution & Generation).

Other regulation

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.

As a public company with shares and other securities listed on both the London and New York stock exchanges, we are also subject to regulation by the UK Financial Services Authority, the US Securities and Exchange Commission and the exchanges themselves.

Rate plans and price control calendar



Energy policy, regulatory and other developments

UK and European energy policy

In May 2007, the UK government published a white paper entitled Meeting the Energy Challenge. This document set out the government's strategy to address the issues of climate change and the UK's increasing reliance on imported fuel. The strategy includes: carbon dioxide (CO₂) emission reductions of about 60% by 2050; security of supply; competition in energy markets in the UK and overseas; and adequate and affordable heating for every home.

In November 2008, the government enacted the Climate Change Act, making the UK the first country in the world to have a legally binding long-term framework to cut carbon emissions. The Act provided for targets for reductions in greenhouse gases of 80% by 2050, against a 1990 baseline. It also established a series of five year carbon budgets, and set up a Committee on Climate Change as an expert body to advise the government on those carbon budgets and to advise on the balance between actions to be taken at the domestic, European and international levels. In addition, in his 2009 Budget the then Chancellor Alistair Darling also promised to cut greenhouse gases by 34% by 2020 through the carbon budget provisions previously envisaged in the Act.

In 2009, the Department of Energy and Climate Change issued the UK Low Carbon Transition Plan, setting out plans to meet the 34% cut in emissions by 2020, including measures such as home energy efficiency and smart meters, and a target of 40% of the UK's electricity to be derived from low carbon sources, including nuclear, by 2020.

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%.

US energy policy

At the federal level, the Obama administration and Congress have focused on new energy and environmental legislation in two main areas: the economic stimulus bill; and emerging comprehensive climate and energy legislation. The \$787 billion American Recovery and Reinvestment Act, passed in February 2009, has significant provisions for the energy industry. The Act provides funding 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.

The current Congress has made considerable progress on comprehensive climate change legislation. The American Clean Energy and Security Act passed significant cap and trade legislation out of the House of Representatives in the summer of 2009 and the Clean Energy Jobs and American Power Act was passed out of the Senate Environment and Public Works Committee later that year. There has been a bipartisan effort to craft legislation to cover not only climate change and greenhouse gas reductions, but also energy security language that would enhance domestic energy supplies from nuclear power to offshore oil and gas drilling. In President Obama's 2010 State of the Union address, he expressed his vision of a 17% goal in reduction of greenhouse gas emissions by 2020 and 80% by 2050.

Regulatory developments

UK and European regulatory developments

During the year ended 31 March 2010, there were no significant legislative changes in the UK relating to utility regulation.

In March 2008, Ofgem announced a review of the current RPI-X based regulatory framework. The RPI-X@20 review is an assessment of the current regulatory regime and its ability to address the challenges facing energy networks in the future. Ofgem's intention is for the output from this project to feed into future price controls. To allow the output of RPI-X@20 to be fully incorporated into the next full transmission price control review, the current transmission price controls will be rolled over and extended by one year to March 2013. The current gas distribution price control is also scheduled to end in March 2013. The outcome of RPI-X@20 is unlikely to impact our current regulatory settlements, but is expected to influence future price controls from 2013.

In early 2009, Ofgem launched Project Discovery, an examination of the prospects for secure and sustainable energy supplies over the next 10 to 15 years. We will continue to work with Ofgem as they consult on their range of options.

The European Commission's third legislative package of energy proposals for the European gas and electricity markets was passed in July 2009 and must now be implemented in UK domestic legislation by April 2011. 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 final proposals include alternatives to full unbundling. In summer 2009, the European Commission published an initial proposal for a regulation concerning security of gas supply, and National Grid has worked closely with the UK government and through Gas Infrastructure Europe to help in its development. The legislative processes are expected to complete by the end of 2010. Key features of the new proposed regulation include improving information flows and coordination of actions in an emergency.

US regulatory developments

The principal US regulatory policy developments continue to focus on reducing carbon emissions, through significant increases in energy efficiency and the development of renewable generation. At the state level, regulatory commissions and other policymakers are pursuing carbon reduction targets by requiring reductions in electric load growth, increasing the deployment of utility energy efficiency programmes and mandating renewable generation. Revenue decoupling mechanisms, to address disincentives to utility companies implementing energy efficiency programmes, have been proposed. Massachusetts and New York regulatory bodies have instructed utilities to file decoupling proposals as part of their next rate plans. There is also an increasing interest in exploring the deployment by utilities of smart grid technologies.

Price controls and rate plans

UK price controls

The price controls for the UK electricity and gas transmission businesses were due to be reviewed during 2010 and 2011 but, as noted above, they have been delayed by a year and are now expected to be implemented in April 2013. We were subject to one year system operator price controls for our electricity and gas transmission operations for 2009/10 and new one year controls have been agreed for 2010/11.

US rate plans

In New York, we were granted a 10.2% return on equity (ROE) with a \$39.4 million revenue increase for the upstate gas business, effective from 20 May 2009.

In New Hampshire, the Public Utilities Commission issued a rate order for the gas distribution business allowing a 9.54% ROE and a revenue increase of approximately \$5 million, effective from 29 May 2009. For retail customers this decision resulted in a reduction in bills from the temporary rates set on 24 August 2008. We filed a Motion for Reconsideration to appeal the ROE determination but the Commission denied our motion. On 26 February 2010, we filed a further rate increase proposal seeking an 11.2% ROE. A decision is expected in January 2011.

In Massachusetts, the electricity distribution business was granted a revenue increase of \$42 million effective from 1 January 2010 with an additional \$24.1 million to be recovered over the subsequent four year period to recover storm costs. The Commission approved a 10.35% ROE. The Massachusetts rate case decision also allows for revenue decoupling, annual reconciliation of commodity related bad debt expense and pension expense, and a capital tracker to recover investment in the network up to \$170 million.

In Rhode Island, the Public Utilities Commission approved a revenue increase of \$23.5 million for the electricity distribution business with rates effective from 1 March 2010, retroactive to 1 January 2010. We were granted a 9.80% ROE with a capital structure of 42.75% common equity. We have submitted a filing to the Rhode Island Supreme Court requesting that the court hear our appeal of the Commission's decision and we plan to file a rate case later this year. For information on new rate plans filed, but not yet agreed by the regulators, see page 33.

For details of a rate adjustment in our power supply agreement with the Long Island Power Authority, see page 64.

Legal and related matters

An update on the ongoing Metering competition, gas distribution mains replacement reporting and KeySpan Department of Justice investigations that were reported in last year's Annual Report and Accounts is provided on pages 80 and 81. On 18 March 2010, a putative class action was commenced in New York against KeySpan and Morgan Stanley in relation to a financial swap transaction. Further details of this are also provided on page 81.

Other developments

We are currently evaluating options to allow us to exit our gas and electricity businesses in New Hampshire.

Financing developments

On 19 May 2010, the Board resolved to offer a fully underwritten rights issue to raise approximately £3.2 billion, net of expenses. The proceeds are expected to be used to fund a portion of our capital investment programme and for general corporate purposes. The capital raised will allow us to significantly increase our capital investment in the UK and assist in maintaining single A credit ratings for our UK operating companies, thereby improving our long-term competitive position.



Graeme Steele (above left), National Grid's European Policy and Interconnectors Manager, signs the foundation deed to create the European Network of Transmission System Operators – Gas.

European policy

In July 2009, the European Commission's third legislative package of energy proposals was passed. Among other things, this legislative package creates formal transmission system operator bodies for both gas and electricity. These bodies are charged with developing technical and commercial rules for cross border trading and producing 10 year network development plans. Through Board representation and working level resources, National Grid has established key roles in both organisations. Going forward, we see these organisations and the wider package of legislation as leading to greater cooperation and coordination with our neighbours in northwest Europe.

External relationships

We aim to enhance our relationships with all our external stakeholders including investors, customers, regulators, governments, suppliers and the communities we serve.

Responsibility

Our reputation depends on the trust and confidence of our stakeholders. We will only earn this by working to the highest standards, by trusting our employees to do the right thing and by running our Company responsibly and sustainably.

Our Framework for Responsible Business, first published in 2002, has been extensively revised this year to provide a clearer line of sight from our vision to how we manage our business and our day-to-day dealings with our stakeholders. Our Company wide policies and position statements, available on our website, underpin the Framework.

Our Standards of Ethical Business Conduct provide a common set of practical guidelines to help ensure our behaviours are lawful, comply with our policies and licences and follow the values set out in the Framework and our core values. We undertake online training for employees annually to ensure they understand the Standards.

In 2009/10, there were 13.6 substantiated breaches of the Standards per 1,000 employees compared with 11.3 in 2008/09 and 11.6 in 2007/08. 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 2010 employee survey, 66% (2009: 66%) of respondents considered something would be done if they reported an inappropriate business practice or an ethical issue.

We continue to enjoy external acknowledgment of our responsible business approach. In June 2009, we became one of only seven Business in the Community Platinum Plus companies, recognising our long-term commitment to operating responsibly.

The Responsibility section of our website provides performance data on a wide range of environmental, employee, economic and social issues. It also sets out our approach to assuring the corporate responsibility information and data in this report and our other public corporate responsibility reporting.

Investors

Our aim is to ensure the value of our business is fully reflected in our share price. We aim to make National Grid attractive to investors so we can finance our operations as effectively as possible.

In 2009/10, the prevailing economic conditions led to the cancellation of many investor conferences on the utilities conference calendar, but during the year we conducted over 230 investor meetings in the UK and Europe and 228 investor meetings in the US, maintaining a presence at 3 UK and European conferences and at 8 North American conferences. We presented to 11 broker sales teams, held 2 US regulatory updates and 1 UK site visit for analysts and investors.

We also presented to debt investors in the major European financial centres as well as across the US.

We 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

We aim to treat customers with respect, to communicate clearly with them, and to make their interactions with us as straightforward as possible. We aim at all times to provide a safe, reliable and efficient service to our customers.

We have a very wide range of customers, including: electricity generators and gas shippers; new developers from nuclear to wind, wave and tidal power; gas storage operators; local distribution companies; and approximately 19 million industrial, commercial and domestic consumers.

In 2009, we sought feedback from our UK transmission customers to understand what it was like to do business with us. They told us in a lot of cases we perform well and are knowledgeable about the industry. However, in a number of cases we let them down by our actions – including not communicating effectively and not being accessible. Using the data we gathered, a programme for 2010 has been developed to drive change in our customer focus. The programme sets out clear commitments to our customers, is driven and supported by senior management, and provides accountability and ownership for our employees.

A customer focused Transmission business will ensure we can be flexible in meeting the challenges of our changing customer base. It will allow us to respond proactively to customer requirements by meeting requests wherever we can. In cases where the regulatory frameworks prevent us from doing so, we will explain clearly the reasons and will work with the industry to adapt the frameworks for the future.

In UK Gas Distribution, we have a programme to improve customer service levels. This includes increased staff training, reviewing our processes to make them more customer focused, and a review of all our communications with customers. In addition, we are providing increased support to leaders to assist them as they engage with employees on the importance of customer service. An example of this is a short film that has been produced explaining the important role that all employees play in delivering an excellent customer service.

In the US, we implemented a new customer organisational model during the final quarter of the year, designed to increase our ability to deliver our customer objectives. The new organisation has been designed to be market driven and focused on delivering integrated energy solutions to our customers across all lines of business. For more information, see page 32.

We recognise the difficulties the current state of the economy has caused many of our customers. We understand we have an obligation to balance the payment needs of our customers with our financial responsibility to our shareholders, our regulatory commissions and our remaining customer base. To help balance these needs, we have been implementing a comprehensive bad debt mitigation strategy which includes focusing on early intervention and customer risk segmentation allowing us to better match appropriate collection strategies to individual customers.

Regulators

Our regulators, both in the UK and the US, are concerned with ensuring we can and do provide a safe, reliable and efficient service to our customers. Our ability to deliver that service, and to deliver returns to our investors, depends on our relationships with those regulators.

Our focus on customer service and operational excellence is a critical component of building trust with our regulators. This involves being responsive to the needs of our regulators for high quality information, complying with rules and regulations, operating in an ethical way, responding constructively to consultations and, most importantly, delivering on our promises. In the UK, we continue to work very closely with Ofgem on the renewal of our electricity transmission, gas transmission and gas distribution networks, and on expanding those networks to meet new and changing demand.

In the US, we are committed to maintaining strong relationships with our regulators at the state and federal levels. We want to ensure we deliver on our regulatory commitments, bring benefits to our customers, and shape the future regulatory agenda to deliver a clean energy economy. To that end, we have established a dedicated federal regulatory affairs team in Washington, D.C.

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.

Considering the environmental impact as part of our procurement decision making is key to developing our leadership position on climate change issues. We are developing a strategy to measure and reduce our supply chain carbon emissions.

The World Resource Institute/World Business Council for Sustainable Development has developed proposals for a Scope 3 greenhouse gas emission reporting protocol. We have been selected to participate in a worldwide pilot study to road test the new protocol. We are also participating in the Carbon Disclosure Project's supply chain initiative where we will be assessing the greenhouse gas emissions of 144 of our top suppliers.

Given the scale of carbon emissions from our UK construction activities, we have undertaken pilots to develop carbon life cycle analysis tools. Working with our alliance partners, we have been driving innovation and sharing best practice in green build techniques and materials management.

We believe small businesses power the economy by creating jobs and contributing to the financial stability of our communities. It is the aim of our US supplier diversity programme to effectively expand business opportunities through outreach, purchasing exchanges and creating powerful partnerships with diverse suppliers to reach our long-term growth objectives. To help increase our base of qualified suppliers we have developed partnerships with numerous organisations that identify and/or certify suppliers.

Communities

We want to be welcomed and seen as a valued partner in the communities we serve. We will prioritise our community investment in areas where we have a business interest as well as knowledge and expertise to share.

Over the last year, we have implemented our new community impact framework.

We have continued to engage more employees in our community volunteering. Our partnership with Special Olympics Great Britain has been very successful with an 82% increase in volunteer hours in company time compared with 2008/09. A small group of our employees have been mentoring athletes. Some of the athletes spoke at the National Summer Games opening ceremony in Leicester, an event to which we sent a team of volunteers for the week. We also sponsored the Torch Run on its journey around the country. In the US, our employees have been involved in various volunteering opportunities, including Earth Day and Junior Achievement.

We continue to use the London Benchmarking Group model (for more information see www.lbg-online.net) to provide a framework for measuring and reporting our community investment contributions. In 2009/10, we invested £11 million (2008/09: £10 million; 2007/08: £9 million) in support of community programmes across our operations.

In our 2010 employee survey, 63% (2009: 64%) of respondents considered National Grid makes a positive contribution to the communities in which we operate.



Investment recovery programme

Our US investment recovery and recycling programme helps us reduce waste and save money by reusing, selling or recycling assets. From electrical and gas equipment to office material and scrap, in 2009/10 we processed over 11,000 tonnes of material. As well as environmental and financial benefits, the programme brings social advantages. Working in partnership with Monarch Industry and Seven Hills Foundation, it provides adults with physical and mental disabilities the opportunity to experience the work environment by performing a variety of tasks.

Vision, strategy and objectives

Vision

Our vision is the long-term aspiration for National Grid – what we want to be in the future.

We, at National Grid, will be the foremost international electricity and gas company, delivering unparalleled safety, reliability and efficiency, vital to the wellbeing of our customers and communities.

We are committed to being an innovative leader in energy management and to safeguarding our global environment for future generations.

Strategy

Our strategy is a medium-term step in the journey to achieve the vision – what we will be doing over the next few years.

It is also the overarching principle that provides commercial context to each of the objectives.

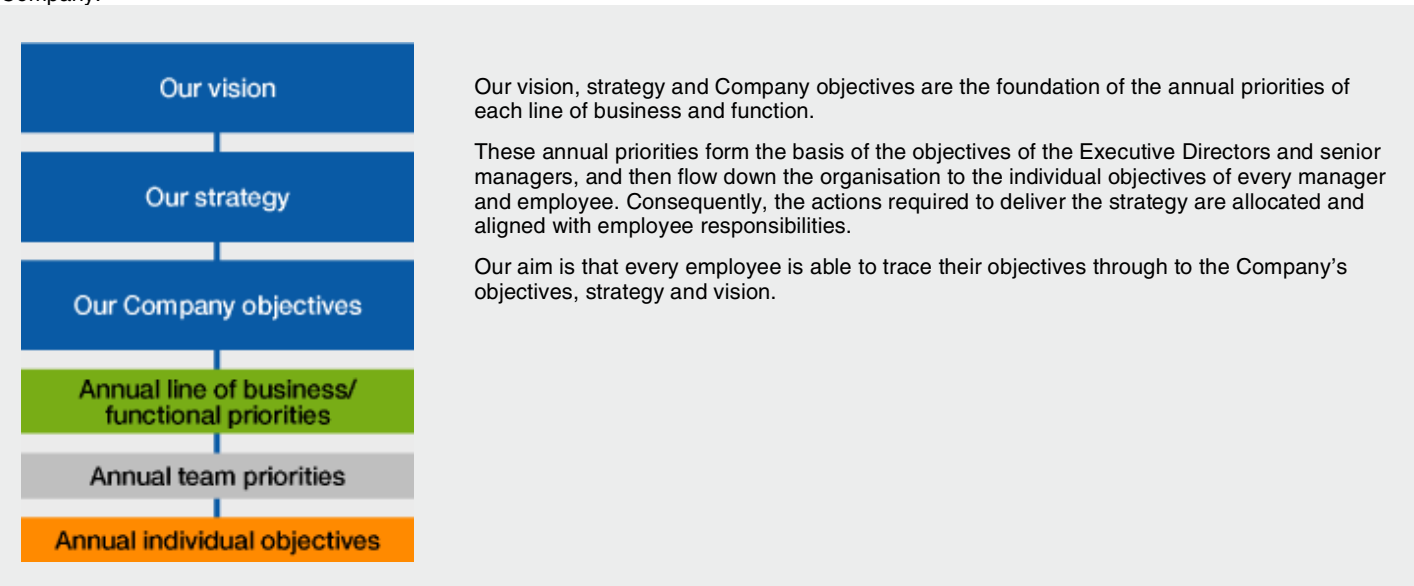
We will build on our core UK and US, electricity and gas, regulated business base and financial discipline to deliver sustainable growth and superior financial performance.

Company objectives

- The objectives are the building blocks of the strategy and are fundamental to our business – what we are doing now.
- 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

Line of sight

Line of sight links the vision, strategy and Company objectives to all our employees' individual objectives – how what each of us does contributes to the success of the Company.



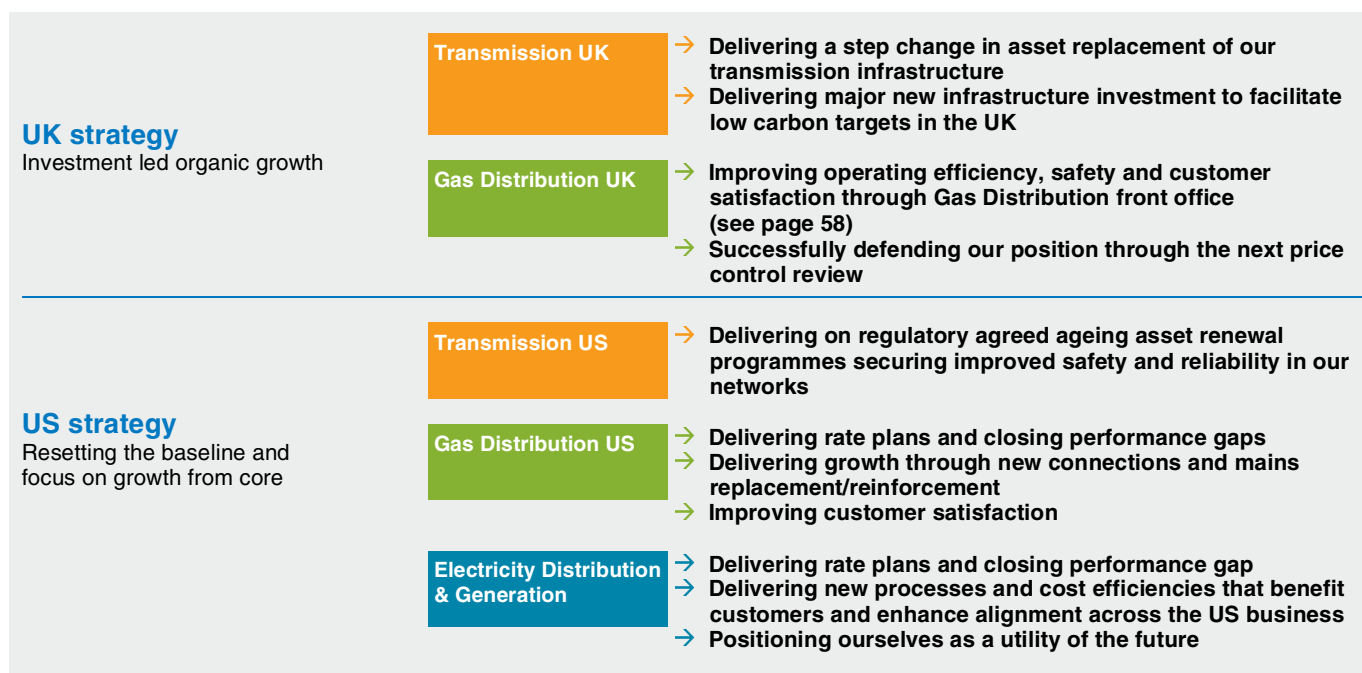
Delivering the future through our strategy

We recognise that the geographic areas in which we operate present different challenges, and therefore the implementation of the strategy has a different focus in the UK than in the US. The details of how we plan to deliver the strategy in each region are outlined below and the alignment of the headline priorities of each business segment is illustrated in the diagram.

In the UK, we will seek to grow through replacing and expanding our core networks and investing in other organic growth opportunities relating to climate change and security of supply. In developing the future UK and EU policy and regulatory framework, we will actively influence the energy policy agenda and endeavour to position ourselves as the go-to company for current and future governments both with regard to expert opinion on matters relating to UK energy policy and climate change, and as the company of choice for delivering large energy infrastructure projects. We will look to ensure that future price controls reflect the need for substantial and timely investments

to ensure climate change targets and security of supply requirements are met, while delivering acceptable and timely rates of return.

In the US, we will focus on filing rate plans and achieving appropriate outcomes, while also addressing our cost base. We will grow through core business customer growth, and asset replacement and network reinforcement. In developing the future US policy and regulatory framework, we will continue to drive towards achieving rate plans that deliver fair rates of returns, along with operating and capital cost recovery. We will continue to push for decoupling and the extension of energy efficiency programmes. We will also seek to achieve forward-looking rate plans, together with trackers for key areas of increase and volatility such as capital expenditure, pensions and bad debts. We also aim for rate plans to include remuneration for climate change initiatives such as smart grid, solar and transmission projects to connect renewables.



Values

This year, we are emphasising the link between the line of sight and our values. It is important that we judge our achievements not just on what is delivered but also on how it is done. Our core values are: respect others and value their diversity; take ownership for driving performance; demonstrate integrity and openness in all relationships, and work as one team, one National Grid.

Responsibility

Our vision, 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 an ethical and sustainable manner.

Business drivers, risks and opportunities

Business drivers

There are many factors that influence the success of our business and the financial returns we obtain. We consider the factors described here 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 regulatory approved price controls in the UK and rate plans in the US. These arrangements include incentive and/or penalty arrangements. The terms of these arrangements have a significant impact on our revenues.

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 Grain LNG importation terminal are determined by long-term contractual arrangements with blue chip customers.

People

The skills and talents of our employees, along with succession planning and the development of future leaders, are critical to our success. We believe that business success will be delivered through the performance of all current and future employees, and enhanced by having a workforce that is diverse in its cultural, religious and community influences.

Risks and opportunities

There are a number of risks that might cause us to fail to achieve our vision or to deliver growth in shareholder value. We can mitigate many of these risks by acting appropriately in response to the factors driving our business. The principal risks are described here. For more detail on risks, see pages 93 to 95.

Regulatory settlements and long-term contracts

Our ability to obtain appropriate recovery of costs and rates of return on investment is of vital importance to the sustainability of our business. We have an opportunity to help shape the future of the regulatory environment, for example in our participation in RPI-X@20 in the UK and in our rate filings in the US. If we fail to take these opportunities, we risk failing to achieve satisfactory returns.

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. Failure to achieve satisfactory performance could affect our ability to deliver the returns we and our stakeholders expect.

Talent and skills

Harnessing and developing the skills and talent of our existing employees, and recruiting, retaining and developing the best new talent, will enable us to improve our capabilities. Failure to engage and develop our existing employees or to attract and retain talented employees could hamper our ability to deliver in the future.

Objectives

We have developed the Company strategy and objectives to address the key business drivers and risks, ensuring we manage the business appropriately so as to mitigate risks and optimise opportunities. For more detail on objectives, see pages 24 and 25.

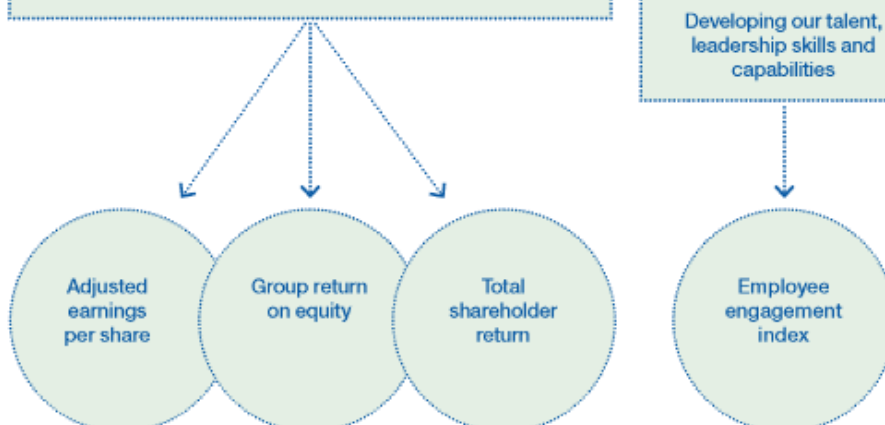
Delivering strong, sustainable regulatory and long-term contracts with good returns

Building trust, transparency, and an inclusive and engaged workforce

Developing our talent, leadership skills and capabilities

Key performance indicators (KPIs)

We use a variety of performance measures to monitor progress against our objectives. Some of these are considered to be key performance indicators and are set out here. For more detail on performance, see pages 28 to 45.



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. Capital investment in non-regulated assets allows us to develop new revenue streams or to increase revenues from existing assets.

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.

Relationships and responsibility

Our reputation is vitally important to us. We only earn the trust and confidence of our stakeholders by conducting our business in a responsible manner. The quality of our customer service feeds through to the attitudes of regulators and is also linked to our financial performance. Our reputation depends on our behaviours being lawful and ethical, on complying with our policies and licences, and on living up to our core values.

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.

Investment in our networks

Our future organic growth is dependent on the delivery of our capital investment plans. In order to deliver sustainable growth with superior financial performance we will need to finance our investment plans. Instability in the financial markets, loss of confidence by investors, or inadequate returns on our investment may restrict our ability to raise finance.

Safety, reliability and customer service

The operating profits and cash flows we generate are dependent on operating safely and reliably, and providing a quality service to customers. If we fail to meet our regulatory targets or the high standards we set ourselves, we risk loss of reputation as well as financial penalties imposed by regulators.

Efficiency

Transforming the way we operate by simplifying and standardising 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.

Sustainability and climate change

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 address climate issues, and helping our employees, customers and suppliers to change their behaviour to be more environmentally responsible.

Expanding our capabilities and identifying growth opportunities

Identifying, evaluating and acquiring new businesses that build on our core regulated operations are important. If we are unable to acquire businesses with the correct strategic fit it may restrict our future sustainable growth and our ability to increase shareholder value. The acquisition of new businesses is dependent on our ability to fund transactions through internal cash flows or the issuance of new debt or new shares.

Modernising and extending our transmission and distribution networks

Driving improvements in our safety, customer and operational performance

Becoming more efficient through transforming our operating model and increasingly aligning our processes

Positively shaping the energy and climate change agenda with our external stakeholders in both regions

Expanding our capabilities and identifying new financeable opportunities to grow

Network reliability targets

Employee lost time injury frequency rate
Customer satisfaction

Regulated controllable operating costs

Greenhouse gas emissions

Key performance indicators (KPIs)

Financial KPIs

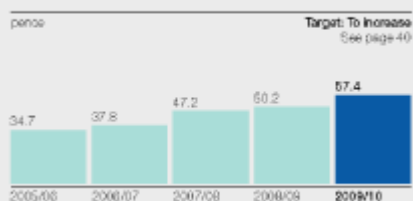
Company strategy and objectives	Financial KPIs	Definitions
Sustainable growth and superior financial performance	Adjusted earnings per share	Adjusted earnings* divided by the weighted average number of shares
	Total shareholder return	Growth in share price assuming dividends are reinvested
Delivering strong, sustainable regulatory and long-term contracts with good returns	Group return on equity	Adjusted earnings* with certain regulatory based adjustments divided by equity
Becoming more efficient through transforming our operating model and increasingly aligning our processes	Regulated controllable operating costs	Regulated controllable operating costs as a proportion of regulated assets

Our performance and the progress we have made against our strategic aims and against the objectives we have set ourselves are described below and on the following pages. Commentary on our overall financial results can be found on pages 38 to 45, and information on the performance and financial results of each line of business is set out on pages 46 to 73.

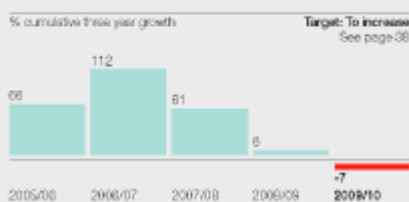
We measure the achievement of our objectives both through the use of qualitative assessments and through the monitoring of quantitative indicators. To provide a full and rounded view of our

business, we use non-financial as well as financial measures. Although all these measures are important, some are considered to be of more significance than others, and these more significant measures are designated as KPIs. Our financial and non-financial KPIs are highlighted here. KPIs are used as our primary measures of whether we are achieving our principal strategic aims of sustainable growth and superior financial performance. We also use KPIs to measure our performance against our objectives; the relationships between the objectives and the KPIs is explained above.

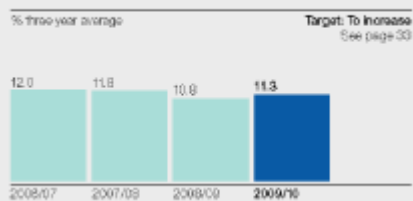
Adjusted earnings per share**†



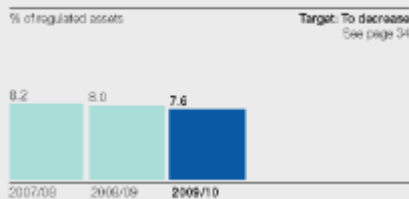
Total shareholder return



Group return on equity^



Regulated controllable operating costs‡



* Adjusted earnings excludes exceptional items, remeasurements and stranded cost recoveries

+ 2007/08 data 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 results include KeySpan operations on a pro forma financial performance basis assuming the acquisition occurred on 1 April 2007

† Comparative data has been restated for the impact of the scrip dividend issues

‡ Comparative data has been restated to present information on a consistent basis with the current year

Non-financial KPIs

Company objectives	Non-financial KPIs	Definitions
Modernising and extending our transmission and distribution networks	Network reliability targets	Various definitions appropriate to the relevant line of business
Driving improvements in our safety, customer and operational performance	Customer satisfaction	Our position in customer satisfaction surveys
	Employee lost time injury frequency rate	Number of employee lost time injuries per 100,000 hours worked on a 12 month basis
Building trust, transparency and an inclusive and engaged workforce	Employee engagement index	Employee engagement index calculated using responses to our annual employee survey
Positively shaping the energy and climate change agenda with our stakeholders in both regions	Greenhouse gas emissions	Percentage reduction in greenhouse gas emissions against our 1990 baseline

Network reliability targets

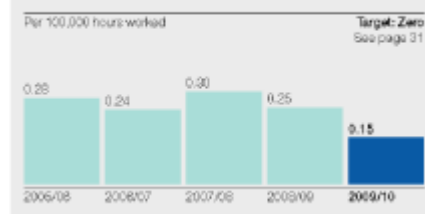
	Performance					Measure	Target
	05/06	06/07	07/08	08/09	09/10		
Electricity transmission – UK	99.9999	99.9999	99.9999	99.9999	99.9999	%	99.9999
Gas transmission – UK	100	100	100	100	100	%	100
Gas distribution – UK	99.999	99.999	99.999	99.999	99.999	%	99.999
Electricity transmission – US	348	259	437	266	147	MWh losses	<253
Electricity distribution – US	141	121	110	114	114	Mins of outage	<122

See pages 50, 58 and 66 for additional details on network reliability

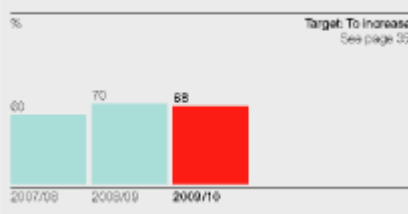
Customer satisfaction

	Performance		Measure	Target
	08/09	09/10		
Gas Distribution – UK	4th quartile	Not yet available	Quartile ranking	To improve
Gas Distribution – US: Residential	4th quartile	3rd quartile	Quartile ranking	To improve
Gas Distribution – US: Commercial	3rd quartile	2nd quartile	Quartile ranking	To improve
Electricity Distribution & Generation: Residential	4th quartile	4th quartile	Quartile ranking	To improve
Electricity Distribution & Generation: Commercial	4th quartile	3rd quartile	Quartile ranking	To improve

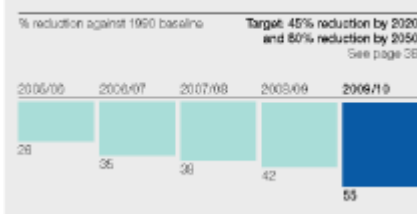
Employee lost time injury frequency rate



Employee engagement index



Greenhouse gas emissions~#



~ 2007/08 restated due to improved baseline data relating to KeySpan. Previously published figure excluding KeySpan was 30%

Our greenhouse gas emissions for 2009/10 are not fully verified at the date of this Report. Fully verified data will be published on our website in July 2010

Performance against our objectives

We use a number of detailed performance measures in addition to the key performance indicators (KPIs) shown on pages 28 and 29, reflecting the scale and complexity of our operations. We use qualitative assessments to judge progress against our objectives in areas where numerical measures are less relevant.

Changes to key performance indicators

We reported last year that we were developing a new KPI to monitor our performance on customer service. In order to measure the degree to which customers are satisfied with the service we provide, we have introduced a KPI with five components: Ofgem's UK gas distribution customer satisfaction score and the four J.D. Power and Associates customer satisfaction surveys in the US.

Ofgem requires the 8 gas distribution networks (GDNs) in Great Britain to carry out 3 types of quarterly customer satisfaction survey, covering planned works, unplanned works and connections. Respondents are asked to rate their level of satisfaction with the service provided by the GDN on a 10 point scale, where 1 is very dissatisfied and 10 is very satisfied. We calculate the average overall score for the 4 GDNs we own, compare our scores to those of the other GDNs, and report this as a component of the new KPI.

J.D. Power, an independent marketing information firm, produces a wide range of surveys of customer satisfaction, including four relating to US utilities. We use our positions in these surveys as the other components of the new KPI.

Last year, we included regulated controllable operating costs as a KPI. While this remains an important measure, and we continue to report it (see page 34), in view of our aim of building on our regulated asset base to deliver sustainable growth, we believe it is more informative to compare those costs to our total regulated assets to measure our efficiency as the business grows. We have therefore changed the KPI this year to measure our regulated controllable operating costs as a proportion of our regulated assets (regulated asset value in the UK and rate base in the US).

Performance measures and strategy

Our strategy is stated on page 24. Our performance in implementing the key elements of the strategy is measured in the following ways.

We will build on our core UK and US electricity and gas regulated business base...

We invest in our existing business in order to improve efficiency and reliability and to support our targeted dividend growth. We will also consider acquisitions in these core areas, but only where we believe we can derive added value for our investors.

Our KPIs in this area, as shown on pages 28 and 29, are total shareholder return and network reliability. Other performance measures include capital investment (see page 33), and dividend growth (see page 38).

...and financial discipline...

We seek to control operating costs, and to invest capital only where we expect to be able to obtain an acceptable return. We are committed to maintaining a single A range credit rating at the UK operating company level.

Our KPI in this area, as shown on page 28, is regulated controllable operating costs presented as a proportion of regulated assets. Other performance indicators include the vanilla return for UK businesses (see pages 50 and 57), regulatory return on equity for US businesses (see pages 50, 57 and 66), and interest cover (see page 74).

...to deliver sustainable growth...

There are a number of factors that determine the extent to which growth is sustainable. We believe that operational excellence will help us to build and maintain good relationships with our customers and regulators. Managing the skills and talents of our employees helps us to recruit, retain and develop the best possible talent, creating a diverse and motivated workforce and positioning ourselves to take advantage of present and future opportunities.

Our KPIs in this area, as shown on page 29, are customer satisfaction, employee lost time injury frequency rate, employee engagement index and greenhouse gas emissions. Other performance measures include measures of gender and ethnic mix, and a number of qualitative measures, including the number of significant direct environmental incidents and value of environmental fines, together with our participation in bodies such as the RPI-X@20 advisory panel.

...and superior financial performance.

We aim to deliver superior returns to our investors, and to ensure that the value we create is reflected in our share price.

Our KPIs in this area, as shown on page 28, are total shareholder return and adjusted earnings per share. Other performance measures include adjusted operating profit for the year (see pages 38 and 41) and operating cash flows (see pages 44 to 45). A full discussion of our financial performance can be found on pages 38 to 45.

Driving improvements in our safety, customer and operational performance

We aim for operational excellence by performing to the highest standards of safety and reliability, and by improving customer service.

Safety

Safety is critical both to business performance and to helping to define the culture of the Company for our employees.

We recognise that our operations potentially give rise to risk and believe we can eliminate or minimise those risks to achieve zero injuries or harm and to safeguard members of the public. We further believe that everyone in National Grid, collectively and individually, has a part to play in achieving this.

Employee safety

We report our employee 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 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.

2009/10 saw a significant reduction in our lost time injury frequency rate to 0.15 compared with 0.25 in 2008/09 and 0.30 in 2007/08. The number of lost time injuries was 86 in 2009/10 compared with 140 in 2008/09 and 157 in 2007/08. Definitions for lost time injury and lost time injury frequency rate are included in the glossary on page 187.

The principal causes of lost time injuries are road traffic collisions, musculoskeletal injuries and slips, trips and falls. We have implemented targeted programmes during the year to change behaviours in these areas and drive performance improvements. In our 2010 employee survey, 74% (2009: 74%) of respondents felt confident that safety concerns or issues raised would be addressed and 76% (2009: 76%) of respondents considered that National Grid never compromises safety in order to meet other goals.

Contractor safety

We believe everyone who works for us is entitled to high levels of safety, whether they are a direct employee or employed by one of our contract partners. In 2009/10, there were 85 contractor lost time injuries compared with 108 in 2008/09 and 105 in 2007/08 (see figure 1). When developing safety improvement programmes, we ensure our contract partners are actively involved and believe there is a mutual benefit in sharing good practice and learning.

Public safety

The safety of the public in the communities we serve is of prime importance to us. In 2009/10, 44 members of the public were injured as a result of our activities compared with 52 in 2008/09 and 36 in 2007/08 (see figure 2). A single incident, involving a gas explosion in a property in Shrewsbury, UK, caused 12 of these injuries. Our gas main replacement programme, the purpose of which is to reduce the safety risk relating to older metallic main, is described on page 57.

Process safety

Operating major hazard sites and pipelines means managing process safety risks is always a prime consideration in the way we run our business. We aspire to be an industry leader in this area.

Process safety incidents are relatively rare and often have catastrophic consequences. As such, counting the number of incidents is not a good indicator of performance.

Figure 1 – Contractor lost time injuries Target: Zero
Number



Data prior to 2008/09 excludes KeySpan.

Figure 2 – Injuries to members of the public Target: Zero
Number



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).

Figure 3 – Employee sickness absence rate Target: Zero
%



Data prior to 2008/09 excludes KeySpan.

Performance against our objectives continued

During 2009/10, we have continued to develop and report comprehensive leading and lagging indicators to measure that we have process safety risks under control. These indicators are regularly reviewed by the Executive Committee to ensure controls are in place and plans developed to close any gaps. The Health and Safety Executive was encouraged by the significant progress made in developing, reporting and embedding KPIs within the business. We have also worked to raise awareness of process safety throughout the Company, with training courses and communications to all employees.

In January 2010, we carried out a process safety culture survey with our employees, repeating a series of questions from a survey in 2008. This showed improvements in most areas over the two years and highlighted areas on which to concentrate for the future.

Employee health

Over the year, our sickness absence rate decreased to 2.87% compared with 3.06% in 2008/09 and 2.46% in 2007/08 (see figure 3 on page 31). The gathering and structuring of absence data has improved to provide more accuracy and detail. This helps to develop our health and wellbeing programmes.

This year, all employees have had an opportunity to engage with our health and wellbeing programmes. These are provided to make sure we create a healthy working environment that supports and encourages good lifestyle choices at work and at home. Through our occupational health programme, we continue to monitor the health of our 11,500 field based engineers ensuring the protection of their health from work activities and their fitness for work.

In the US, to date over 7,500 employees, supervisors and managers have completed a behavioural change programme for soft tissue injury prevention. This programme provides a framework to avoid musculoskeletal injuries and make sure employees understand how to maintain and improve their physical resilience.

In the UK, approximately 1,440 employees, including more than 500 field engineers, have taken up the option to review their lifestyle based on the results of a cardiovascular risk assessment. This has been supported by providing broad access to health kiosks and related workshops on nutrition and diet. The outcome of these reviews is that 300 employees have been referred to their family doctor for further medical investigation and support, while all employees in the programme were advised of their cardiovascular risk score and provided with a report detailing specific lifestyle improvements that would benefit them.

Across the Company, 5,500 employees took part in and completed the summer activity campaign Shape Up National Grid, a 12 week interactive team event that combined a weight management programme with an exercise and pedometer challenge.

The work being undertaken on health was recognised at this year's UK National Business Awards where we reached finalist status in the Health and Wellbeing category.

The business impact of these programmes is difficult to quantify at this stage but is expected to help improve employee performance and productivity, employee engagement levels and attendance.

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.

Our approach to maintaining and improving reliability involves: investing in infrastructure and systems to provide the operational tools and techniques necessary to manage our assets and operations to high standards and investing in the renewal of assets; investing in the skills and capabilities of our people to give them the ability to operate our networks to a high degree of service excellence; and maintaining a constant focus on reliability as one of our principal objectives, ensuring we are proactive about planning and that we react quickly to factors that could compromise it.

We use business specific reliability performance indicators to measure our reliability performance. More information on the reliability of each of our businesses is included in the business sections on pages 50, 58 and 66.

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.

As noted on page 22, in the US we have implemented a new customer organisational model. The new structure consists of two groups: customer energy solutions and customer service operations.

Customer energy solutions provides customers across all lines of business with one source for all their energy needs by integrating all products and services we offer to them into one group, including energy efficiency. The Company uses its marketing and energy product expertise to deliver energy solutions that allow customers to manage their energy choices and reduce their impact on the environment. It is divided into three functions: market strategy and implementation, including focused and targeted communications; energy products, providing product expertise and regulatory support to develop new products; and energy solutions delivery, maintaining relationships with larger customers and an important local presence in our communities.

Customer service operations focuses on delivering the highest quality end-to-end experience for our customers at the lowest possible cost. It is divided into four functions: revenue cycle management, responsible for processes from billing to collection and performance metrics; customer care, providing the primary point of contact for customers through call centres and customer offices; business technology, managing short- and long-term technology priorities to ensure quality customer service; and workforce management, planning and analysis.

Improvements made during the year included: the acceptance of credit cards for bill payment; implementation of a web based outage communication tool; innovative energy efficiency campaigns; enhanced communications related to our tree trim customer programme; focus on community presence in all our operating areas; and self service website enhancements.

We are already seeing an improvement in our customer satisfaction in the US. Our rankings in the four J.D. Power and Associates customer satisfaction surveys have improved. We will continue to build upon this improvement while staying focused on the delivery of outstanding customer service.

In our 2010 employee survey, 54% (2009: 57%) 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 50, 57 and 66.

Delivering strong, sustainable regulatory and long-term contracts with good 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 while also ensuring adequate returns for our investors.

Our group return on equity KPI allows us to monitor our performance in generating value from the investments we make. Return on equity is calculated by dividing our annual return by our equity base. Our annual return consists of earnings before exceptional items, remeasurements and stranded cost recoveries, adjusted for a number of regulatory based items including regulatory depreciation, retail price index (RPI) inflation on our UK regulatory asset value (RAV), and a pension deficit adjustment. Our equity base consists of invested capital less opening net debt. Invested capital is the opening UK RAV inflated to mid year using RPI linked inflation, plus opening US invested capital excluding stranded cost assets and assets disposed in the year, plus the closing net book value of 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. We believe this provides a better measure of our ongoing performance because it helps to reduce short-term fluctuations due to temporary market conditions such as inflation volatility. For 2009/10, our three year average return on equity was 11.3%, compared with 10.8% in 2008/09 and 11.8% in 2007/08. The increase in the year was primarily driven by an increase in UK inflation to 4.4% for the year to 31 March 2010, compared with -0.4% for the previous year.

Significant levels of investment over the next few years mean it is vital we optimise our regulatory returns and ensure we are appropriately compensated for our investments.

In the UK, the overall regulatory framework, and the price controls which form part of this framework, provide the environment that enables us to be confident that where we act efficiently and economically and in the interest of consumers then we will receive appropriate returns.

We are actively participating in Ofgem's review of the current RPI-X based regulatory framework, which is discussed on page 20. In addition to our responses to the various consultation documents, we are also participating in the four industry working groups that Ofgem have established: innovation, investment, financing, and consumers. Ofgem anticipate that the outcome of the project will be published towards the end of 2010. It will not have any impact on the present price control, other than necessitating a one year adapted rollover of the existing price control, but it is expected that its conclusions will feed through into the review for the price control commencing April 2013.

In the US, we continue to make progress in setting new rates and moving the regulatory agenda forward. Over 60% of our asset base has had new rates since 2008. Under these new rate plans we have increased our US revenue by over \$190 million per annum. We have an aggressive rate case agenda focused on increasing revenue to ensure we are recovering all costs to operate the utilities in the US and on employing innovative rate making mechanisms to ensure we get timely recovery of costs which enable us to earn fair returns for investors.

On 29 January 2010, we filed a three year rate plan for our upstate New York electricity business requesting an initial revenue increase of \$369 million and a return on equity of 11.1%. Additionally, the filing seeks approval of a capital tracker which will provide timely recovery of our investment in the network, revenue decoupling and annual reconciliation mechanisms for certain non-controllable costs. This filing is unique in that it proposes to increase delivery revenue but mitigate the rate impact on retail customers' bills by offsetting the revenue increase with a decline in the stranded cost charges on the bills.

In Massachusetts, we filed a new rate plan for the three gas distribution companies requesting a total revenue increase of \$106 million with a return on equity of 11.3%. As in other cases, we are requesting approval of revenue decoupling, an infrastructure investment tracker, annual true-up mechanisms for commodity bad debt and pension costs, and an annual inflation adjustment factor. A decision is expected by 1 November 2010, with rates effective from that date.

In New Hampshire, we filed a new rate case for the gas distribution company on 26 February 2010. We are seeking an overall increase of \$11 million and a return on equity of 11.2%, which includes a 0.2% two year stay out premium. We proposed revenue decoupling, an expanded capital tracker, reconciling mechanisms for pensions and other post-employment benefits and for commodity related bad debt, and an inflation tracker on operations and maintenance costs.

Modernising and extending our transmission and distribution networks

We aim to invest the amount required to maintain a safe and reliable system, and to accommodate new patterns of supply and demand. Capital investment is one of the principal drivers to future growth.

The principal measure we use to monitor organic investment is capital expenditure, which includes investment in property, plant and equipment as well as internally created intangible assets such as software.

Our capital investment plans reflect changing energy infrastructure requirements. Our 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 we expect to generate.

Our planned total annual investment for 2010/11 is around £3.9 billion, including £0.2 billion in respect of investments in joint ventures.

More detail on capital expenditure is provided in the business sections on pages 51, 58, 67 and 71.

Expanding our capabilities and identifying new financeable opportunities to grow

We are committed to the growth of National Grid through organic capital expenditure and, where suitable opportunities are available, by the acquisition of new businesses.

In addition to the capital expenditure discussed above, we are actively investigating opportunities in relation to offshore

Performance against our objectives continued

transmission, possible electricity interconnectors with Belgium and with Norway, and carbon capture and storage technology.

We will consider acquiring new businesses in our core markets of electricity and gas delivery in the UK and US.

We use the aggregate consideration paid and debt assumed to monitor this investment in new businesses. There is no specific target because each investment is considered on its own merits. We also monitor synergy savings generated following an acquisition.

There have been no acquisitions during the last two years.

Becoming more efficient through transforming our operating model and increasingly aligning our processes

We aim to work as one company, operating to common core principles, standards and policies to deliver our vision.

As noted on page 30, we have amended our operating efficiency KPI to measure regulated controllable operating costs as a proportion of our total adjusted regulated asset base, reflecting the fact that our business is growing. This proportion has fallen to 7.6% in 2009/10 from 8.0% in 2008/09 and 8.2% in 2007/08.

In addition to the KPI, however, we continue to measure and report regulated controllable operating costs. We exclude the effects of inflation and bad debts, and present the figures on a constant currency basis, in order to be able to compare like-for-like. Regulated controllable operating costs decreased to £2,070 million in 2009/10, compared with £2,109 million in 2008/09 and £2,048 million in 2007/08.

We are organised by line of business and place primary accountability on them to meet our customer needs and regulatory obligations.

In Transmission, our common operating model project is developing a plan to prepare us for the challenges and opportunities between now and 2020. In Gas Distribution, our front office systems project aims to provide the tools to improve our performance, making them simpler to use and apply to improve our service to customers. In Electricity Distribution & Generation, we are implementing organisational design enhancements to improve our operating model and drive customer satisfaction and efficiency benefits.

Company wide functions, such as information systems and procurement, provide common strategy, policy and key processes to benefit from our scale and to drive improved consistency, efficiency and effectiveness.

Procurement

We are in the final stages of a programme to transform our procurement function. The programme has focused on developing our existing capability, and working in a more collaborative way with our business partners. We have successfully embedded a full strategic sourcing process within our global procurement operating model, which has enabled us to approach the market with an aggregated spend, encouraging us and our suppliers to work in a more aligned way.

Process improvement and technology have been at the forefront of the changes we have made. We have adopted an international system that gives us real time data on our procurement activities.

Business process outsourcing

We announced on 8 October 2009 that, following an extensive review, we proposed to outsource some of our UK shared services activities to an external service provider. The outsourcing is expected to deliver significant benefits, process efficiencies and continuous improvement over a five year period. It will result in a reduction of around 300 agency and permanent positions and the closure of our Newcastle site. The phased transfer of activities has begun and is expected to continue throughout 2010.

Information services

We have initiated an information systems (IS) transformation programme to realise a world class global IS capability following a detailed review and benchmarking of current systems, costs and capability. The transformation involves moving from country based IS to operating at a global level with efficient shared service capabilities for solution and service delivery.

Programme objectives include: improved alignment between IS and businesses; a clear rolling strategy and architecture road map closely aligned to the wider business strategy; rationalisation and standardisation of applications; creation of solution centres of excellence; consolidation of data centres and networks and separation of critical national infrastructure systems; and leveraging of standard IS services such as email and intranet.

A new IS leadership team has been appointed and an organisational structure is being put in place. Alternative options for delivering core services are being examined including sourcing of parts of development, maintenance and infrastructure management. Significant investment is being made in building improved capabilities in business relationship management, strategy and architecture, security and risk management.

The next stages involve the completion of the sourcing assessment, and application rationalisation and virtualisation road map. The final decision on sourcing is dependent on the outcome of the assessment, and consultation with regulators, employees and unions will follow as appropriate. The transition to the new operating model will then take place starting with development in autumn 2010 through to service integration and infrastructure services in the first half of 2011.

Transmission and distribution alignment

A newly aligned electricity organisation was implemented in the US during the final quarter of 2009/10, bringing together transmission operations and delivery, electricity distribution operations and generation (transmission asset management, policy and commercial remain separate). US electricity operations are structured to provide improved customer focus and operating efficiencies through shared capabilities, enhanced regulatory relationships, reduced costs, increased productivity and better delivery of capital and maintenance work. In combining, we aim to deliver consistent processes as one single US electricity operations group under the leadership of the chief operating officer.

Building trust, transparency and an inclusive and engaged workforce

To better recruit, retain and develop talented people, we endeavour to engage our employees and to achieve a more inclusive workplace and diverse workforce, reflecting the composition of the communities in which we operate. Our goal is to be seen as an employer of choice across all communities.

Employee engagement

In February 2010, we conducted our third annual employee survey. The response rate was the highest so far, with 97% of our employees taking part. Our employee engagement index, which measures how employees think, act and feel in relation to National Grid, declined slightly in 2010 to 68%, compared with 70% in 2009 and 60% in 2008.

Employees continue to believe National Grid's safety culture and supportive management are significant strengths, and they continue to receive favourable ratings. While we focused on reward for performance, vision and direction, and communication, our results slipped slightly in these categories.

In response to these results, we will continue to use line of sight to ensure greater clarity around vision and direction. We will also continue our focus on improved communication and engagement across all lines of the business.

Action plans are being developed and will form part of the management annual objective process for 2010/11 to ensure we further build upon the very encouraging survey response rate and these survey results.

Inclusion and diversity

We use performance measures including the percentage of female and ethnic minority employees, as well as measuring employee perceptions in our employee survey. Inclusion and diversity measures have been built into the Company's business scorecard.

As at 31 March 2010, 22.7% of our employees were female (see figure 4) and 13.5% were from ethnic minority groups (see figure 5). This compares with respectively 22.6% and 13.2% at 31 March 2009 and 22.5% and 12.3% at 31 March 2008.

To embed an inclusive culture, a number of training programmes were initiated during 2009. The Executive Committee and senior leadership team completed a full day of inclusion training. In December 2009, we launched an inclusive leadership programme for middle managers and, by April 2010, more than 750 managers had completed it. A learning module has also been built into our new employee orientation programme.

Our efforts have been recognised through a number of external awards including, for the second year running, the prestigious Stonewall Top 100 Employers in the UK and, for the third year in a row, the Human Rights Campaign's Equality Index in the US. We were also the recipient of Profiles in Diversity Journal's Innovation Award for its Women Empowered programme and Opportunity Now's Inclusive Culture award, recognising an initiative which is driving change at an organisational level.

In 2010, approximately 66% (2009: 70%) of respondents of the employee survey considered they were treated fairly by National Grid, while 78% (2009: 78%) of respondents considered that their colleagues treated them with respect and dignity.

We are fortunate to have employee resource groups focusing on a number of diversity strands including gender, ethnicity, faith, disability, sexual orientation and new hires. The groups successfully focused on delivering results in three areas: professional development opportunities for their members through workshops and learning sessions; supporting the Company's efforts in branding and community relations activities such as Special Olympics and recruiting events such as the Asian MBAs conference; and increasing overall understanding of inclusion through workshops and presentations.

97%

Employee survey response rate

68%

Employee engagement index

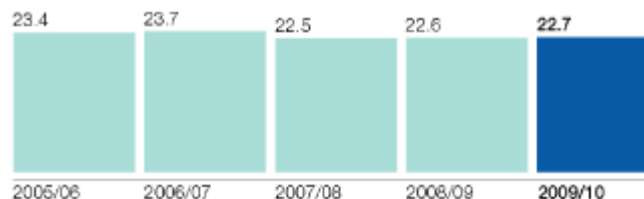
22.7%

Proportion of female employees

13.5%

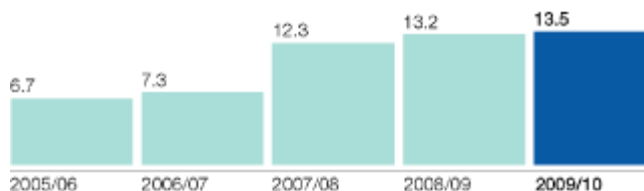
Proportion of ethnic minority employees

Figure 4 – Inclusion and diversity – female employees
%



Data prior to 2007/08 excludes KeySpan.

Figure 5 – Inclusion and diversity – ethnic minority employees
%



Data prior to 2007/08 excludes KeySpan.

Performance against our objectives continued

One of the challenges we continue to face is the retention of women and ethnic minorities. We are establishing an exit interview process to collect information that can be used to improve our retention efforts.

Developing our talent, leadership skills and capabilities

A key success factor in delivering our business objectives is having highly competent leaders at every level within the organisation driving high performance and engaging employees. This is the foundation of our talent development strategy, which focuses on the key transition points individuals make during their careers.

During the past year, and continuing into 2010/11, we have been creating targeted solutions to help employees at different points in their career maximise their performance. In 2009/10, approximately 740 front line leaders began foundations of leadership, a 15 month curriculum focused on critical foundational leadership skills; approximately 380 managers attended a one day workshop enabling them to better support their front line leaders through their development. Approximately 65 senior managers also attended a one week highly intensive and interactive development programme, expanding their understanding of the role they play in the broader National Grid; business acumen, collaboration and communication were key elements of the programme.

To complete our transitions development strategy, during 2010/11, we will be creating a development curriculum for middle managers. Underpinning this strategy is our personal effectiveness suite of solutions, which will be available to all employees, focused on a broad array of skills required to perform their roles more effectively. These flagship solutions serve as the framework for developing leaders at various levels within the Company.

Ensuring top quality technical skills is essential to our ability to operate, maintain and expand our infrastructure in a safe, reliable and efficient manner. In 2009/10, our workforce participated in over one million hours of training in the UK and US. During 2009/10, over 6,300 of our US workforce participated in annual expert training and received all of their regulatory and performance training and requalifications in a bundled approach. The programme includes all annual safety and regulatory compliance training, technical topic refreshers, and other discretionary training modules.

Our ability to continue to meet the varied learning needs and styles of our expanding and diverse employee population requires us to create quality development experiences and to deliver those experiences in highly effective and efficient ways. To this end, we are continuing to explore various learning technologies to enhance our learners' experience.

Positively shaping the energy and climate change agenda

We aim to take the lead on the energy and climate change issues facing society. We will not 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.

We have continued to work with Ceres in the US and with the Worldwide Fund for Nature (WWF) in the UK to seek their views

on our internal and external efforts to reduce our climate change impacts and shape our positive influence on legislators and regulators. We will continue to press for ambitious national and international plans to tackle the causes and consequences of climate change as governments and others take stock of the outcome of the United Nations climate change conference COP15 in Copenhagen and build towards COP16 in Cancun, Mexico.

We have maintained our involvement with such programmes and organisations as the RPI-X@20 group and Aldersgate Group, in the UK and with the shaping of state climate change regulations in the US through our membership of the Clean Energy Group.

Climate change

We have further embedded our climate change initiative and increased our energy efficiency programmes, focusing on initiatives that are cost effective and regulated. We believe our 45% by 2020 and 80% by 2050 greenhouse gas emissions reduction targets to be industry leading within the UK and US.

Our greenhouse gas emissions for 2009/10 are not fully verified at the date of this Report. However, we estimate our Scope 1 and 2 emissions to be 8.8 million tonnes carbon dioxide equivalent, compared with 11.3 million tonnes in 2008/09 and 12.1 million tonnes in 2007/08 (assuming we had owned KeySpan for the entire year). This equates to a 55% reduction against our 1990 baseline, compared with 42% in 2008/09 and 38% in 2007/08. Fully verified data will be published in July 2010 in the responsibility section of our website, including an explanation of the large reduction in emissions compared with 2008/09 and its impact on our 2020 target.

Our 2020 and 2050 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. During 2009/10, each line of business developed five year plans for greenhouse gas reduction. The plans, adopted in April 2010, establish a trajectory to 2015 as the half way point to our 2020 target. Executive compensation is linked to performance against the plans.

We have developed a deeper understanding of our Scope 3 emissions and this is also reported on our Company website. We are participating in the World Resources Institute/World Business Council for Sustainable Development worldwide pilot study on Scope 3 emissions reporting and are one of the few utilities to do so. We will further evaluate the development of Scope 3 targets once this project is completed later in 2010.

We also recognise that customer energy efficiency is linked to the scale of our Scope 3 emissions. We have launched a campaign in the US, inviting consumers to commit to 3% year-on-year savings in their energy consumption over 10 years.

Our climate change initiative is being embedded in all areas and operations of the Company. For example, in UK construction we have undertaken pilots to develop carbon life cycle analysis tools. Working with our alliance partners, we have been driving innovation, sharing best practices in green build techniques and materials management.

In 2009, the UK government published the UK Low Carbon Transition Plan, which contained a revised assessment of carbon costs and concluded that the value of carbon used to appraise investments should be approximately doubled to £52 per tonne. We believe that a strong carbon price signal in the economy is essential to drive the right behaviours, so are evaluating the adoption of this revised value in our investment decision making processes across our operations.

It is equally important we understand the impact of past global emissions on future climate change. We have been working with the UK Met Office to understand how these changes might affect our UK and US infrastructure and future energy demand. Later in 2010, we will be one of the first companies to provide an adaptation report required under the UK Climate Change Act.

Protecting the environment

In April 2009, we published a revised environment policy, reinforcing our commitment to being an innovative leader in energy management and to safeguarding our global environment for future generations.

The number of significant environmental incidents in 2009/10 arising directly from our operations was 10, including zero contractor-related incidents (see figure 6), compared with 12, including 4, in 2008/09 and 34, including 25, in 2007/08.

Incidents outside our control resulting from third party or weather-related damage to our networks (see figure 7) were 2 compared with 1 in 2008/09 and 1 in 2007/08.

In the US, we received 4 environmental citations, compared with 6 in 2008/09 and 6 in 2007/08, but attracted no fines.

In our 2010 employee survey, 59% (2009: 62%) of respondents considered National Grid acts responsibly in all its business dealings, including environmental management.

We manage land contamination issues on an inherited portfolio of historically contaminated land dating back over 100 years. These include former manufactured gas plants, industrial landfills, former/current gas holder sites and older substations on our transmission and distribution networks. Sites can sometimes have a complex mix of contamination. The focus of our remediation programme is on managing the environmental risk by targeting those with the highest environmental risk profile and those with regulatory requirements to remediate, while returning land to productive public or private use where we can, and where it is surplus to operational requirements.

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 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 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.

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 our waste.

3%

Targeted annual energy reduction by US customers over the next 10 years

8.8m tonnes

Estimated Scope 1 and 2 greenhouse gas emissions

45% by 2020

Greenhouse gas emissions reduction target

80% by 2050

Greenhouse gas emissions reduction target

Figure 6 – Significant environmental incidents Target: Zero

Direct: Number

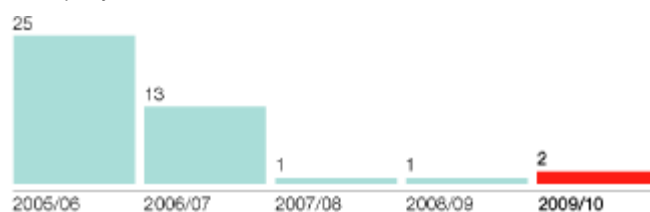


Data prior to 2008/09 excludes KeySpan.

There were zero contractor related environmental incidents arising directly from our operations in 2009/10.

Figure 7 – Significant environmental incidents

Third party/weather: Number



Data prior to 2008/09 excludes KeySpan.

Financial performance

Financial results

In the following section we provide a more detailed analysis of our financial results.

Shareholder returns

We aim to increase our dividend each year so that shareholders receive an appropriate level of return on their investment in us. We also try to communicate with investors so that as much as possible of the value we create is reflected in our share price.

We measure total shareholder return as a key performance indicator (KPI) on a cumulative three year basis. The measure reflects changes in our share price and also assumes that dividends paid to shareholders over that period were reinvested in our shares. Cumulative total shareholder return for the period from 1 April 2007 to 31 March 2010 was -7%. This reflects the fact that equity prices generally fell sharply amid the turbulence in the financial markets during 2007/08 and 2008/09, and the recovery during 2009/10 has been insufficient to reverse the effect of those falls.

Dividends in respect of the financial year

The proposed total ordinary dividend for 2009/10 amounts to £951 million or 38.49 pence per ordinary share. This represents an increase of 8% over the previous year's ordinary dividend per share of 35.64 pence.

	2010 pence	2009 pence	2008 pence	2007 pence	2006 pence
Interim	13.65	12.64	11.70	10.90	10.20
Final	24.84	23.00	21.30	17.80	15.90
Total	38.49	35.64	33.00	28.70	26.10

Dividends per ADS	\$	\$	\$	\$	\$
Interim	1.15	0.95	1.21	1.03	0.88
Final	1.77	1.74	2.05	1.76	1.51
Total	2.92	2.69	3.26	2.79	2.39

The total ordinary dividend per share was covered 1.5 times by adjusted earnings from continuing operations per ordinary share (2008/09 covered 1.4 times, 2007/08 covered 1.4 times) and covered 1.5 times by earnings per ordinary share from continuing operations (2008/09 covered 1.0 times, 2007/08 covered 1.8 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, and represent the gross dividends declared whether settled in cash or by new shares.

For the final dividend of 2008/09, and subsequent dividends, shareholders were offered the option of a scrip dividend, whereby they could elect to receive the dividend in the form of new shares rather than cash. The uptake of the scrip dividend option represented 25% and 20% of the total final 2008/09 and interim 2009/10 dividends respectively. Shareholders are again being offered the option of a scrip dividend this year.

Dividends expressed in dollars per American Depositary Share (ADS) in the table above reflect the amounts paid or payable to ADS holders, rounded to two decimal places.

In accordance with IFRS, the final dividend proposed in respect of each financial year is reported in the financial statements for the subsequent year. As a consequence, the final dividend proposed

to shareholders for 2009/10 of 24.84 pence per share, amounting to approximately £615 million (assuming all dividends are settled in cash), will be reported in the financial statements for the year ending 31 March 2011.

Financial discipline

In order to deliver sustainable growth, we must be disciplined in the way we manage our balance sheet. The principal measure we use to monitor financial discipline is interest cover, being a measure of the cash flows we generate compared with the net interest cost of servicing our borrowings.

Our long-term target range for interest cover is between 3.0 and 3.5. Interest cover for the year ended 31 March 2010 was above our target range, increasing to 3.9 from 3.1 for the year ended 31 March 2009 (year ended 31 March 2008: 3.2). The primary reasons for the increase in 2009/10 were decreased interest expense on our index-linked debt, due to lower inflation, combined with higher levels of cash inflows from operations during the year. This was partially offset by a decrease in interest received in 2009/10 compared with prior year.

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. Following the successful disposal of our UK wireless infrastructure operations for £2.5 billion on 3 April 2007, we announced the return of a further £1.8 billion to shareholders. We repurchased £0.6 billion of our shares in 2008/09 and £1.5 billion in 2007/08, which, together with the £0.2 billion repurchased in 2006/07, totals £2.3 billion of returns to shareholders through share repurchases.

In 2008/09, we took the decision to suspend our share repurchase programme in response to the turbulent financial environment and uncertain conditions in the capital markets.

Profit, cash flow and dividends

If we achieve our objectives we should be able to deliver continued improvements in financial performance, so that we deliver on our commitment to increase our dividend by 8% each year to 2011/12.

The KPI 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).

Continuing and discontinued operations

The financial results of our businesses and segments and of our other activities (as described on page 14) are presented within continuing operations. There were no discontinued operations in 2009/10. For details of our discontinued operations in previous years, see page 41.

Measurement of financial performance and use of adjusted profit measures

In considering the financial performance of our businesses and segments, we analyse each of our primary financial measures of operating profit, profit before tax, profit for the year attributable to equity shareholders and earnings per share into two components comprising; firstly, business performance, which excludes

exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles; and secondly, exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles. Exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles are excluded from the measures of business performance used by management to monitor financial performance as they are considered to distort the comparability of our reported financial performance from year to year.

Measures of business performance are referred to in this Annual Report and Accounts as adjusted profit measures in order to distinguish them clearly 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 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 of derivative financial instruments. These fair values increase or decrease as a consequence of changes in commodity and financial indices and prices over which we have no control. Stranded cost recoveries comprise income from additional charges that we are allowed to recover from certain of our US customers arising from the divestiture of generation activities in the late 1990s. 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 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, as adjusted profit measures are more comparable by excluding the distorting effect of 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 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 dollars and so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate. As the average rate of the dollar at \$1.58:£1 in 2009/10 was weaker than the average rate of \$1.54:£1 in 2008/09, the same amount of revenue, adjusted operating profit and operating profit in dollars earned in 2008/09 would have been reported as £261 million, £27 million and £23 million lower respectively if earned in 2009/10. In 2007/08 the average rate was \$2.01:£1; if the revenue, adjusted operating profit and operating profit in dollars recognised in 2007/08 was earned in 2008/09 it would have been reported as £1,938 million, £260 million and £398 million higher respectively.

However, the effect of movements in the dollar exchange rate on adjusted operating profit and operating profit in 2009/10 was largely offset by the impact of interest and tax charges denominated in dollars, when translated into sterling. This includes the effect of derivative financial instruments that swap debt raised in other currencies into 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 2008/09 would have been £7 million and £5 million lower respectively if translated at the 2009/10 average exchange rate of \$1.58:£1 (2007/08: £49 million and £137 million higher respectively if translated at the 2008/09 average exchange rate of \$1.54:£1).

The balance sheet at the end of the financial year has been translated at an exchange rate of \$1.52:£1 at 31 March 2010 (\$1.44:£1 at 31 March 2009).

Profit for the year from continuing operations

Profit for the year from continuing operations increased from £922 million in 2008/09 to £1,389 million in 2009/10 (decreased from £1,575 million in 2007/08 to £922 million in 2008/09) 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 46 to 73.

Earnings and earnings per share from continuing operations

In accordance with IAS 33, all earnings per share amounts for comparative periods have been restated as a result of shares issued via scrip dividends.

Financial performance continued

Adjusted earnings

	Years ended 31 March		
	2010 £m	2009 £m	2008 £m
Continuing operations			
Adjusted operating profit	3,121	2,915	2,595
Net finance costs excluding exceptional items and remeasurements	(1,155)	(1,150)	(770)
Share of post-tax results of joint ventures	8	5	4
Adjusted profit before taxation	1,974	1,770	1,829
Taxation excluding tax on exceptional items, remeasurements and stranded cost recoveries	(553)	(517)	(579)
Adjusted profit from continuing operations	1,421	1,253	1,250
	pence	pence	pence
Adjusted earnings per share from continuing operations	57.4	50.2	47.2

Earnings

	Years ended 31 March		
	2010 £m	2009 £m	2008 £m
Continuing operations			
Total operating profit	3,293	2,623	2,964
Net finance costs	(1,108)	(1,234)	(786)
Share of post-tax results of joint ventures	8	5	4
Profit before taxation	2,193	1,394	2,182
Taxation	(804)	(472)	(607)
Profit from continuing operations	1,389	922	1,575
	pence	pence	pence
Earnings per share from continuing operations	56.1	36.9	59.5

Earnings per share from continuing operations

See figures 1 and 2 on page 41. The following table sets out the adjusted earnings per share and earnings per share from continuing operations for 2009/10, 2008/09 and 2007/08 and reconciles the differences between them. Reconciling items are net of tax.

	Years ended 31 March		
	2010 £m	2009 £m	2008 £m
Continuing operations			
Adjusted earnings per share	57.4	50.2	47.2
Exceptional items	(10.9)	(9.9)	(0.1)
Commodity contract remeasurements	1.7	(10.7)	5.0
Derivative financial instrument remeasurements	(1.0)	(3.0)	(1.3)
Stranded cost recoveries	8.9	10.3	8.7
Earnings per share – continuing operations	56.1	36.9	59.5

Adjusted earnings per share for 2009/10 increased by 7.2 pence, an increase of 14% compared with 2008/09 (2007/08: increased by 3.0 pence, an increase of 6% compared with 2008/09).

Earnings per share from continuing operations increased from 36.9 pence per share in 2008/09 to 56.1 pence per share in 2009/10 reflecting the increase in adjusted earnings per share, combined with the lower net exceptional items, remeasurements and stranded cost recoveries on a per share basis (2008/09: decrease from 59.5 pence per share in 2007/08 to earnings of 36.9 pence per share).

Diluted earnings per share from continuing operations were 55.8 pence per share in 2009/10 (0.3 pence lower than basic earnings per share from continuing operations), compared with 36.6 pence per share in 2008/09 (0.3 pence lower) and 59.1 pence per share in 2007/08 (0.4 pence lower). The principal reason for the dilution in 2009/10, 2008/09 and 2007/08 relates to employee share plans.

Adjusted profit measures

The following tables reconcile the adjusted profit measure to the corresponding total profit measure in accordance with IFRS.

a) Reconciliation of adjusted operating profit to total operating profit

	Years ended 31 March		
	2010 £m	2009 £m	2008 £m
Continuing operations			
Adjusted operating profit	3,121	2,915	2,595
Exceptional items	(268)	(275)	(242)
Commodity contract remeasurements	71	(443)	232
Stranded cost recoveries	369	426	379
Total operating profit	3,293	2,623	2,964

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. See figures 3 and 4 on page 41.

b) Reconciliation of adjusted profit before taxation to profit before taxation

	Years ended 31 March		
	2010 £m	2009 £m	2008 £m
Continuing operations			
Adjusted profit before taxation	1,974	1,770	1,829
Exceptional items	(301)	(275)	(242)
Commodity contract remeasurements	70	(445)	223
Derivative financial instrument remeasurements	81	(82)	(7)
Stranded cost recoveries	369	426	379
Total profit before taxation	2,193	1,394	2,182

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		
	2010 £m	2009 £m	2008 £m
Continuing operations			
Adjusted earnings	1,418	1,250	1,247
Exceptional items	(270)	(247)	(2)
Commodity contract remeasurements	42	(266)	133
Derivative financial instrument remeasurements	(25)	(74)	(35)
Stranded cost recoveries	221	256	229
Earnings	1,386	919	1,572

Adjusted earnings is presented in note 9 to the consolidated financial statements, under the heading adjusted earnings – continuing operations.

Discontinued operations

There were no discontinued operations during 2009/10.

During 2008/09, discontinued operations included the Ravenswood generation station, KeySpan Communications and KeySpan Engineering Associates, which were sold during the year. At 31 March 2008, all of 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 electricity interconnector in Australia that we sold during 2007/08.

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 was 1.0 pence per share, including 0.6 pence per share relating to gains on the businesses sold during the year, compared with 61.2 pence per share in 2007/08, including 59.8 pence per share relating to gains on the businesses sold during the year.

Profit and total earnings per share for the year

Profit for the year from both continuing and discontinued operations was £1,389 million in 2009/10, compared with £947 million in 2008/09 and £3,193 million in 2007/08.

Total earnings per share from both continuing and discontinued operations were 56.1 pence per share in 2009/10, 37.9 pence per share in 2008/09 and 120.7 pence per share in 2007/08.

Adjusted operating profit and operating profit

During 2009/10 and 2008/09 there were no acquisitions and therefore the results for continuing operations are comparable as both contain a full year of contributions from the former KeySpan operation.

For 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 \$740 million and \$911 million to the adjusted operating profit and operating profit for continuing operations respectively. During 2008/09, a full year of KeySpan operations contributed \$855 million and \$313 million to the adjusted operating profit and operating profit for continuing operations respectively.

KeySpan's operations are highly seasonal, with higher revenue and operating profit in the second half of the year driven by the winter heating season. Therefore, during 2007/08 the results of KeySpan that were consolidated provide a larger contribution on a time apportioned basis compared with a full year's contribution.

The following tables set out the consolidated revenue, adjusted operating profit and operating profit by operating segment.

£1,418m

Adjusted earnings

57.4p

Adjusted earnings per share

13%

Increase in adjusted earnings

14%

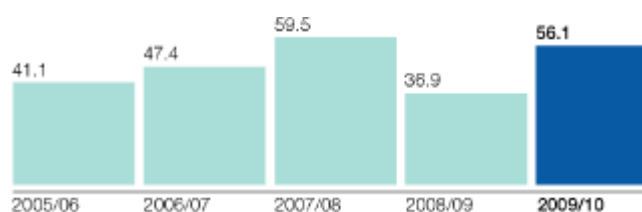
Increase in adjusted earnings per share

Figure 1 – Adjusted earnings per share from continuing operations
pence



Comparative data have been restated for the impact of the scrip dividend.

Figure 2 – Earnings per share for continuing operations
pence



Comparative data have been restated for the impact of the scrip dividend.

Figure 3 – Adjusted operating profit from continuing operations
£m

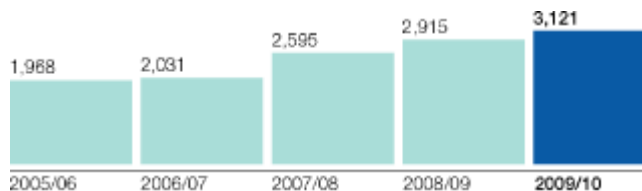
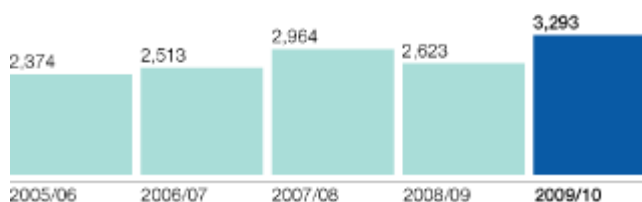


Figure 4 – Operating profit from continuing operations
£m



Financial performance continued

Revenue by operating segment

	Years ended 31 March		
	2010	2009	2008
	£m	£m	£m
Continuing operations			
Transmission UK	3,460	3,487	2,956
Transmission US	405	420	299
Gas Distribution UK	1,517	1,466	1,383
Gas Distribution US	3,708	4,786	2,845
Electricity Distribution & Generation US	4,339	4,972	3,508
Other activities	738	719	642
Total segmental revenues	14,167	15,850	11,633
Less: sales between operating segments	(179)	(226)	(210)
Total	13,988	15,624	11,423

Segmental operating profit before exceptional items, remeasurements and stranded cost recoveries

	Years ended 31 March		
	2010	2009	2008
	£m	£m	£m
Continuing operations			
Transmission UK	1,311	1,126	1,021
Transmission US	153	175	128
Gas Distribution UK	723	672	595
Gas Distribution US	414	612	392
Electricity Distribution & Generation US	374	265	330
Other activities	146	65	129
Adjusted operating profit	3,121	2,915	2,595

Segmental operating profit

	Years ended 31 March		
	2010	2009	2008
	£m	£m	£m
Continuing operations			
Transmission UK	1,252	1,063	1,013
Transmission US	151	173	122
Gas Distribution UK	682	629	574
Gas Distribution US	448	226	487
Electricity Distribution & Generation US	701	531	696
Other activities	59	1	72
Operating profit	3,293	2,623	2,964

2009/10 compared with 2008/09

Changes in revenue and other operating income, operating costs and operating profit for 2009/10 compared with 2008/09 are summarised in the following table:

	Revenue and other operating income	Operating costs	Operating profit
	£m	£m	£m
Continuing operations			
2008/09 results	15,687	(13,064)	2,623
Add back exceptional items and remeasurements	–	718	718
Deduct stranded cost recoveries	(435)	9	(426)
2008/09 adjusted results	15,252	(12,337)	2,915
Exchange movements	(250)	223	(27)
2008/09 constant currency results	15,002	(12,114)	2,888
Transmission UK	(42)	227	185
Transmission US	(4)	(14)	(18)
Gas Distribution UK	50	1	51
Gas Distribution US	(957)	775	(182)
Electricity Distribution & Generation US	(459)	575	116
Other activities	(6)	87	81
Sales between businesses	47	(47)	–
2009/10 adjusted results	13,631	(10,510)	3,121
Exceptional items and remeasurements	–	(197)	(197)
Stranded cost recoveries	376	(7)	369
2009/10 results	14,007	(10,714)	3,293

Revenue and other operating income excluding stranded cost recoveries was £1,621 million lower than in 2008/09. This primarily reflected lower average commodity costs and delivery volumes in the US during 2009/10 compared with 2008/09 and a £250 million decrease as a result of exchange movements on our US operations. Due to the pass-through nature of our commodity costs in the US, revenues decrease if there is a fall in average commodity costs. This is not a contributing factor to the decrease in our US operating profit. Lower commodity delivery volumes in the US were primarily due to warmer weather.

There was a decrease of £44 million in other operating income, which primarily reflects a £21 million reduction in the sales of property by our property management business in the UK, and a £15 million decrease in our UK Transmission business.

The decrease in operating costs excluding exceptional items, remeasurements and stranded cost recoveries reflects a £224 million decrease as a result of exchange movements. Apart from the impact of exchange movements and lower average commodity costs, the other principal reasons for the decreased revenue and operating costs were: in Gas Distribution, decreased US regulatory income due to timing items driven by lower volumes and a one-off credit in the prior year, partially offset by higher UK regulated income; in Electricity Distribution & Generation, decreased costs reflected lower storm costs; and in Transmission, decreased UK costs reflected lower pass-through costs related to lower energy prices in 2009/10, while a small decrease in revenues primarily reflected lower interconnector capacity revenues.

Adjusted operating profit in 2009/10 was £206 million higher than 2008/09, comprising a £27 million decrease as a result of exchange movements on US operations and a net increase of £233 million from the movements in revenue, other operating income and operating costs on a constant currency basis.

Net operating exceptional charges of £268 million in 2009/10 primarily related to restructuring costs incurred in the UK and US, increases in environmental provisions resulting from changes in UK landfill tax legislation, as well as fines and provisions relating to legal action. The majority of the restructuring costs related to the ongoing KeySpan integration programme, restructuring of our LNG storage facilities, costs associated with initiatives related to the transformation of our operating model, and costs associated with outsourcing parts of our UK shared services organisation.

There were £71 million of operating remeasurement gains in 2009/10, compared with £443 million of losses in 2008/09. 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 costs related to historical generation assets in the US that we no longer own. Such costs can be recovered from customers as permitted by regulatory agreements. Revenue and costs associated with stranded cost recoveries were £376 million and £7 million respectively (2008/09: £435 million and £9 million).

As a consequence of the increase in adjusted operating profit of £206 million, the net movement in operating exceptional items and remeasurements of £521 million and decrease in operating profit from stranded cost recoveries of £57 million, total operating profit increased by £670 million in 2009/10 to £3,293 million compared with £2,623 million in 2008/09.

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 can be summarised as follows:

	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	1,938	(1,678)	260
2007/08 constant currency results	13,054	(10,199)	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	24	(88)	(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

£3,121m

Adjusted operating profit

£3,293m

Operating profit

7%

Increase in adjusted operating profit

26%

Increase in operating profit

Financial performance continued

Revenue and other operating income excluding stranded cost recoveries was £4,136 million higher than in 2007/08. This primarily reflected a £1,938 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 an 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 sales of property by our property management business in the UK, partially offset by a £30 million increase in our UK Transmission 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.

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.

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 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.

Net finance costs

Net finance costs excluding exceptional items and remeasurements was £1,155 million in 2009/10, compared with £1,150 million in 2008/09. The slight increase primarily reflected an increase in our net pension interest due to a fall in plan assets and lower expected returns on assets, partially offset by a lower effective interest rate due to lower RPI and LIBOR rates.

Net finance costs excluding exceptional items and remeasurements was £380 million higher in 2008/09 compared with £770 million in 2007/08. The increase was a consequence of higher average debt balances following the KeySpan acquisition, exchange movements and increased pension interest, partially offset by a lower effective interest rate reflecting lower floating and RPI linked rates.

Exceptional finance costs and remeasurements

There were £33 million of exceptional finance costs during 2009/10 relating to the early redemption of debt.

There were no exceptional finance costs in 2008/09 or in 2007/08.

Financial remeasurements relate to net gains on derivative financial instruments of £81 million (2008/09: losses £82 million; 2007/08: losses of £7 million) and the financial element of commodity contract revaluations, totalling £1 million (2008/09: £2 million; 2007/08: £9 million).

Taxation

A net charge of £804 million arose in 2009/10 comprising a £553 million charge on profit before tax excluding exceptional items, remeasurements and stranded cost recoveries, and a £251 million charge on exceptional items, remeasurements and stranded cost recoveries, compared with £472 million in 2008/09 (comprising a £517 million charge and a £45 million credit respectively) and £607 million in 2007/08 (comprising £579 million and £28 million charges respectively).

In 2009/10, exceptional items, remeasurements and stranded cost recoveries included a £41 million tax charge due to a change in US tax legislation under the Patient Protection and Affordable Care Act.

In 2008/09, exceptional items, remeasurements and stranded cost recoveries included a £49 million charge for increased deferred tax liabilities due to a change in the UK industrial buildings allowance regime. In 2007/08, it included an exceptional tax credit 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 28.0% and 36.7% respectively (2008/09: 29.2% and 33.9%; 2007/08: 31.7% and 27.8%).

Cash flows

Cash flows from operating activities

See figure 5 on page 45. Cash generated from continuing operations was £4,372 million in 2009/10, compared with £3,564 million in 2008/09 and £3,265 million in 2007/08. This included cash outflows for continuing operations relating to exceptional items of £135 million, £131 million and £132 million respectively and cash inflows from stranded cost recoveries of £361 million, compared with £359 million and £278 million respectively.

After reflecting cash flows relating to discontinued operations and tax paid, net cash inflow from operating activities was £4,516 million, compared with £3,413 million in 2008/09 and £3,165 million in 2007/08. This included net corporate tax receipts amounting to £144 million in 2009/10 (which includes a £381 million refund resulting from a change in tax treatment on repairs expenditure in the US), £143 million tax payments in 2008/09 and £110 million payments in 2007/08.

Cash flows from investing activities

Cash outflows from investing activities were £2,332 million in 2009/10, compared with an outflow of £1,998 million in 2008/09 and an outflow of £3,023 million in 2007/08. There were no payments in respect of business acquisitions in 2009/10 and 2008/09, compared with £3,502 million spent on acquiring KeySpan in 2007/08.

Net proceeds from sales of financial investments were £805 million (2008/09: £99 million; 2007/08: £45 million). Proceeds from sales of subsidiaries, joint ventures and other investments were £6 million in 2009/10 (2008/09: £nil; 2007/08: £55 million).

Excluding acquisitions and disposals of financial investments, cash outflows for continuing operations decreased in 2009/10 by £9 million compared with 2008/09. Investing activities of discontinued operations were £nil in the period compared with a cash inflow of £1,049 million in 2008/09 (2007/08: £3,050 million inflow).

Cash flows from financing activities

Net cash outflows from financing activities were £2,212 million in 2009/10, compared with £877 million in 2008/09 and £1,592 million in 2007/08. This reflected net outflows from borrowings of £499 million (2008/09: £1,641 million inflow; 2007/08: £1,589 million inflow) and £7 million of share repurchases (2008/09: £627 million; 2007/08: £1,498 million).

Payments to providers of finance, in the form of interest and dividends, totalled £1,691 million in 2009/10 compared with £1,899 million in 2008/09 and £1,680 million in 2007/08.

Net interest cash outflows increased from £976 million in 2008/09 to £982 million in 2009/10 (increased from £694 million in 2007/08 to £976 million in 2008/09).

Dividends paid to shareholders decreased from £838 million in 2008/09 to £688 million in 2009/10 (increased from £780 million in 2007/08 to £838 million in 2008/09) reflecting that 25% and 20% of shareholders elected to take the final 2008/09 dividend and the interim 2009/10 dividend respectively in the form of a scrip dividend rather than cash.

£4,372m

Cash generated from operations

28.0%

Effective tax rate before exceptional items, remeasurements and stranded cost recoveries

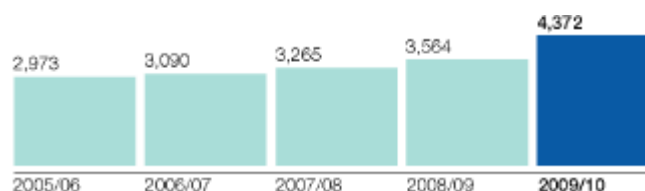
23%

Increase in cash flows from operations

£688m

Dividends paid to shareholders in cash

Figure 5 – Operating cash flows
£m



Transmission



Adjusted operating profit

£1,464m

2008/09: £1,301m

Capital investment

£1,494m

2008/09: £1,441m

Employees

3,953

2008/09: 3,874

UK energy transmitted

1,436TWh

2008/09: 1,454 TWh

This year we have delivered nearly £1.5 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.

This section should be read in conjunction with the rest of this Operating and Financial Review

Key Facts

- Circuit length of over 27,800 kilometres of electrical overhead line
- Over 850 kilometres of underground cable
- 286 TWh of electricity transmitted in the UK
- Over 7,600 kilometres of gas pipeline
- 1,150 TWh of gas throughput

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.

Principal operations

Transmission UK

Electricity transmission owner

We own the electricity transmission system in England and Wales. Our electricity assets comprise a route length of over 7,200 kilometres of overhead line, mainly consisting of double circuits, about 713 kilometres of underground cable and 338 substations at 242 sites.

Electricity system operator

We are the national electricity transmission system operator, responsible for managing the operation of both the England and Wales transmission system that we own and also the two high voltage electricity transmission networks in Scotland, which we do not own. 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 transmission owner

We own the gas national transmission system in Great Britain. This comprises approximately 7,600 kilometres of high pressure pipe and 23 compressor stations, connecting to 8 distribution networks and to third party independent systems for onward transportation of gas to end consumers.

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.

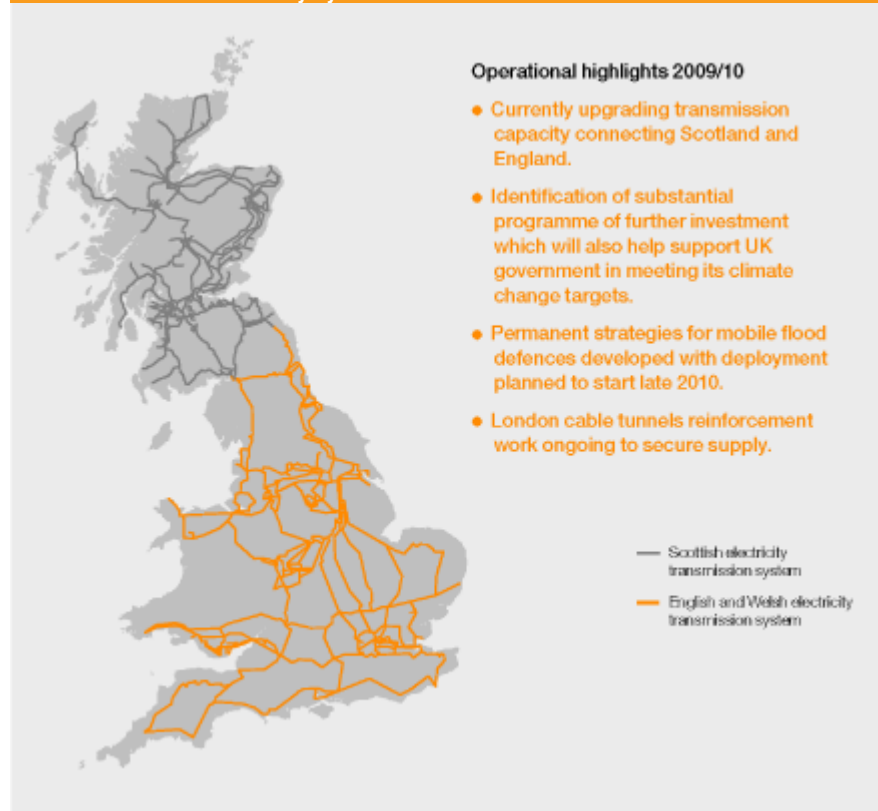
LNG storage

We own and operate three liquefied natural gas (LNG) storage facilities in Great Britain following the closure of Dynevor Arms during 2009.

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 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 UK – electricity system



338

UK electricity substations

99.9999%

UK transmission electrical system reliability

£7.5bn

UK electricity transmission regulatory asset value

Transmission UK – gas system



23

UK gas compressor stations

100%

UK gas transmission system reliability

£4.5bn

UK gas transmission regulatory asset value

Transmission continued

Transmission US

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 and comprise nearly 13,700 kilometres of overhead line, nearly 140 kilometres of underground cable and 525 substations.

As one of several transmission owners, we work with two distinct independent system operators (ISOs) 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 expansion planning processes for transmission.

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.

Regulation

Transmission UK

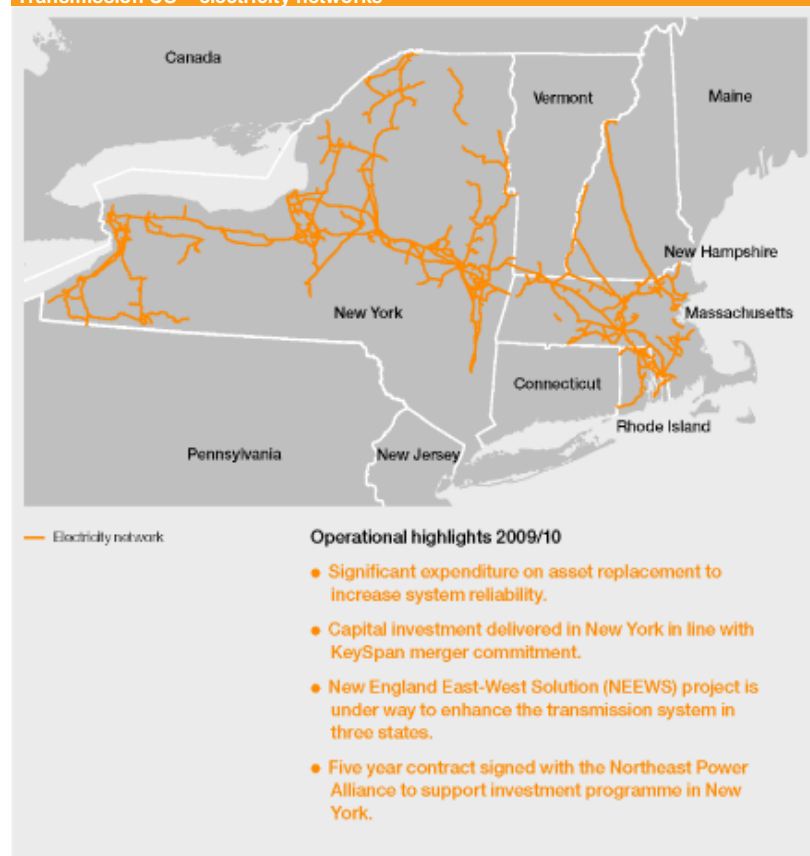
Through our subsidiary, National Grid Electricity Transmission plc, we are the sole holder of an electricity transmission licence for England and Wales. This licence also covers our role as system operator for the transmission networks in Great Britain. Under the Electricity Act 1989, we have a duty 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.

Our price controls are typically reviewed every five years and the current price control for both electricity and gas transmission activities as network owners covers the period 1 April 2007 to 31 March 2012. In December 2009, Ofgem announced that they intend to delay the implementation of the next control by one year to 2013; as a result the current control will need to be extended.

We accepted Ofgem's final proposals for the system operator schemes that applied to the year ended 31 March 2010 for both

Transmission US – electricity networks



525

US electricity substations

98.8%

US electricity system availability

\$1.1bn

US transmission rate base

Zero

Lost time injuries

gas transportation and electricity transmission. We also accepted their proposals for the one year schemes from 1 April 2010.

The key elements of the current price controls 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), with a £4.4 billion baseline five year capital expenditure allowance and a £1.2 billion five year controllable operating expenditure allowance.

In addition, we are subject to a number of incentives that can adjust our transmission network revenue. For electricity transmission these include incentives for transmission network reliability, sulphur hexafluoride (SF₆) losses, efficiency and balancing services. For gas transmission, our incentive schemes cover areas such as the cost of investment for additional capacity to facilitate new connections to the system.

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 current 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. In January 2010, we filed to establish new rates in line with forecast investment levels. If approved, the new rates would take effect from 1 January 2011. In addition, we have petitioned for additional revenues with respect to incremental capital expenditure for the 2008 calendar year. We anticipate making additional petitions for deferred recovery of qualifying incremental investment for calendar years 2009 and 2010.

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 fails to meet specific targets related to customer impacts.

External market, energy policy and regulatory and other developments

In addition to the external market developments described on page 17 and the energy policy and regulatory developments described on pages 20 and 21, the following developments are relevant to the Transmission business.

Security of supply and climate change

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 the UK's gas production from the North Sea. 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 licensing 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 governmental and regulatory bodies to ensure we help facilitate the implementation of the new climate change initiatives and policy being developed around integrating increasing amounts of renewable energy.

Other UK developments

The price controls contain allowances for transmission reinforcement works to accommodate the growing impact of renewable energy from Scotland.

Network access is being sought by just under 100 renewable generation projects in Scotland totalling approximately 9.5 GW, each with connection agreements with National Grid. The need for anticipatory investment is underpinned by continuing large amounts of activity in the generation market. At our latest connections update, as of 1 April we have signed agreements for the connection of 71.8 GW of generation, connecting across the period 2010 to 2025. This generation is mainly combined cycle gas turbines, offshore wind and nuclear, but also includes onshore wind, clean coal and waste/biomass plant. In addition to demonstrating the requirements for the Electricity Networks Strategy Group reinforcements, these generation connections drive further increases in our load related investment requirements. 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 consistent with meeting the UK's 2020 renewables target and remaining on track to meet the 2050 greenhouse gas reduction target. Comprising mainly onshore infrastructure investment, this plan has been shared with, and is supported by, the multi agency Electricity Networks Strategy Group. This plan will facilitate the connection of up to 34 GW of new renewable wind generation. These new connections will occur alongside an increasing replacement of the ageing generation fleet.

US regulatory developments

US federal policy is reshaping the discussion on how best to integrate renewable energy and mitigate climate change. Draft legislation is being developed in the US Senate. The legislation, if enacted, would implement a national renewable energy standard and give new authority that would allow FERC to take a larger role in siting and permitting of transmission infrastructure and a greater role in transmission planning to integrate large amounts of renewable energy. In anticipation of new legislation, FERC has begun discussions to assess how best to reform current regional transmission planning processes, including cost allocation and recovery, and how best to leverage the participation of renewable resources in wholesale energy markets. Support has been voiced by 29 state governors for the national renewable energy standard and for transmission investment to support both onshore and offshore wind development to boost wind resources.

The New England governors adopted the New England Governors' Renewable Blueprint, which is based on a study conducted by ISO New England and which identified transmission expansion that would be needed if large scale onshore and offshore wind resources and Canadian hydroelectric imports were available. The study was conducted to strengthen federal support of more local and regional development of renewable resources and has found that significant amounts of transmission investment will be needed within New England to meet the region's renewable targets.

New York has developed a State Energy Plan, which puts in place a goal of increasing investments in in-state energy supplies and

Transmission continued

investment in energy and transportation infrastructure to meet the state's renewable resource requirement of 30% by 2015.

Performance against our objectives

National Grid's progress against the Company objectives is set out on pages 30 to 45. 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

Our objectives are to reduce employee lost time injuries to zero and 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.

Safety

In the UK, during 2009/10 there were 10 lost time injuries compared with 8 in 2008/09 and 15 in 2007/08. The lost time injury frequency rate was 0.17 in 2009/10 compared with 0.14 in 2008/09 and 0.28 in 2007/08.

Our US electricity transmission lost time injury frequency rate decreased to zero in 2009/10 from 0.20 in 2008/09. There were no lost time injuries in 2009/10 compared with 2 in 2008/09.

Customer service

Our transmission customer service activities principally relate to facilitating new connections and maintaining existing 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 system operators in the areas within which we operate.

Delivering strong, sustainable regulatory and long-term contracts with good returns

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 measures we use to monitor our return on investment are 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 6.6% operational return in 2009/10 (2008/09: 4.7%), ahead of regulatory assumptions. In our gas transmission operations, we achieved a 7.6% return in 2009/10 (2008/09: 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, 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 66.

Modernising and extending our transmission and distribution networks

We aim to meet or exceed network reliability and availability objectives. We are on track to deliver our planned capital investment programme involving approximately £3.6 billion of capital expenditure between 1 April 2010 and 31 March 2012.

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.

In the US, we have worked with other transmission owners and the ISOs in New York and New England and secured Department of Energy funding for transmission smart grid investments. In the UK, we have also agreed with Ofgem to commit significant investment into planning new infrastructure to connect low carbon power generation. 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

In the UK, the total amount of electricity transmitted in 2009/10 was 286 TWh compared with 296 TWh for 2008/09 and 303 TWh for 2007/08. Gas transmitted amounted to 1,150 TWh, compared with 1,158 TWh in 2008/09 and 1,134 TWh in 2007/08.

In the UK, the winter of 2009/10 saw demand from the electricity transmission network in England and Wales hit a peak of 52.7 GW. This compares with 52.9 GW in 2008/09 and 54.2 GW in 2007/08.

2009/10 saw a maximum gas demand of 465 million standard cubic metres on 8 January 2010, 5% higher than last year's peak of 443 million standard cubic metres.

Our reliability and availability performance during the year can be summarised as follows:

Measure	Years ended 31 March		
	2010	2009	2008
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 < 253 MWh	147 MWh	266 MWh	437 MWh
UK average annual availability for electricity transmission network	94.76 %	94.64 %	95.09 %
UK electricity system availability at winter peak demand	97.55 %	97.7 %	98.0 %
UK gas compressor fleet performance – mean time between failures	698 hrs	405 hrs	259 hrs
US annual network availability	98.8 %	98.8 %	98.6 %

In the US, the summer of 2009 saw demand from the electricity transmission networks in New England and New York hit a combined peak of 12.6 GW. This compares with 13.0 GW in 2008 and 13.2 GW in 2007. 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 2010/11.

Capital investment

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 reach the end of their useful lives. 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 2009/10 was £1,254 million, compared with £1,259 million in 2008/09 and £1,600 million in 2007/08. This mainly related to UK electricity transmission investment including Thames Estuary reinforcement, our London cable tunnels project and transmission investment to facilitate connection of renewable generation. The balance of the UK investment was principally driven by load related infrastructure on our gas transmission system. Capital investment included £21 million with respect to intangible assets, principally software applications (2008/09: £18 million, 2007/08: £22 million).

US investment

Capital investment in the replacement, reinforcement and extension of the US electricity transmission networks in 2009/10 was £240 million, compared with £182 million in 2008/09 and £111 million in 2007/08. After excluding the £5 million effect of exchange movements capital investment increased by £63 million in 2009/10 compared with 2008/09. The change principally reflects an increase in regional reliability projects in New England and additional asset replacement in New York to increase system reliability.

We expect increasing investment in New England to deliver our regional system expansion projects including the New England East-West Solution (NEEWS) project. NEEWS is designed to address reliability problems in the southern New England transmission system and involves improvements to the transmission systems of National Grid and Northeast Utilities. In total it has an estimated cost of approximately \$2.1 billion (£1.4 billion), with National Grid's share estimated at approximately \$0.6 billion (£0.4 billion). The project 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 maintain the reliability of the system.

Becoming more efficient through transforming our operating model and increasingly aligning our processes

Key areas of focus for our Transmission business in 2009/10 have been safety, securing funds for anticipatory investment in the UK, better operational planning and establishing regional delivery ventures in the US.

Much of the focus for Transmission has been on preparing for the significant increase in capital investment that is expected in future years. In the UK, this has included developing the longer-term investment plan. In the US, we finalised contracts with two

regional delivery ventures that are now delivering a substantial portion of our capital investment plan.

In the US, we have also established a combined transmission and distribution electricity operations function, which brings together our transmission and distribution operations departments under one chief operating officer to capture efficiencies.

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.

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.

Expanding our capabilities and identifying new financeable opportunities to grow

In the UK, we have identified significant capital requirements over the medium term. These requirements are primarily driven by the need to replace ageing infrastructure, reinforce the network to accommodate changing sources of supply and connect new generation, including renewables. We have also identified other potential opportunities to invest in related infrastructure such as offshore transmission networks and carbon capture and storage. These investments are discretionary and we are committed to further evaluation, including establishing suitable remuneration regimes, before we allocate funds to invest. In addition, some of these opportunities may go through a competitive process.



US regional delivery ventures

The magnitude of transmission investment required in the US encouraged us to review our approach, aiming to ensure we continue to deliver our investment programme safely and efficiently. In April 2009, we signed a 5 year regional delivery venture contract for projects in New England. This, combined with a separate regional delivery venture in upstate New York, will contribute around \$1.7 billion towards National Grid's investment programme over the next 5 years.

Transmission continued

Financial performance

Our combined adjusted operating profit, excluding exceptional items, for Transmission in the UK and the US of £1,464 million was 13% higher than 2008/09, which in turn was 10% higher than in 2007/08, both on a constant currency basis.

Financial results – Transmission UK

The results for the Transmission UK segment for the years ended 31 March 2010, 2009 and 2008 were as follows:

	Years ended 31 March		
	2010	2009	2008
	£m	£m	£m
Revenue and other operating income	3,475	3,517	2,956
Operating costs excluding exceptional items and remeasurements	(2,164)	(2,391)	(1,935)
Adjusted operating profit	1,311	1,126	1,021
Exceptional items	(59)	(63)	(8)
Operating profit	1,252	1,063	1,013

2009/10 compared with 2008/09

The principal movements between 2008/09 and 2009/10 can be summarised as follows:

	Revenue and other operating income	Operating costs	Operating profit
	£m	£m	£m
2008/09 results	3,517	(2,454)	1,063
Add back exceptional items	–	63	63
2008/09 adjusted results	3,517	(2,391)	1,126
Allowed revenues	169	–	169
Timing on recoveries	20	–	20
BSIS	(197)	227	30
French interconnector	(26)	–	(26)
Depreciation	–	(20)	(20)
Other	(8)	20	12
2009/10 adjusted results	3,475	(2,164)	1,311
Exceptional items	–	(59)	(59)
2009/10 results	3,475	(2,223)	1,252

UK adjusted operating profit, excluding exceptional items, increased by £185 million or 16% in 2009/10 compared with 2008/09.

Revenue and other operating income decreased by £42 million in 2009/10 compared with 2008/09. UK regulated revenues increased by £169 million, largely driven by inflation driven revenue increases under the UK price control allowance; however, this was more than offset by a fall in the recovery of incentivised costs associated with balancing the electricity system (Balancing Service Incentive Scheme – BSIS). As expected, revenues from our French interconnector business were lower in 2009/10, down by £26 million on 2008/09, as demand for capacity returned closer to normal levels. Other movements comprise lower LNG auction revenues and lower pass-through costs.

Operating costs, excluding exceptional items, decreased by £227 million in 2009/10 compared with 2008/09 largely reflecting the fall in incentivised BSIS costs. As expected, depreciation and amortisation increased by £20 million as a result of increasing capital investment. Other items decreased costs by £20 million, principally because of lower pass-through costs recovered through revenue.

The £59 million exceptional charge in 2009/10 consists of a £41 million charge for LNG storage and £18 million towards establishing global shared services and IT functions. The £41 million charge relates to the restructuring of our LNG storage facilities.

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	Operating costs	Operating profit
	£m	£m	£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 BSIS costs 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.

Financial results – Transmission US

The average exchange rates used to translate the results of US operations during 2009/10, 2008/09 and 2007/08 were \$1.58:£1, \$1.54:£1 and \$2.01:£1 respectively.

	Years ended 31 March		
	2010 £m	2009 £m	2008 £m
Revenue	405	420	299
Operating costs excluding exceptional items	(252)	(245)	(171)
Adjusted operating profit	153	175	128
Exceptional items	(2)	(2)	(6)
Operating profit	151	173	122

2009/10 compared with 2008/09

The principal movements between 2008/09 and 2009/10 can be summarised as follows:

	Revenue £m	Operating costs £m	Operating profit £m
2008/09 results	420	(247)	173
Add back exceptional items	–	2	2
2008/09 adjusted results	420	(245)	175
Exchange movements	(11)	7	(4)
2008/09 constant currency results	409	(238)	171
Allowed revenues	4	–	4
Timing on recoveries – revenues	(13)	–	(13)
Timing on recoveries – pass-through costs	5	(7)	(2)
Other	–	(7)	(7)
2009/10 adjusted results	405	(252)	153
Exceptional items	–	(2)	(2)
2009/10 results	405	(254)	151

Adjusted operating profit decreased by £22 million in 2009/10, of which £4 million was caused by the movement in exchange rates when compared with 2008/09. On a constant currency basis, revenue decreased by £4 million and operating costs increased by £14 million, resulting in an £18 million, or 11%, decrease in adjusted operating profit in 2009/10.

A key reason for the 2009/10 profit decrease was the timing of recoveries under our New York rate plan, which resulted in a £15 million reduction. Excluding the timing of recoveries, our allowed revenues increased by £4 million in 2009/10. This growth was mainly in New England, where increased capital investment has delivered rate base growth of approximately 7% on last year.

Operating costs were £14 million higher in 2009/10 on a constant currency basis. This included £7 million for higher regulatory assessment costs in New York, which are fully recoverable as pass-through costs. The remaining cost increase of £7 million resulted from higher depreciation and decommissioning costs, directly related to the growth in our capital programme and investment in system reliability improvements.

The £2 million exceptional charge in 2009/10 related to restructuring costs arising from the integration of the operations acquired with KeySpan, including one time costs associated with pension and retiree welfare plan amendments.

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 on 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.

Gas Distribution



Adjusted operating profit

£1,137m

(2008/09: £1,284m)

Capital investment

£1,079m

(2008/09: £1,019m)

Employees

9,828

(2008/09: 9,534)

Gas delivered

500 TWh

(2008/09: 522 TWh)

We continue to share best practice between the UK and US to improve our efficiency and make our operating practices more consistent.

In aggregate across our networks we replaced in excess of 2,000 kilometres of metallic main in the UK and 362 kilometres in the US helping to improve the safety and reliability of our networks.

This section should be read in conjunction with the rest of this Operating and Financial Review

Key Facts

- Around 190,000 kilometres of gas pipeline
- Delivery of 299 TWh of gas in the UK and 201 TWh in the US
- Around 10.8 and 3.5 million consumers in the UK and US respectively

About Gas Distribution

Our Gas Distribution business operates in both the UK and the US. As a consequence of the differences in the respective economic and regulatory environments, we report the results of Gas Distribution as two segments: Gas Distribution UK and Gas Distribution US.

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 pipeline and we transport gas on behalf of approximately 26 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 of the gas distribution networks and for other transporters in Great Britain. This service, along with the enquiries line, appliance repair helpline and meter number enquiry service, handled over 3 million calls during 2009/10.

We are required to meet certain standards of service, which are established by Ofgem. These include: answering 90% of all calls to the national gas emergency number, enquiry line and meter number enquiry line within 30 seconds of the call being connected; attending 97% of reports of a gas escape or other gas emergency within the required timescale; and providing guaranteed standards of service for 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.

In our UK networks, actual gas consumption was 299 TWh compared with 317 TWh in 2008/09.

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. We are actively seeking to increase our customer base in these areas and in 2009/10 added more than 44,000 new gas heating customers.

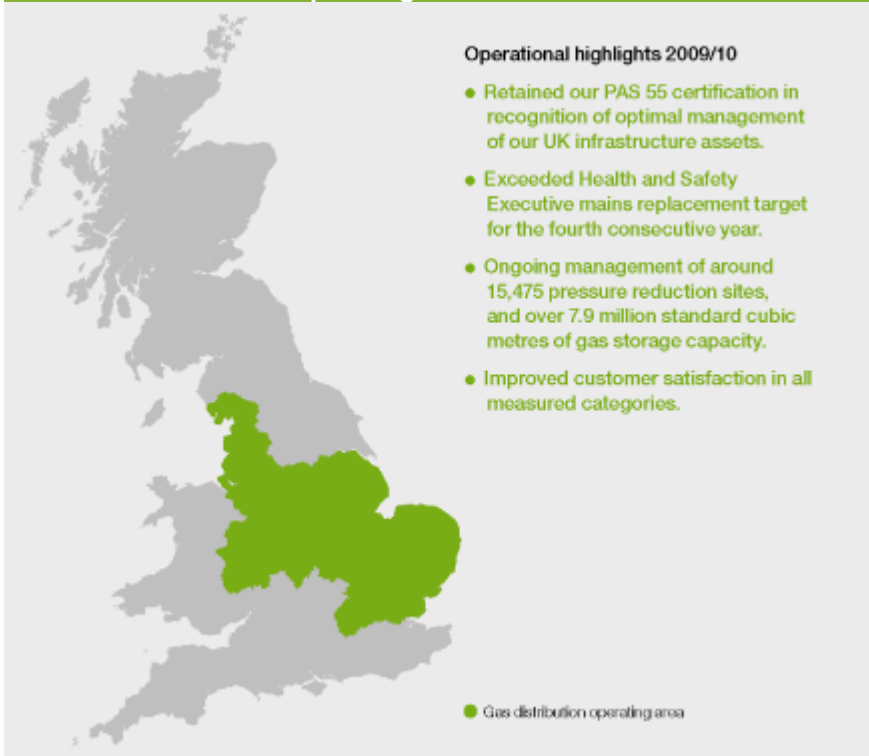
Our network of approximately 58,000 kilometres of gas pipeline serves an area of approximately 26,400 square kilometres.

In the US, in addition to the operation and maintenance of each of our gas distribution networks, we are also responsible for billing, customer service and supply services.

We maintain a diversified and flexible portfolio of gas supply and storage assets, and are able to deliver additional benefits to customers and shareholders by optimising these assets. We are the largest shipper on major inter-state pipelines, including Tennessee, Dominion, Algonquin and Iroquois.

We supplement gas from the inter-state pipeline system with liquefied natural gas (LNG) and propane facilities in 19 locations during peak cold weather conditions. During winter 2009/10, the US gas network supported consumption of more than 201 TWh compared with 205 TWh in 2008/09.

Gas Distribution UK – operating area



0.09

UK lost time injury frequency rate

£7.0bn

Estimated UK regulatory asset value

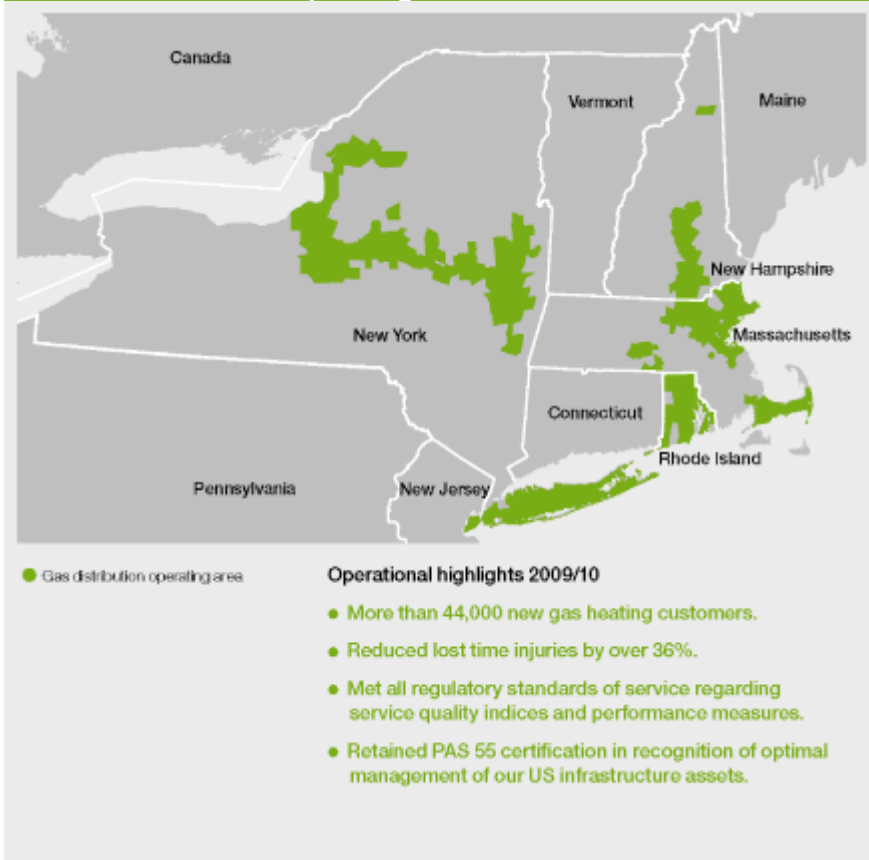
10.8m

Gas consumers served in the UK

132,000 km

Gas pipeline in the UK

Gas Distribution US – operating area



0.29

US lost time injury frequency rate

\$7.4bn

Estimated US rate base

3.5m

Gas consumers served in the US

58,000 km

Gas pipeline in the US

Gas Distribution continued

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 set out in the Uniform Network Code. This defines the roles and responsibilities 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.

The current price control period came into force on 1 April 2008 and covers the period to 31 March 2013 providing for an allowed average revenue increase of 2% per annum above the retail price index and 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. In addition, the allowed formula revenue was decoupled from delivery volumes from 1 April 2007. This eliminated the sensitivity to warm weather and lower underlying volumes. Furthermore, from 1 October 2008 only a very small proportion of our income is recovered through the volume delivery component of our charges.

As at 31 March 2010, our regulatory asset value was estimated at approximately £7.0 billion.

In the UK, the price control formulae specify a maximum allowed revenue for each network. Each formula consists of a fixed core revenue element, cost pass-through items and a range of incentive schemes including: environmental emissions incentives; an exit capacity scheme; and innovation, environmental and community incentives.

The safety and reliability of the network is maintained principally by replacing older metallic gas main with 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 main 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.

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.

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.

Except for residential and small commercial consumers in Rhode Island and residential consumers in New Hampshire, consumers may purchase their supply from independent providers. The majority of gas supplied to consumers in the US is sold by regulated utilities to their customers. Regulated utilities, such as our gas distribution companies, purchase gas from gas producers and gas transporters, and then transport this gas on

the independent inter-state pipeline system and into the regulated utilities' gas distribution networks for onward delivery to customers. Our gas distribution companies receive gas from the inter-state pipeline system at 94 gate stations. The inter-state pipeline system and local gas distribution networks are also used to deliver gas on behalf of customers who purchase gas from independent suppliers or direct from gas producers.

Depending on the jurisdiction, delivery prices are set either by actual sales volumes and costs incurred in an historical test year, or by rate plans based on estimates of costs and volumes expected to be delivered, which may differ from actual amounts. A significant proportion of our costs are gas purchases for supply to customers. Our charges to customers are designed to recover these costs with no profit margin. Prices are adjusted from time to time to ensure any over- or under-recovery is returned to or recovered from our customers. There can be timing differences between costs being incurred and prices being adjusted.

Certain of our rate plans include earnings sharing arrangements, which allow us to retain some of the benefit of efficiency improvements in excess of those built into rate plan assumptions. Generally, we retain all the benefits up to a certain level of return on equity, after which the balance is returned to customers. The following is a summary of the key features and allowed returns within our filed and approved rate plans.

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% 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	9.54%	50/50	None

We also have a number of service standards for our operations. If certain identified minimum service standards are not achieved, penalties may be imposed.

External market, energy policy and regulatory and other developments

In addition to the external market developments described on page 17 and the energy policy and regulatory developments described on pages 20 and 21, the following developments are relevant to the Gas Distribution business.

New York

The downstate New York rate plans allow us to request recovery or refund of certain costs and forecasted expenses which vary from rate plan allowances. Such costs include: site investigation and environmental remediation; property tax; and pension and other post-employment benefit expenses. On 29 January 2010, the companies made a filing with the New York Public Service Commission (NYPSC) to request up to \$65 million in cost recovery per year over five years. A decision is expected by December 2010.

The Niagara Mohawk plan also allows us to adjust rates for certain costs that vary from rate plan allowances.

Massachusetts

On 16 December 2009, we filed a request with the Massachusetts Department of Public Utilities to merge Boston Gas and Essex Gas into a single corporate entity. Our goal is to align the corporate structure with the current operational structure. A decision is expected during the first half of 2010/11.

On 16 April 2010, we filed our Massachusetts gas rate plans. Further details are provided on page 33.

New Hampshire

On 13 November 2009, the New Hampshire Public Utilities Commission denied our Motion for Reconsideration in which we requested an increase in the allowed return on equity. On 26 February 2010, we filed a new proposed rate increase. Further details are provided on page 33.

A decision is expected in early 2011, with temporary rates effective from June 2010. These rates would recover approximately \$5.5 million.

We are currently evaluating options to allow us to exit our gas and electricity businesses in New Hampshire.

Performance against our objectives

National Grid's progress against the Company objectives is set out on pages 30 to 37. 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

Our objective is to reduce employee lost time injuries to zero, to meet customer service objectives agreed with our regulator and to be within the first quartile of customer satisfaction in the territories we operate in.

Safety

Lost time injuries totalled 42 in 2009/10, of which 9 were in the UK and 33 in the US. This is equivalent to a lost time injury frequency rate of 0.19. This compares with a total of 76 lost time injuries in 2008/09, 24 in the UK and 52 in the US, equivalent to a lost time injury frequency rate of 0.35.

In the UK, we have a programme to decommission older metallic gas main and replace it with polyethylene. The majority of this programme relates to targets agreed with the Health and Safety Executive (HSE), to replace all iron main within 30 metres of property by 2032. In 2009/10, we decommissioned more than 2,000 kilometres of metallic main, around 1,940 kilometres of which related to the HSE target, exceeding the target for the fourth consecutive year. The target for this year was 1,856 kilometres. We decommissioned over 1,850 kilometres in each of 2008/09 and 2007/08. We have also seen good performance in the US, with the rate of main replacement steadily increasing.

As detailed on page 80, we identified that some of our UK main replacement activity may have been misreported. We have notified both Ofgem and the HSE, and Ofgem's investigation into this matter continues.

Customer service

In the UK, quality of service standards defined by Ofgem apply to three principal areas of activity: new connections; the telephone service; and attendance at gas emergencies. All standards have been met in 2009/10, with the exception of one gas emergency standard in one network affected by the severe winter weather where we achieved 96.98% against a standard of 97%. In individual cases where compensation is due as a consequence of failing to meet certain standards, 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 comparable with the other distribution network operators and can be found at www.nationalgrid.com and www.ofgem.gov.uk.

For gas utility businesses in the US, J.D. Power and Associates formulate an annual survey and customer satisfaction rating. In 2009/10, we improved results for commercial customer satisfaction from third quartile to second quartile and residential customer satisfaction scores also improved from fourth quartile to third quartile.

There is a programme of activities within the UK and US to improve these scores further.

In the US, our Gas Distribution business met all regulatory requirements regarding 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; inspections; meter changes; and main and service replacements.

Delivering strong, sustainable regulatory and long-term contracts with good returns

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 indicators we use to monitor our return on investment are the vanilla return in the UK and the return on equity per rate plan in the US.

Gas Distribution UK achieved a 6.3% vanilla return in 2009/10, exceeding the regulatory allowance. The following is a summary of returns under our US rate plans:

Regulatory entity	Rate base ⁽ⁱ⁾		Return on equity ⁽ⁱⁱ⁾		Allowed return current
	2009	2008	2009	2008	
KEDNY	\$2,350m	\$2,294m	11.2%	11.9%	9.8%
KEDLI	\$1,899m	\$1,795m	10.5%	11.1%	9.8%
Mass. Gas	\$1,536m	\$1,488m ⁽ⁱⁱⁱ⁾	2.9%	8.3%	10.6%
Energy North	\$ 193m	\$ 191m	3.8%	4.4%	9.5%
Narragansett	\$ 337m	\$ 337m	6.7% ^(iv)	7.6%	10.5%
Niagara Mo. Gas	\$1,103m	\$1,067m	3.8%	4.8%	10.2%

- (i) Estimate of rate base using filed regulatory returns at 31 December or an alternative US GAAP based invested capital measure where recent rate base filings are either not available or where the actual rate base currently excludes certain regulatory asset balances.
- (ii) Based on regulatory returns for the 12 months ended 31 December.
- (iii) 2008 rate base has been restated to exclude \$937 million of goodwill.
- (iv) Return is -0.7% before normalising for one time bad debt adjustments.

Gas Distribution continued

Current returns for our downstate New York and Long Island gas businesses are above our allowed returns. We are in the third year of a five year rate plan for each of these businesses. Returns for our gas businesses in Rhode Island, New Hampshire and upstate New York are below our allowed returns. We filed a rate case in New Hampshire on 26 February 2010 and are awaiting approval from the regulators. In upstate New York, a two year rate plan that increased rates by \$39.4 million and has a 10.2% return on equity went into effect on 20 May 2009. Rates will be revised on 20 May 2010 and we have filed to increase rates by \$14 million as of that date. In our Massachusetts gas businesses, we filed rate plans on 16 April 2010.

Modernising and extending our transmission and distribution networks

Our objectives are to meet regulatory targets and to have zero loss of supply incidents. We are on track to deliver capital investment by 2012 in line with our UK price control allowance and supported by our US rate plans.

Reliability

In the UK, we again achieved a very high network reliability percentage of 99.999%, which reflects a low volume of unplanned customer interruptions during the year.

In both the UK and US, we continue to focus on improving reliability, in particular in the area of gas escapes. In the US, workable gas escape backlog has been reduced by 25% over the previous year. In the UK, we met the regulatory standards of service in the area of gas escapes in three out of our four networks. We missed the target in the fourth network by 0.02%.

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

During 2009/10, we successfully delivered £1,079 million of capital investment (2008/09: £1,019 million; 2007/08: £702 million) and plan to invest a further £2 billion by 31 March 2012.

UK capital investment

Gross investment including reinforcement, extension and replacement of the UK gas distribution network was £670 million in 2009/10 compared with £598 million in 2008/09 and £514 million in 2007/08. Of these amounts, £465 million in 2009/10 related to replacement expenditure (2008/09: £425 million; 2007/08: £353 million) and £205 million to other capital investment (2008/09: £173 million; 2007/08: £161 million). Expenditure on software applications included within the above amounts was £54 million (2008/09: £22 million; 2007/08: £18 million). The increase in expenditure is primarily driven by the Gas Distribution front office system (see below).

Replacement expenditure increased by £40 million, or 9%, compared with 2008/09, reflecting an increase in workload in London ahead of the 2012 Olympics and a higher proportion of complex large diameter main. Performance under the gas main replacement incentive scheme is expected to be broadly neutral in 2009/10.

In collaboration with our gas alliance and coalition partners, we have replaced more than 2,000 kilometres of metallic gas main

this year and more than 14,000 kilometres since 2002/03. The vast majority of this relates to the long-term gas main replacement programme agreed with the HSE.

The increase in other capital expenditure in 2009/10 compared with 2008/09 is driven by: the spend on the replacement of the Gas Distribution front office system, work that will continue until 2011/12; completion of a major new pipeline in west London; and expenditure primarily to maintain the reliability of our gas networks.

US capital investment

Capital expenditure in the replacement, reinforcement and extension of our US gas distribution networks was £409 million in 2009/10 (2008/09: £421 million; 2007/08: £188 million).

After excluding the effect of exchange movements of £11 million in 2009/10 compared with 2008/09, capital expenditure decreased by £1 million. This reflects lower growth and reliability programmes largely offset by higher main and service replacements.

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.

Becoming more efficient through transforming our operating model and increasingly aligning our processes

Our objective is to utilise 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.

The key initiatives aimed at reducing our controllable operating costs and improving efficiency are material and process standardisation, process improvements, consolidation of workforce and best practice sharing.

We are making good progress on our implementation of a new front office system for Gas Distribution in the UK. The first release of the new integrated IT solution is on track for implementation in the autumn of this year and will cover maintenance and an early release of the emergency service solution. The full deployment of the emergency service solution will take place in the spring of 2011. We have also started the designs for the customer, repair and construction processes and will deploy these parts of the new solution during the summer and autumn of 2011.

The new enhanced capability will create a much simpler way for our people to do their work, enabling us to streamline our processes and standardise the way common functions like scheduling and dispatch are performed. This will improve productivity, provide greater assurance and controls on our performance and significantly improve our customer service.

The functionality of the new systems, which includes global positioning system (GPS) locations of our field teams and work locations, will drive improvements in efficiency. We will also have much greater visibility of work we undertake for customers and be able to provide improved response to requests to do work and customer enquiries about work in progress.

Our aim is to maintain the proper level of investment in our infrastructure to enable related operating cost reductions.

Financial performance

Adjusted operating profit was £1,137 million in 2009/10 compared with £1,284 million in 2008/09 and £987 million in 2007/08.

Financial results – Gas Distribution UK

The results for our Gas Distribution UK segment for the years ended 31 March 2010, 2009 and 2008 were as follows:

	Years ended 31 March		
	2010 £m	2009 £m	2008 £m
Revenue	1,517	1,466	1,383
Other operating income	1	2	8
Operating costs excluding exceptional items	(795)	(796)	(796)
Adjusted operating profit	723	672	595
Exceptional items	(41)	(43)	(21)
Operating profit	682	629	574

2009/10 compared with 2008/09

The principal movements between 2008/09 and 2009/10 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2008/09 results	1,468	(839)	629
Add back exceptional items	–	43	43
2008/09 adjusted results	1,468	(796)	672
Allowed revenues	85	–	85
Timing on recoveries	(28)	–	(28)
Pass-through costs	–	5	5
Non-formula	(14)	9	(5)
Other revenue and costs	7	(13)	(6)
2009/10 adjusted results	1,518	(795)	723
Exceptional items	–	(41)	(41)
2009/10 results	1,518	(836)	682

Revenue and other operating income in Gas Distribution UK increased by £50 million in 2009/10 compared with 2008/09. Allowed revenues were up £85 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 an estimated £28 million timing impact on recoveries and a decline in non-formula revenue primarily driven by a drop in non-regulated meter work activities.

The net year-on-year timing impact against allowed revenue was a reduction of £28 million as in 2009/10 there was a net deficit of £19 million, comprising the under-recovery of £1 million relating to the previous year and a £20 million under-recovery for 2009/10, compared with a net gain of £9 million in 2008/09, comprising a £1 million under-recovery in 2008/09 offset by £10 million under-recovery from 2007/08.

Operating costs for 2009/10, excluding exceptional items, were largely in line with 2008/09. Efficiency savings through strong operating cost performance, together with other minor items, were largely offset by higher costs associated with severe winter weather conditions and higher depreciation charge. Non-formula costs were £9 million lower reflecting reduced workload.



Improving customer relations by reducing congestion

Traffic congestion is a cost to the economy, with any solution for easing congestion improving the experience of road users and delivering environmental benefits by reducing pollution from slow moving vehicles. Traditional road plates to cover excavations are heavy, difficult to store and require mechanical means to install on site. These difficulties have led to the practice of lane closures and traffic control when working in highways. Following an investigation by Gas Distribution, an alternative solution was identified that introduces a modular trench plating system, providing quick and easy installation over excavations.



Emergency water ingress

During winter 2009/10, over 6,000 properties were affected by a number of separate water ingress incidents resulting in significant loss of supply. In particular, as Christmas 2009 approached, the skills and commitment of our UK gas distribution team were put to the test by 2 major incidents affecting over 4,000 properties in southeast England. In both cases a burst water pipe created a hole in our low pressure main, resulting in water entering our network. Our engineers and support team applied their skills and determination each day up to and during the Christmas period to restore the gas supply.

Gas Distribution continued

Exceptional charges of £41 million in 2009/10 included an increase in the environmental provision of £14 million, reflecting changes in landfill tax legislation, with the remaining £27 million made up of restructuring and transformation costs, which include system related projects costs. This compared with a £43 million charge in 2008/09.

As a consequence of the above, adjusted operating profit excluding exceptional items was £51 million higher in 2009/10 than 2008/09, an increase of 8%. Including exceptional items, operating profit was £53 million higher in 2009/10 than 2008/09, an increase of 8%.

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. In addition, a growth in other revenue was primarily driven by non-regulated meter work activities.

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, together with other minor items, were 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 include 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.

Financial results – Gas Distribution US

The average exchange rates used to translate the results of US operations during 2009/10, 2008/09 and 2007/08 were \$1.58:£1, \$1.54:£1 and \$2.01:£1 respectively.

	Years ended 31 March	2010	2009	2008
		£m	£m	£m
Revenue		3,708	4,786	2,845
Operating costs excluding exceptional items and remeasurements		(3,294)	(4,174)	(2,453)
Adjusted operating profit		414	612	392
Exceptional items and remeasurements		34	(386)	95
Operating profit		448	226	487

2009/10 compared with 2008/09

The principal movements between 2008/09 and 2009/10 can be summarised as follows.

	Revenue £m	Operating costs £m	Operating profit £m
2008/09 results	4,786	(4,560)	226
Add back exceptional items	–	52	52
Add back remeasurements	–	334	334
2008/09 adjusted results	4,786	(4,174)	612
Exchange movements	(121)	105	(16)
2008/09 constant currency results	4,665	(4,069)	596
Pass-through costs	(965)	965	–
Rate increases	32	–	32
Economic impact on volumes	(38)	–	(38)
Timing on recoveries	56	(171)	(115)
Merchant function charge	(14)	–	(14)
Long Island property tax recoveries	(39)	–	(39)
Bad debt expense	–	5	5
Other revenues and costs	11	(24)	(13)
2009/10 adjusted results	3,708	(3,294)	414
Exceptional items	–	(18)	(18)
Remeasurements	–	52	52
2009/10 results	3,708	(3,260)	448

Revenue and operating costs excluding exceptional items and remeasurements decreased by £957 million and £775 million respectively in 2009/10 compared with 2008/09 on a constant currency basis, a decrease of 21% and 19% respectively.

Revenue decreased by £957 million in 2009/10 compared with 2008/09. Net of higher pass-through costs of £965 million, revenue increased by £8 million.

Gas Distribution US benefited from approved rate increases/delivery rate adjustments in our downstate New York, Long Island, upstate New York, Rhode Island and New Hampshire operating areas of £32 million. The economic downturn had an adverse impact of £38 million and timing impacts included recoveries of NYPSC 18-A assessments of £44 million and other of £12 million. Lower recoveries of gas inventory carrying charges of £14 million, and cessation of Long Island property tax collections of £39 million were partially offset by increases in other revenues of £11 million. These increases include load additions of approximately 44,000 customers contributing £29 million, which was partially offset by a decrease in volumes driven by warmer

than normal weather and normal conservation/attrition totalling £29 million.

The weather in 2009/10 was significantly warmer than 2008/09. As measured in degree heating days, weather in 2009/10 across our US gas territories was approximately 4% warmer than normal and was approximately 8% warmer than 2008/09.

Operating costs, excluding pass-through costs and exceptional items, were £190 million higher in 2009/10 compared with 2008/09, primarily driven by adverse timing impacts in the recovery of gas cost deferrals of £103 million, higher spending in energy efficiency programmes of £10 million, and NYPSC 18-A assessment expenses of £58 million. Other cost increases of £24 million were partly offset by lower bad debt expenses of £5 million due to lower reserve requirements.

Exceptional charges of £18 million in 2009/10 related to integration and transformation initiatives, including the cost of voluntary early retirements and costs relating to US healthcare reform, 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 2010. The gains from these transactions will be realised in subsequent periods and passed on to consumers.

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
Pass-through costs	69	(69)	–
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
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 cost 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.

Revenue increased by £1,068 million in 2008/09 compared with 2007/08. Revenue from KeySpan operations increased by £902 million compared with 2007/08. The remaining £166 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 pass-through costs of £69 million, and other increases of £5 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 £968 million higher in 2008/09 compared with 2007/08. The increase in costs of KeySpan operations in 2008/09 was £896 million on a constant currency basis. The remaining increase of £72 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.



Gas main replacement

As part of our ongoing replacement programme, which includes the HSE target of replacing 54,600 km of iron main around the UK we invested £465 million in 2009/10. Contributing to safety, security of supply and meeting regulatory obligations, the programme is seeing metallic main being replaced with yellow polyethylene pipes which are flexible and resistant to corrosion. National Grid continually strives to minimise the disruption and inconvenience associated with the street works required to deliver this replacement programme. Where possible we use no dig techniques, trenchless working and directional drilling to achieve this goal. We also endeavour to coordinate our work with local authorities and the activities of other utilities, such as our collaboration in 2009 with Thames Water, where gas and water mains were simultaneously replaced in Tower Hill.

Electricity Distribution & Generation



Adjusted operating profit

£374m

(2008/09: £265m)

Capital investment

£372m

(2008/09: £355m)

Employees

8,344

(2008/09: 8,251)

Electricity delivered

62 TWh

(2008/09: 65 TWh)

Our customers are at the heart of everything we do. We continue to invest in our distribution and generation systems to create sustained improvements in our system reliability. We believe that increased energy efficiency and the use of smart technologies is the best way to help our customers control their energy costs and address the issue of climate change.

In 2009, we met all our regulatory reliability targets and achieved internal targets moving us towards top quartile reliability performance.

Severe storms affected our service territories during the winter, causing service interruptions for thousands of customers. Our emergency response plans were highly effective in restoring service efficiently and safely.

This section should be read in conjunction with the rest of this Operating and Financial Review

Key Facts

- Over 116,800 kilometres of circuit
- Approximately 3.4 million customers
- 666 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

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.

Principal operations

Electricity Distribution

We are responsible for building, operating and maintaining our electricity distribution networks in Massachusetts, Rhode Island, New Hampshire and upstate New York. We also maintain and operate the electricity transmission and distribution system on Long Island owned by the Long Island Power Authority (LIPA), providing energy to homes, small businesses, and large commercial and industrial enterprises.

Through our electricity distribution networks, we serve approximately 3.4 million electricity customers over a network of approximately 116,800 circuit kilometres (72,600 miles) in New England and upstate New York.

The LIPA service territory covers approximately 3,200 square kilometres (1,200 square miles), 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 and managing the delivery of the energy that we produce under contract to LIPA.

Generation

We own 57 electricity generation units on Long Island that together provide 4.1 GW of power under contract to LIPA.

Our plants consist of oil and gas fired steam turbine, gas turbine and diesel driven generating units ranging from 2 to 375 MW. Any available power not needed to meet LIPA's requirements is made available for sale in the open market.

Energy procurement

Within our US Electricity Distribution & Generation and Gas Distribution businesses, we are responsible for the planning, procurement and administration of gas and electricity commodity supply for our customers. We conduct business with various energy companies in order to supply approximately 14 billion standard cubic metres of natural gas and 35 TWh of electricity annually across 4 states. In addition to providing our customers with stable and low cost electricity supply, we are committed to helping the states in which we operate to achieve their Renewable Portfolio Standards and satisfy recent legislative requirements by working with renewable project developers and other stakeholders to bring new sustainable resources online cost effectively.

Through our fuel management services, we procure gas and fuel oil to supply the 68 power generation units on Long Island under contract by LIPA, of which we own 57. Until 31 December 2009, we also purchased energy, capacity and ancillary services in the open market on LIPA's behalf.

Regulation

Customer bills typically comprise a commodity rate, covering the cost of electricity delivered, and a delivery rate, covering our electricity delivery service.

Depending on the jurisdiction, delivery prices are set either by actual sales volumes and costs incurred in an historical test year, or by rate plans based on estimates of costs and 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. Our charges to customers are designed to recover these costs with no profit margin. Prices are adjusted from time to time to ensure any over- or under-recovery is returned to or recovered from our customers. There can be timing differences between costs being incurred and prices being adjusted.

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.

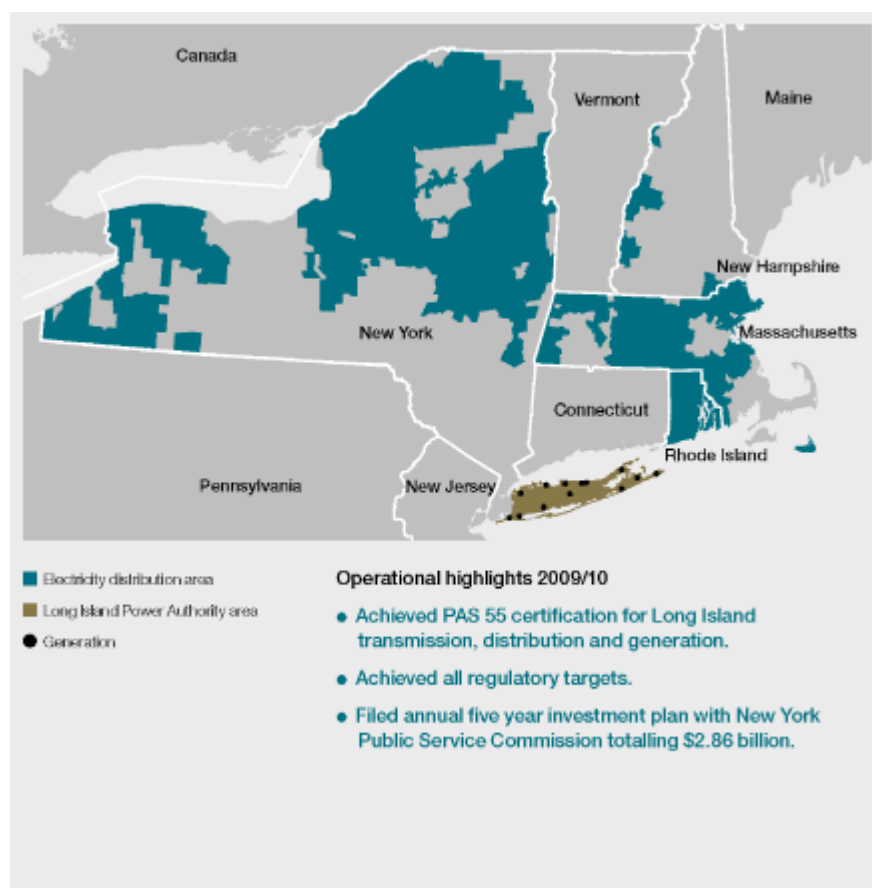
In each state in which we operate, we are allowed to retain some of the benefit of efficiency improvements in excess of those built into rate plan assumptions. Typically we retain all the benefits up to a certain level of return on equity, after which we retain only a proportion of the benefits, with the balance returned to customers. A summary of the key features of our rate plans is provided opposite.

Rate plan	Equity return	Equity to debt ratio	Efficiency gains retained
Upstate New York (Niagara Mohawk)	10.6%	48.5/51.5	100% to 11.75% 50% to 14% 25% to 16% 10% above 16%
Massachusetts	10.35%	49.99/50.01	50% above 10.35%
Rhode Island (Narragansett Electric)	9.8%	42.75/57.25	50% from 9.8% to 10.8% 25% above 10.8%
New Hampshire	9.67%	50/50	50% above 11%

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 (£66 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.

We also have a number of service standards for our operations. Many of these service standards have penalties if we do not achieve certain specified minimum standards.

Electricity Distribution & Generation – operating area



41%

Reduction in lost time injury frequency rate

\$614m

Planned investment in our networks in 2010/11

Electricity Distribution & Generation continued

External market, energy policy and regulatory and other developments

In addition to the external market developments described on page 17 and the energy policy and regulatory developments described on pages 20 and 21, the following developments are relevant to the Electricity Distribution & Generation business.

Solar filing

Under the Green Communities Act, Massachusetts utilities are permitted to construct, own and operate up to 50 MW of solar generation, subject to approval by the Massachusetts Department of Public Utilities (DPU). On 23 October 2009, the Massachusetts DPU approved our proposal to construct, own and operate approximately 5 MW of solar generation on 5 separate properties that we own. We are permitted to recover the costs of each site and a return on our investment. We are currently in the construction phase of project development and we expect construction of the sites to continue throughout the remainder of the year.

New York smart grid

On 14 January 2010, we filed a petition with the New York Public Services Commission (NYPSC) seeking approval for a modified smart grid programme. The \$123 million programme includes the Company's contribution to three sub projects, which are the recipient of Department of Energy (DOE) matching funds and additional investments sought directly from the NYPSC. The proposed smart grid programme includes approximately 40,000 customers in the Syracuse, NY area.

The three smart grid sub projects that are the subject of matching funds from the DOE and in which we are a partner have been approved by the NYPSC. On 1 April 2010, we filed a methodology with the NYPSC by which we would recover our investments in these projects from customers.

Massachusetts wind power

On 7 May 2010, we signed an agreement with Cape Wind to buy clean power from the first large-scale offshore wind farm in the US. The contract has been filed with the Massachusetts DPU for approval. Cape Wind is expected to come online by the end of 2012. Under the contract, National Grid would purchase 50% of the wind farm's output, including renewable energy certificates as well as capacity and energy, beginning in 2013.

Massachusetts smart grid

On 1 April 2009, we filed a petition with the Massachusetts DPU in response to the Massachusetts Green Communities Act seeking approval for an approximately \$57 million smart grid programme in the northwest section of Worcester, MA. The pilot programme would reach approximately 15,000 homes and small businesses and features new services to customers delivered through a holistically designed smart grid. The technology proposed includes smart meters, home energy automation and advanced power network management tools. The proposed smart grid pilot has three broad objectives: it will enable customers to actively manage energy use; create the tools for National Grid to optimise the performance of the network; and provide capability to integrate renewable energy generation technologies to the distribution grid. A decision is expected by 1 August 2010.

LIPA power supply agreement (PSA) rate adjustment

On 5 January 2010, the FERC approved a settlement agreement for a rate increase for the power supplied to LIPA. Rates pursuant to the PSA are in effect until May 2013. The settlement agreement

set a revenue requirement of \$436 million and a rate increase of \$66 million, at a return on equity of 10.75%. The PSA also allows for certain annual rate adjustments, such as pension and other post-retirement benefit expenses, property tax increases and certain inflationary increases.

Upstate New York capital expenditure rate filing

In New York, capital expenditure in the rate plan for electricity distribution remains set at historic levels that are significantly lower than those currently required to maintain a safe and reliable network. We filed a supplemental petition in April 2009 for deferred recovery of incremental investments in 2008 totalling \$9 million. In 2010, we anticipate petitioning for deferred recovery of qualifying incremental investment for calendar year 2009.

On 29 January 2010, we filed our annual five year capital investment plan with the NYPSC totalling \$2.86 billion.

Upstate New York electricity rate plan

On 29 January 2010, we filed a three year rate proposal, which includes a revenue increase of \$369 million and a return on equity of 11.1%, effective from 1 January 2011, while allowing us to continue our significant investment in the electricity transmission and distribution system to meet the growing and changing needs of customers. The plan would have little or no impact on typical customer delivery bills. The proposed revenue increase represents recovery of costs we expect to incur in excess of current rate levels. To offset this, we have proposed to defer the full recovery of stranded costs and instead will spread them over an additional three years to the end of 2014. The filing also proposed a revenue decoupling mechanism as required by the NYPSC. We also proposed to enhance our support programmes for qualifying low income customers, increasing programme funding by approximately \$9 million and increasing credits to qualifying customers in our low income customer assistance affordability programme and the low income credit programme.

Massachusetts and Rhode Island rate plans

In 2009, we filed in Massachusetts and Rhode Island rate adjustments effective from 1 January 2010 and 1 March 2010 respectively. Each filing included a request for an increase in revenue to fund distribution operations, a revenue decoupling mechanism proposal to further encourage aggressive pursuit of energy efficiency, and the ability to pass through actual pension and other post-retirement benefit costs. On 30 November 2009, the Massachusetts regulators ruled on our request. The allowed increase in revenue of \$42 million, reflects an allowed return on equity of 10.35%, approval of a revenue decoupling mechanism that includes recovery of incremental investment pursuant to a maximum allowable threshold of up to \$170 million, and approval of the pass through of pension and other post-retirement benefit costs. Rates went into effect on 1 January 2010.

On 9 February 2010, the Rhode Island regulator ruled on our request, allowing an increase in revenue of \$23.5 million, reflecting an allowed return on equity of 9.80% and an equity ratio of 42.75%. The regulator denied our revenue decoupling mechanism proposal and our pass through of pension and other post-retirement benefit costs. On 20 April 2010, we filed a petition with the Rhode Island Supreme Court requesting that it review the legality and reasonableness of the regulator's decision. We plan to file a new rate case later this year.

New Hampshire

We are currently evaluating options to allow us to exit our gas and electricity businesses in New Hampshire.

Niagara Mohawk management audit

New York law provides the NYPSC with the authority to conduct a management audit of utilities operating within the state every five years. Consequently, the NYPSC ordered an audit of Niagara Mohawk's electricity business in 2008. The final audit report contained 44 recommendations for improvement. On 16 December 2009, the NYPSC approved the management audit findings. We had already recognised many of the recommendations and actions were under way, particularly the Electricity Distribution & Generation transformation effort. The implementation plan was filed with NYPSC on 29 January 2010. We will file quarterly update reports to the NYPSC staff.

Performance against our objectives

National Grid's progress against the Company objectives is set out on pages 30 to 37. 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

Our objectives are to reduce employee lost time injuries to zero, to meet customer service objectives agreed with our regulators and to be within the upper quartile of customer satisfaction in the territories in which we operate.

Safety

The number of employee lost time injuries in Electricity Distribution & Generation decreased to 23 compared with 37 in 2008/09. Our lost time injury frequency rate for 2009/10 was 0.13, representing a 41% decrease over the prior year's rate of 0.22. Improvement programmes implemented in 2009/10 were aimed at aligning our merged operations in key areas of safety and occupational health management and to promote a positive safety culture. The key safety initiatives during 2009/10 were as follows:

- developing and implementing a comprehensive approach to enhancing safety by driving consistent safety improvement initiatives across all areas, through the safety performance committee (SPC) structure;
- building on the safe and unsafe acts (SUSA) programme to eliminate at risk behaviour while reinforcing safe behaviour and identifying and implementing corrective measures identified by the SPC through analysis of trends from SUSA visits;
- improving the quality of the job brief process by redesigning the process to improve risk assessment and hazard identification, and implementing enhancements in the field;
- reducing road traffic accidents by undertaking targeted defensive driving training for high risk employees in accordance with the current guidelines; and
- improving the quality of near miss reports and the process for actions and feedback to employees by implementing a new communication programme to promote quality reporting that may prevent injuries.

In 2010/11, our safety objectives include implementing sustainable programmes focused on embedding process safety with a robust set of KPIs, a further focus on the quality of root cause analysis with a standardisation of analysis tools, and the detailed analysis of high potential incidents.



Electric transportation

National Grid is taking part in a comprehensive research and demonstration collaboration with Ford Motor Company, Electric Power Research Institute and other electricity utilities to advance the development of electric transportation infrastructure. We are using a pre production Ford Escape plug in hybrid electric vehicle as a test bed to demonstrate the integration with smart grid technology.



We invested this year to make our generating stations greener

We have recently completed upgrading the first of four units at our generating station in Northport, Long Island. This involved installing advanced turbine components to improve efficiency and reduce emissions. The efficiency improvements on this first unit will reduce annual fuel consumption and carbon dioxide emissions by over 25,000 tonnes per year – equivalent to removing an estimated 4,780 cars each doing 12,000 miles a year from the road in the US.

Electricity Distribution & Generation continued

Customer service

Reliable and efficient customer services are priorities for National Grid. Improvements in our operations and how customers conduct their business with us have led to improvements in 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 improved our ranking, moving into the third quartile performance in three of the four surveys.

We continue to enhance the experience customers have with us, giving them the channels and options they want to conduct their business with us. Our contact and support centre successfully completed 2009 with all regulatory service level and customer satisfaction targets having been exceeded.

Customer satisfaction also comes from helping customers manage their energy expenses. With a US customer communications initiative, 3% Less, we urged customers to pledge to use 3% less energy every year for the next 10 years. By reducing energy consumption, customers can better manage their energy costs and reduce carbon emissions, helping not only their own finances, but our planet. Being the energy management partner for our customers helps foster a stronger relationship with them and builds goodwill among other constituents. The initiative was recognised by the Edison Electric Institute, the association of US shareholder owned electricity companies, which awarded us a 2009 Advocacy Excellence Award in January 2010.

We continue to help customers to be more energy efficient through our energy efficiency programmes. For more than 20 years we have offered a comprehensive portfolio of energy efficiency programmes to help customers reduce energy consumption, saving them money while reducing greenhouse gas emissions. The success of these programmes was recognised by the US Environmental Protection Agency which awarded us a 2009 ENERGY STAR Sustained Excellence Award.

Delivering strong, sustainable regulatory and long-term contracts with good returns

Our aim is to meet or exceed the base financial returns in our rate plans by delivering on long-term contracts that provide value.

A summary of returns under our rate plans is provided below.

Regulatory entity	Rate base ⁽ⁱ⁾		Return on equity ⁽ⁱⁱ⁾		Allowed return current
	2009	2008	2009	2008	
Niagara Mohawk (Electric)	\$4,375m	\$4,609m	5.1%	6.7%	10.6%
Massachusetts (Electric)	\$1,494m	\$1,495m	4.7%	7.0%	10.35%
Narragansett Electric (Distribution only)	\$548m	\$564m	(2.9)%	2.3%	9.8%
Long Island Generation	\$503m	\$574m	13.5%	7.1%	10.75%

(i) Estimate of rate base using filed regulatory returns at 31 December or an alternative US GAAP based invested capital measure where recent rate base filings are either not available or where the actual rate base currently excludes certain regulatory asset balances.

(ii) Based on regulatory returns for the 12 months ended 31 December.

Our US electricity businesses are coming out of long-term rate plans and have requested increases in revenue to support their operations. We filed and received approval for increased revenue for our Massachusetts and Rhode Island (Narragansett) electricity operations as the actual returns earned (adjusted for Narragansett's share of merger savings) were below allowed returns, primarily due to higher levels of investment and continued cost pressures, particularly bad debts and storm costs. The revenue increases were effective from 1 January 2010 in both Massachusetts and Rhode Island. As discussed on page 21, our Massachusetts regulator approved full recovery of commodity-related bad debt and working capital costs, a revenue decoupling mechanism, full recovery of pension and other post-retirement costs, and recovery of capital investment up to a maximum of \$170 million per annum.

In New York, the regulatory return on equity includes electricity transmission, electricity distribution and stranded cost recoveries. For the year ended 31 December 2009, the return was 5.1%, adjusted for the Company's share of merger savings allocated to electricity and certain one-off costs. Although the long-term electricity rate plan concludes on 31 December 2011, in response to the decreasing returns for our New York electricity operations, we filed a three year rate plan on 29 January 2010, and updated that request on 3 May 2010, to adjust our delivery rates that, if approved, would take effect on 1 January 2011. The request, as discussed on page 33, includes an increase in distribution and transmission revenue of \$369 million, a revenue decoupling mechanism and recovery of capital investment we make above the level included in the rate plan. To mitigate the impact to our customers, we have proposed to reshape the recovery of our stranded costs, lengthening the time over which we are recovering these legacy costs. We anticipate a regulatory decision sometime in December 2010.

Our Long Island generation business filed with FERC for a rate increase effective from 1 February 2009, subject to refund. LIPA and National Grid Generation filed a settlement on 23 October 2009 with a FERC administrative law judge that provides for a revenue requirement of \$436 million, a rate increase of approximately \$66 million, a return on equity of 10.75% and a capital structure of 50% debt and 50% equity. FERC approved the settlement on 5 January 2010. The Order accepting the settlement was subject to rehearing until 4 February 2010. There were no requests for rehearing and, as such, the settlement became effective from 1 March 2010 and refunds retroactive to 1 February 2009, including interest, were issued in March 2010.

Modernising and extending our transmission and distribution networks

In addition to meeting reliability performance targets agreed with our regulators, our objectives are to improve reliability and to deliver our capital investment programme.

Reliability

Our customers depend on a reliable electricity distribution service. Upstate New York met its regulatory targets for the second consecutive year, Massachusetts for the third and Rhode Island for the fourth, while New Hampshire's performance was the best since 2003 and Long Island met all targets with the best reliability performance under the contract with LIPA.

We have realised significant benefits from our multi-year reliability enhancement programme, helping to achieve our regulatory and internal targets. 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 and inspection and maintenance. Feeder hardening involves upgrading our overhead electricity circuits by replacing aged and deteriorated components and protecting against lightning strikes and animal contacts. Our inspection and maintenance programme involves 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 \$600 million in our networks across New England and New York during 2010/11, delivering on our commitment to invest \$1.47 billion in upstate New York over five years. In addition, with the asset replacement programme agreed with LIPA, we will be managing an estimated \$250 million investment in distribution and transmission infrastructure on behalf of LIPA.

Capital investment

Capital investment in the replacement, reinforcement and extension of our US electricity distribution networks was £372 million in 2009/10, £355 million in 2008/09 and £257 million in 2007/08. After excluding the effect of exchange movements of £9 million in 2009/10 compared with 2008/09, capital investment increased by £26 million.

This primarily reflected higher distribution line spending associated with our feeder hardening and inspection and maintenance programmes of £12 million, improvement in substation asset condition in the New England region of £15 million, higher renewables spend relating to our investment in 5 MW of solar generation in Massachusetts of £3 million and site renovations at our Northborough and Syracuse facilities of £16 million. This has been partially offset by lower spend on leased fleet vehicles due to the timing of contract negotiations of £5 million, lower capitalisation of pension related costs of £6 million and lower storm related costs of £6 million.

After excluding the effect of exchange movements of £79 million in 2008/09 compared with 2007/08, capital investment increased by £19 million. This primarily reflected 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 was partially offset by decreased capital lease additions of £15 million relating to vehicles and a lower need for investment in new business installations of £12 million, as a result of the downturn in the US economy.

We have a global initiative to adopt best in class asset management policies and procedures, with all businesses aiming to become PAS 55 certified. PAS 55 is an industry standard for minimum level of competency and processes to ensure a company's asset management objectives can be fulfilled efficiently and effectively.

We have achieved PAS 55 certification for generation, Long Island transmission and distribution and our distribution assets in upstate New York and New England.

Becoming more efficient through transforming our operating model and increasingly aligning our processes

Our focus includes completing our remaining transformation initiatives, delivering the benefits of our alignment, and driving continuous improvement and process excellence.

Transforming operations

During the year, we delivered on many initiatives in our transformation programme, including agreement with our upstate New York and New England labour unions on alignment with the operating model, centralised scheduling, asset management and consolidating control centres on Long Island.

The implementation of transformation initiatives will increasingly deliver common processes and cost efficiencies across our business.

Efficiency

By making our processes more efficient, we help to create value for shareholders and provide superior service to our customers.

We will continue to evolve the business and gain alignment in transmission and distribution. In conjunction with the transmission and distribution alignment and delivery of remaining transformation initiatives, we will focus on the following priorities:

- development of a US inventory management model;
- development and implementation of optimal fleet sourcing strategies;
- development and implementation of an operations performance model;
- implementation of the advanced energy consumption initiative; and
- implementation of a cost conscious savings initiative.

Improving efficiency is central to our vision and we remain clear about our responsibility to ensure our operations are as efficient as possible for our customers, communities and regulators.

Customer organisation consolidation

We implemented a new customer organisational model during the final quarter of 2009/10 designed to increase our ability to deliver our customer objectives. The new organisation has been designed to be market driven and focused on delivering integrated energy solutions to our customers including energy efficiency. It will provide customers with a source for their energy needs while striving to continuously improve and benchmark performance.

Electricity Distribution & Generation continued

Financial performance

Adjusted operating profit was £116 million higher in 2009/10 than 2008/09 on a constant currency basis, an increase of 45% largely driven by lower storm costs as a result of the ice storm experienced in December 2008, higher generation profits which reflect the new rate filing and improved LIPA contribution partially offset by higher pass-through costs that primarily relate to the purchase of electricity. Further information is included below.

Financial results

The results of the Electricity Distribution & Generation segment for the years ended 31 March 2010, 2009 and 2008 were as follows:

	Years ended 31 March		
	2010 £m	2009 £m	2008 £m
Revenue excluding stranded cost recoveries	3,963	4,537	3,126
Operating costs excluding exceptional items and remeasurements	(3,589)	(4,272)	(2,796)
Adjusted operating profit	374	265	330
Exceptional items	(61)	(51)	(104)
Remeasurements	19	(109)	91
Stranded cost recoveries	369	426	379
Operating profit	701	531	696

2009/10 compared with 2008/09

The principal movements between 2008/09 and 2009/10 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2008/09 results	4,972	(4,441)	531
Add back exceptional items	–	51	51
Add back remeasurements	–	109	109
Add back stranded cost recoveries	(435)	9	(426)
2008/09 adjusted results	4,537	(4,272)	265
Exchange movements	(115)	108	(7)
2008/09 adjusted results at constant currency	4,422	(4,164)	258
Pass-through costs	(440)	411	(29)
Volume, price and weather	(9)	–	(9)
LIPA capital recovery	(29)	29	–
Generation	32	8	40
LIPA contribution	(19)	37	18
Storms	–	80	80
Other direct costs	–	(6)	(6)
Other	6	16	22
2009/10 adjusted results	3,963	(3,589)	374
Exceptional items	–	(61)	(61)
Remeasurements	–	19	19
Stranded cost recoveries	376	(7)	369
2009/10 results	4,339	(3,638)	701

Excluding stranded cost recoveries, revenue reduced by £459 million in 2009/10 on a constant currency basis compared with 2008/09. This was primarily due to lower pass-through costs, of which purchased electricity is the main component. These commodity costs are recovered in full from customers although the recovery of costs can occur in more than one financial year, resulting in a year-on-year operating profit impact.

Revenues also decreased compared with 2008/09 reflecting lower LIPA contribution and LIPA capital recovery partly offset by higher generation revenues. 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. Generation revenues increased following the reset of generation capacity charges as a result of the new FERC rate order filing. These changes were retrospectively applied to 1 February 2009.

Excluding stranded cost recoveries, operating costs decreased by £575 million on a constant currency basis. This was primarily due to lower purchased electricity costs as referred to above, lower storm costs as the levels of storm activity in 2009/10 were considerably lower than 2008/09 reflecting the impact of the December 2008 ice storm, and lower costs associated with LIPA distribution and generation.

Exceptional costs for 2009/10 primarily related to the electricity distribution operations transformation initiatives, environmental costs associated with site remediation in New England and New York, costs associated with US healthcare reform and merger integration costs which primarily relate to pension and retiree welfare plan amendments.

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

Comparability of our financial results between 2008/09 and 2007/08 is 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 LIPA capital recoveries, LIPA contribution and generation revenues reflecting the full year KeySpan contribution. Revenues from the generation business also increased compared with 2007/08 reflecting a full year KeySpan contribution. Generation revenues also increased following the reset of generation capacity charges which were retrospectively applied to January 2008. There is a corresponding increase in costs partly offsetting some of this benefit.

Revenues also increased compared with 2007/08 reflecting the pass-through of higher purchased electricity costs. The recovery of these costs is described opposite.

Excluding stranded cost recoveries, operating costs increased by £620 million on a constant currency basis. This was 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.

The £166 million decrease on a constant currency basis in adjusted operating profit 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 related to the electricity distribution operation's transformation initiatives and merger related integration costs.



Solar developments

In late 2009, the Massachusetts regulator approved National Grid's proposal to install approximately 5 MW of solar electricity generation – the biggest installation in the state. The largest of these projects is being constructed in Greater Boston, next to National Grid's multicoloured LNG tank. This was formerly a manufactured gas plant site and, as a result, the contaminated land has limited uses, making it an ideal site for a solar project. The site will include 6,300 solar panels spread over 6 acres of land, providing up to 1.3 MW of power.

Non-regulated businesses and other



Adjusted operating profit

£146m

(2008/09: £65m)

Capital investment

£307m

(2008/09: £427m)

Employees

3,533*

(2008/09: 3,597*)

LNG imported to the UK through Isle of Grain (tonnes)

3.4m

(2008/09: 1.2m)

* Excluding shared services employees

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.

Construction of phase III at our liquefied natural gas (LNG) importation terminal on the Isle of Grain continues on track for completion in winter 2010/11. The site currently has annual import capacity of 9.8 million tonnes and by winter 2010/11, 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, the OnStream portfolio of meters increased by approximately 627,000 assets, comprising approximately 410,000 gas and 217,000 electricity meters.

This section should be read in conjunction with the rest of this Operating and Financial Review.

About our non-regulated businesses

Our non-regulated businesses and other activities are located principally in the UK. For reporting purposes, they do not constitute a segment, but are instead reported within other activities.

Principal operations

In addition to our principal lines of business, other activities comprise the following other operations and corporate activities.

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 was the first new LNG importation terminal constructed in the UK for some 30 years, with construction divided into phases I and II (both fully operational) and III (under construction).

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 km subsea electricity link between The Netherlands and the UK.

xoserve

xoserve delivers transportation transactional services on behalf of all the major gas network transportation companies in Great Britain, including National Grid. xoserve is jointly owned by the five major gas distribution network companies and our UK Transmission business is the majority shareholder.

US non-regulated businesses

Includes LNG storage, LNG road transportation, unregulated transmission pipelines and West Virginia gas fields.

Fulcrum

Fulcrum operates across the UK mainland and offers multi-utility connections and environmental services for all customer categories. As a gas transporter, Fulcrum designs, constructs, owns and operates distribution systems.

Blue-NG

Blue-NG is a joint venture between National Grid and 20C Ltd to construct and operate a new type of highly efficient power station that makes use of the requirement to reduce pressure at pressure stations, while generating renewable electricity and heat.

Corporate activities and shared services function

Corporate activities comprise central overheads, insurance and expenditure incurred on business development.

Business drivers

The principal business drivers for our non-regulated businesses and other activities include the following:

Multi-year contractual arrangements

OnStream has a long-term contract with British Gas for the provision of gas and electricity meters (but see Current and future developments below), 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, due to be commissioned in winter 2010/11, 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

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. It retains a large share of the legacy installed base of gas meters in the UK and 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

To support the government's mandate to install smart meters in every home by 2020, OnStream has developed dual fuel smart capabilities. It has also developed an innovative smart metering solution and has secured its first dual fuel smart metering contract, all of which is designed to enable OnStream to become the smart metering provider of choice in the market.

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 80.

British Gas metering insourcing programme

British Gas, OnStream's most significant customer, has reviewed its strategy with regard to its metering operations and has decided to take some of these activities in-house. This decision

will adversely impact OnStream's future workload. However, meters fitted for British Gas customers continue to earn revenue for the life of the asset.

Performance against our objectives

National Grid's progress against the Company objectives is set out on pages 30 to 37. We include below further specific information with respect to the objectives that are closely aligned to our non-regulated businesses and other activities.

Driving improvements in our safety, customer and operational performance

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 a decrease in the total number of employee lost time injuries in non-regulated businesses and other activities to 11 in 2009/10 compared with 17 in 2008/09.

National Grid Metering has met 17 out of 18 standards of service in 2009/10 and 2008/09.

Expanding our capabilities and identifying new financeable opportunities to grow

We are on track to deliver on our capital investment programme for non-regulated businesses and other activities.

During 2009/10, we invested £307 million in our non-regulated businesses and other activities, £120 million lower than in 2008/09, which had been £44 million higher than in 2007/08.

We invested £121 million (2008/09: £137 million; 2007/08: £126 million) in our metering businesses. OnStream continued to invest in new and replacement meters, and smart metering capabilities. National Grid Metering invested in new and replacement meters.

We continued to invest in our Grain LNG facility, with capital expenditure of £117 million in 2009/10 compared with £213 million in 2008/09. The investment related mainly to 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 2009/10, we invested £69 million in the remaining non-regulated and other activities compared with £77 million in 2008/09. The 2009/10 investment consists of: £40 million within our US operations, principally hardware and software costs relating to SAP implementation; £15 million on our UK property business; £6 million within our xoserve business; and £4 million on both the US non-regulated and Fulcrum businesses.

In addition to the capital expenditure discussed above, we have invested a further £86 million (2008/09: £73 million; 2007/08: £21 million) in joint venture arrangements. The majority of this expenditure related to BritNed, in which we invested £60 million. During the year, work has progressed well on the construction of the link. The civil construction work at both converter station sites in the UK and The Netherlands is now largely complete and

Non-regulated businesses and other continued

work continues to install the electrical equipment. This work is progressing well and is on course for completion in the second half of 2010. Over 90% of the cable which will join the two converter stations has been manufactured, and activity during 2009 included the shore landing in The Netherlands and a section of cable off the UK coast. The shore landing in the UK and the remaining subsea cable lengths will be laid during 2010 in anticipation of the link being fully operational in the first quarter of 2011.

During 2009/10, £19 million was invested in the Blue-NG joint venture to enable finalisation of the development phase and commence construction (2008/09: £2.5 million). Construction contracts for the first two sites are in place and detailed design work is well under way.

Together with our Belgian counterpart, Elia, we are developing an electricity interconnector which will have a nominal capacity of 1,000 MW and is expected to be operational around 2017. The interconnector will comprise approximately 150 km of subsea cable and a converter station in each country connecting to the high voltage transmission systems.

In conjunction with our Norwegian counterpart, Statnett, we have announced plans to investigate further the feasibility of an electricity interconnector linking the UK and Norway. The link would have a nominal capacity of 1,000-1,500 MW and would be capable of allowing connections from offshore generators.

Financial performance

The results for non-regulated businesses and other activities for the years ended 31 March 2010, 2009 and 2008 were as follows:

	Years ended 31 March		
	2010 £m	2009 £m	2008 £m
Revenue	738	719	642
Operating income	3	31	67
Operating costs excluding exceptional items	(595)	(685)	(580)
Adjusted operating profit	146	65	129
Exceptional items	(87)	(64)	(57)
Operating profit	59	1	72

2009/10 compared with 2008/09

The principal movements between 2009/10 and 2008/09 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2008/09 results	750	(749)	1
Add back exceptional items	–	64	64
2008/09 adjusted results	750	(685)	65
Exchange movements	(3)	3	–
2008/09 constant currency results	747	(682)	65
Metering	3	26	29
Property	(31)	36	5
Grain LNG	63	(33)	30
US non-regulated businesses	(20)	27	7
Other activities	(21)	31	10
2009/10 adjusted results	741	(595)	146
Exceptional items	–	(87)	(87)
2009/10 results	741	(682)	59

Revenue and other operating income from non-regulated businesses and other activities decreased by £9 million in 2009/10. The principal reason for this was a decrease in revenue and other operating income in our Property business. Due to the ongoing downturn in the property market, we are not seeking to sell our non operational sites surplus to our requirements, as we believe that we can derive greater shareholder value by their retention. In addition, revenue and other operating income from our US non-regulated businesses was £20 million lower at constant currency, reflecting lower volumes of work together with reductions in gas prices.

Partially offsetting these reductions, revenue at Grain LNG was £63 million higher, reflecting the first full year of operations of phase II.

Operating costs excluding exceptional items decreased by £90 million in 2009/10 compared with 2008/09. Property costs were £36 million lower, reflecting our decision to defer sales of our surplus sites in current market conditions. Metering costs were £26 million lower, as a result of lower depreciation charges on our meters and lower meter workforce costs. In addition, operating costs at our US non-regulated businesses were £27 million lower at constant currency, due to lower volumes and gas prices. Offsetting these decreases, operating costs at Grain LNG were £33 million higher due to a full year of operations of phase II.

Contributions to adjusted operating profit included: £162 million (2008/09: £133 million) from Metering; £6 million (2008/09: £1 million) from Property; £51 million (2008/09: £21 million) from Grain LNG; and £3 million profit (2008/09: £4 million loss) from US non-regulated businesses.

Exceptional items of £87 million in 2009/10 included a £41 million charge in Metering relating to a £15 million fine levied upon us by the Gas and Electricity Markets Authority, and a further £26 million in respect of associated costs and provisions against receivables and other balance sheet items. For further information on this, please refer to note 28(f) on page 152. An environmental charge of £28 million has been recognised in our Property business as a result of changes in landfill tax legislation in the UK. Restructuring costs of £17 million have been incurred in our US

non-regulated businesses and corporate activities. In addition, £1 million has also been incurred in our US non-regulated businesses for US healthcare costs arising from recent legislative changes.

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	17	(17)	—
2007/08 constant currency results	726	(597)	129
Metering	7	22	29
Property	(49)	(43)	(92)
Grain LNG	33	(24)	9
US non-regulated businesses	51	(53)	(2)
Other activities	(18)	10	(8)
2008/09 adjusted results	750	(685)	65
Exceptional items	—	(64)	(64)
2008/09 results	750	(749)	1

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 and a £17 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, reflecting the significant decrease in property prices during 2008/09.

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 relate 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 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.



Grain LNG centre of excellence

Following further recent expansion, Grain LNG is one of the world's largest importation facilities making a vital contribution to UK energy supply security. The commercial arrangements in place are underpinned by long-term contracts with our customers, allowing them flexibility over how they use their contracted capacity. This model has enabled the investment needed in the facility, allowing the business to meet market and customer demands.

A further above ground tank and regasification plant as well as a second jetty have been built and will be operational by winter 2010/11. We are continuing to consult with the market to determine the level of interest in further growth.

Through Grain LNG, we have created a centre of excellence within LNG that will provide benefits for National Grid, its customers and shareholders, and the wider UK energy industry.

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 Funding and liquidity management on page 76 and in note 32(d) to the consolidated financial statements.

Financial position

Balance sheet

Our balance sheet at 31 March 2010 can be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment and non-current intangible assets	31,244	–	31,244
Goodwill and non-current investments	5,588	–	5,588
Current assets and liabilities	2,700	(3,541)	(841)
Other non-current assets and liabilities	162	(3,381)	(3,219)
Post-retirement obligations	–	(3,098)	(3,098)
Deferred tax	–	(3,324)	(3,324)
Total before net debt	39,694	(13,344)	26,350
Net debt	3,859	(25,998)	(22,139)
Total as at 31 March 2010	43,553	(39,342)	4,211
Total as at 31 March 2009	44,467	(40,483)	3,984

The increase in net assets from £3,984 million at 31 March 2009 to £4,211 million at 31 March 2010 resulted from: the profit for the year of £1,389 million; losses recognised directly in equity of £508 million; dividends payable net of scrip issues of £689 million; and other items totalling £35 million.

Net debt

Net debt decreased by £534 million from £22,673 million at 31 March 2009 to £22,139 million at 31 March 2010. Cash flow from operations of £4.5 billion was offset by capital expenditure of £3.2 billion, payment of dividends of £0.7 billion, and net interest paid of £1.0 billion, resulting in a net cash outflow of £0.4 billion. The impact of the movement in the dollar exchange rate on our dollar denominated debt and other fair value movements decreased net debt by £0.9 billion. A five year history of net debt is shown in figure 1.

At 31 March 2010, net debt comprised borrowings of £25,124 million (2009: £26,793 million) including bank overdrafts of £29 million (2009: £17 million), less cash and cash equivalents of £720 million (2009: £737 million), financial investments of £1,397 million (2009: £2,197 million) and derivative financial instruments with a net carrying value of £868 million (2009: £1,186 million).

The maturity of borrowings at 31 March 2010 is provided in note 21 to the consolidated financial statements and illustrated in figure 3. The maturity of net debt, defined as borrowings plus derivative financial liabilities, less cash and cash equivalents, current financial investments and derivative financial assets, is illustrated in figure 2.

Capital structure

The principal measure of our balance sheet efficiency is our interest cover ratio as described under financial discipline on page 38. Our target long-term 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 (NGET plc) and National Grid Gas plc (NGG plc).

Interest cover for the year ended 31 March 2010 increased to 3.9 from 3.1 for the year ended 31 March 2009. The increase occurred as a result of higher operating cash flows and lower interest payments.

Gearing at 31 March 2010 and 31 March 2009, calculated as net debt expressed as a percentage of net debt plus net assets shown in the balance sheet, amounted to 84% and 85% respectively. We do not consider that this standard gearing ratio is an appropriate measure of our balance sheet efficiency as it does not reflect the economic value of the assets of our UK and US regulated businesses.

In addition, we monitor the regulatory asset value (RAV) gearing within each of NGET plc and the regulated transmission and distribution businesses within 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 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 2010 and 31 March 2009. 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 which no longer has a RAV associated with it.

	2010 %	2009 %
RAV gearing		
Regulated transmission and distribution businesses within National Grid Gas plc	57	60
National Grid Electricity Transmission plc	56	58

Some of our regulatory agreements impose lower limits for the long-term senior unsecured debt 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. One of the key limits requires National Grid plc to hold an investment grade long-term senior unsecured debt credit rating. We believe that our aim of maintaining single A range long-term senior unsecured debt credit ratings within our main UK operating companies is consistent with this.

Rights issue

On 19 May 2010, the Board resolved to offer a fully underwritten rights issue to raise approximately £3.2 billion, net of expenses. The proceeds are expected to be used to fund a portion of our capital investment programme and for general corporate purposes. The capital raised will allow us to increase our capital investment in the UK significantly, and assist in maintaining single A credit ratings for our UK operating companies, thereby improving our long-term competitive position.

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 89) 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 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.

Commodity derivatives entered into in respect of gas and electricity commodities are used in support of the operational requirements of the business and the policy regarding their use is explained on page 78.

Current condition of the financial markets

During 2009/10, there has been a partial recovery in the global economic situation, following the crisis in the banking system, the failure of individual banks and increased restrictions on lending across the capital and money markets in 2008/09. Credit spreads have narrowed significantly. With our low risk business model and cash flows that are largely stable over a period of years, we were able to access the markets during 2008/09 and have continued to do so in 2009/10, having issued £1,993 million of long-term debt into the capital markets. In addition, we have issued £119 million of commercial paper, all of which remained outstanding as at 31 March 2010. At 1 April 2009, we had drawn down £105 million of uncommitted bank lines for short-term liquidity purposes, all of which was repaid by 31 March 2010. We remain confident of our ability to access the public debt markets in the future. The cost of our new long-term debt has fallen over the last few years, decreasing from around 6.7% in 2007/08 to around 4.6% in 2009/10. This reflects the increase in credit spreads demanded by lenders more than offset by the fall in headline interest rates.

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 cash flows. However, in the US our short-term cash flows are dependent on the price of gas and electricity and the timing of customer payments. 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 abnormally mild or extreme weather or economic conditions affecting the level of demand, can affect cash inflows in particular. In addition, our cash flows arising in the US are exposed to movements in the 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 78.

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 seek to

£43.6bn

Total assets

£4.2bn

Net assets

£22.1bn

Net debt

3.9x

Interest cover

Figure 1 - Net debt at 31 March
£bn

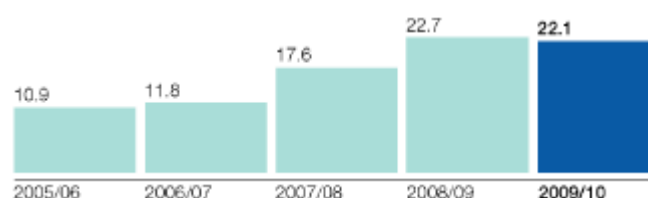


Figure 2 – Maturity of net debt at 31 March 2010
£bn

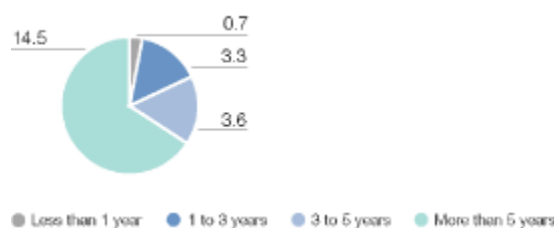
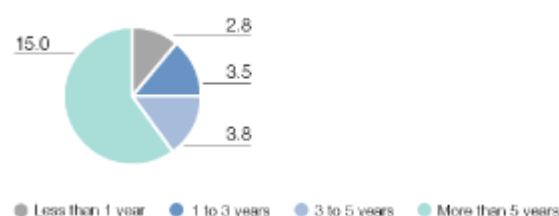


Figure 3 – Maturity of borrowings at 31 March 2010
£bn



Financial position and financial management continued

enhance our cash flow forecasting processes on an ongoing basis. Cash flow forecasts, supplemented by a financial headroom analysis, are monitored 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 undertake transactions between certain subsidiary companies including paying dividends, lending cash and levying charges. 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 to facilitate long- and short-term debt issuance into the capital and money markets. National Grid plc also has a Securities and Exchange Commission registered debt shelf in place to facilitate long-term debt issuance specifically into the US capital markets. The table below shows the programmes we had as at 31 March 2010, together with the level of utilisation of each:

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	£94 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	€9.0 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	€5.7 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

At 31 March 2010, we had signed a £360 million index-linked loan agreement with the European Investment Bank, of which £60 million had been drawn. Since that date a further £180 million has been drawn, and the remaining £120 million will be drawn by 30 June 2010.

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 or other specific debt issuances. These have never been drawn and there is currently no intention to draw them in the future.

During the year, the \$850 million short-term committed facility within National Grid plc expired and was renewed at a slightly reduced level and now stands at \$810 million. National Grid USA is also a named borrower under this facility, which includes an option to draw down under the facility for a fixed term of up to 12 months.

The table below shows the bank facilities we had as at 31 March 2010. None of the committed facilities were drawn at any time during the year.

Facility	Amount
National Grid plc and National Grid USA	
Short-term committed facilities	\$810 million
National Grid plc	
Long-term committed facilities	£830 million
Long-term committed facilities	\$280 million
National Grid Gas plc	
Long-term committed facilities	£700 million
National Grid Electricity Transmission plc	
Long-term committed facilities	£425 million
National Grid's US subsidiaries	
Committed facilities	\$530 million
National Grid plc and certain subsidiaries	
Uncommitted borrowing facilities	£528 million

Note 34 to the consolidated financial statements shows the maturity profile of undrawn committed borrowing facilities in sterling at 31 March 2010.

To facilitate debt issuance into the capital and money markets, many of the companies within National Grid maintain credit ratings. At 31 March 2010, the long-term senior unsecured debt and short-term debt credit ratings respectively provided by Moody's Investor Services, Standard & Poor's and Fitch Ratings were as follows (all with outlooks of stable):

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	A3	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

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. Details relating to cash, short-term investments and other financial assets at 31 March 2010 are shown in notes 14 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 28 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.

Following the Board resolving to offer a fully underwritten Rights Issue for approximately £3.2 billion, net of expenses, due to be announced on 20 May 2010, and assuming its successful completion, we are of the opinion that it will not be necessary to raise additional funding for working capital purposes in the 12 month period from the date of this Annual Report. However, in line with our normal treasury practice we may continue to access the markets in order to manage actively our debt portfolio, optimise our finance costs and manage our refinancing risk.

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.

More details on derivative financial instruments are provided in note 17 to the consolidated financial statements.

Refinancing risk management

The Board controls refinancing risk mainly by limiting the amount of debt maturities 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, with the total contracted borrowings maturing over 49 years. This shows that, at 31 March 2010, we have £2.8 billion of debt maturing in 2010/11, and no more than £2.1 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 2010.

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 preset limits with a high degree of certainty.

Some of the bonds in issue from NGET plc and NGG plc are inflation-linked, that is their cost is linked to changes in the UK retail price index (RPI). We believe that these bonds provide an appropriate hedge for revenues and our regulatory asset values that are also RPI linked under our price control formulae in the UK.

A3/BBB+

Moody's/S&P senior unsecured ratings for National Grid USA

A3/A-/A

Moody's/S&P/Fitch senior unsecured ratings for NGG plc and NGET plc

Baa1

Moody's senior unsecured rating for National Grid plc

BBB+

S&P and Fitch senior unsecured ratings for National Grid plc

Figure 4 – Interest rate profile pre-derivatives at 31 March 2010 %

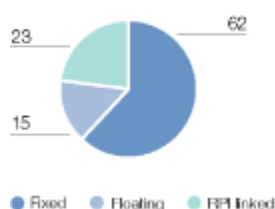


Figure 5 – Interest rate profile post-derivatives at 31 March 2010 %

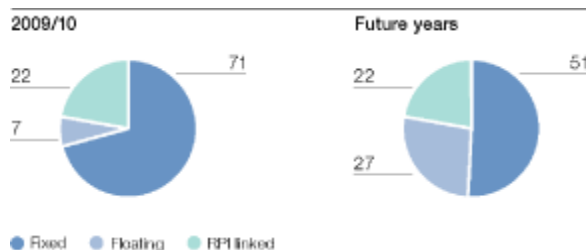
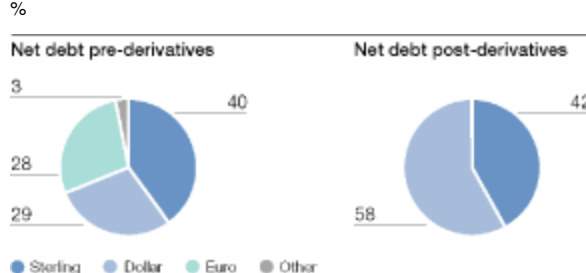


Figure 6 – Currency profile at 31 March 2010 %



Financial position and financial management continued

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 set ratios 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.

Figure 4 on page 77 shows the interest rate profile of our net debt before derivatives.

Figure 5 on page 77 shows the impact, as at 31 March 2010, of derivatives on our net debt for 2010/11 and for future years. The 2010/11 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.

Within the constraints of our interest rate risk management policy, and as approved by the Finance Committee, we actively manage our interest rate exposure and therefore the interest rate profile shown at 31 March 2010 will change over time.

In 2010/11, we expect our financing costs to continue to benefit from low short-term interest rates, some of which have already been locked in using short-term interest rate derivatives although we expect this to be offset by higher UK inflation affecting our index-linked debt.

More information on the interest rate profile of our debt is included in note 32 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 dollars. In relation to these risks, our objective is to maintain the ratio of dollar denominated financial liabilities to 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 dollars against the servicing of those liabilities.

We have a policy of managing our foreign exchange transaction risk by hedging contractually committed foreign exchange transactions occurring in currencies other than the 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 exposures on borrowings in currencies other than sterling and the 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/dollar, as shown in figure 6 on page 77.

More details can be found in note 32 to the consolidated financial statements.

Counterparty risk management

Counterparty risk arises from the investment of surplus funds, from the use of derivative instruments including commodity contracts, and from commercial contracts entered into by the businesses. 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 credit rating agencies. National Grid's exposure to individual counterparties is monitored daily and counterparty limits are regularly updated for changes in credit ratings. We have a central treasury department, which is responsible for managing the policy. Where business areas enter into contracts carrying credit risk, 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 in relation to that counterparty. When transacting interest rate and exchange rate derivatives, 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.

Further information on the management of counterparty risk is provided in note 32 to the consolidated financial statements.

Valuation and sensitivity analysis

We calculate the fair value of debt and financial derivatives by discounting all future cash flows by the market yield curve, at the balance sheet date, including the credit spread for debt, and, in the case of financial derivatives, 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, 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 32 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.

	2009/10		2008/09	
	Income statement	Other equity reserves	Income statement	Other equity reserves
	£m	£m	£m	£m
UK retail price index $\pm 0.50\%$	17	–	17	–
UK interest rates $\pm 0.50\%$	51	71	67	77
US interest rates $\pm 0.50\%$	52	14	63	13
US dollar exchange rate $\pm 10\%$	68	623	55	880

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 pre-defined 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. In the US, we also sell gas produced by our West Virginia gas fields.

In the US, we also have a management contract with ConocoPhillips, under which we and ConocoPhillips share the responsibilities for managing upstream gas distribution assets associated with our Massachusetts gas distribution operations, as well as providing city gate delivered supply. This contract allows for both parties to employ derivative instruments to maximise the profitability of the portfolio of gas distribution assets. Profits associated with these activities are shared between us, ConocoPhillips and our customers in Massachusetts. This contract expires on 31 March 2011.

In our UK gas transmission operations, 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 pre-defined locations. Where, on the day, the gas transmission system's capability is constrained, such that gas is prevented from entering the system for which entry capacity rights have been sold, then UK gas transmission is required to buy back those entry capacity rights sold in excess of system capability. Forward and option contracts are used to reduce the risk and exposure to on-the-day entry capacity prices.

Our UK electricity transmission operations have also entered into electricity options, pursuant to the requirement to stabilise the electricity market in Great Britain through the operation of the British Electricity Trading and Transmission Arrangements (BETTA). The 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 national electricity transmission system operator role.

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 include contractual commitments to purchase energy under long-term contracts amounting to £3,535 million as at 31 March 2010 (2009: £3,645 million) of which £1,566 million is due within one year (2009: £990 million). Further information is included in note 28 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 £51 million (2009: £35 million), recorded as assets in our balance sheet and contracts with a negative value of £228 million (2009: £155 million) recorded as liabilities.

Commodity purchase contracts accounted for as derivatives include contracts for the forward purchase of electricity that reverted 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 £127 million liability at 31 March 2010 (2009: £121 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 under commodity remeasurements with the exception of those related to our West Virginia gas fields that are designated as cash flow hedges.

We use NYMEX electricity and natural 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 2010 of £41 million (2009: £59 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.

In addition, we 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 2010 of £45 million (2009: £190 million).

We also utilise over-the-counter gas swaps in the US to hedge the cash flow variability associated with forecast sales of a portion of gas production from our West Virginia gas fields. At 31 March 2010, we had hedge positions in place for approximately 54% of our estimated 2010 and 2011 gas production (2009: 66% of our estimated 2009 and 2010 gas production), net of gathering costs. We use forward prices from a third party vendor to value these swap positions.

Sensitivity analysis

As described in note 33(d) to the consolidated financial statements, movements in commodity prices would have the following estimated impact on the financial statements in the value

Financial position and financial management continued

of commodities. This analysis does not take account of any change in the composition of our commodity portfolio.

	2009/10		2008/09*	
	Income statement £m	Other equity reserves £m	Income statement £m	Other equity reserves £m
10% increase in commodity prices	71	(1)	33	(1)
10% decrease in commodity prices	(64)	1	(43)	1

* Prior year comparatives have been restated to be consistent on a post-tax basis

Commitments and contingencies

Commitments and contingencies outstanding at 31 March 2010 and 2009 are summarised in the table below:

	2010 £m	2009* £m
Future capital expenditure contracted but not provided for	1,738	1,626
Total operating lease commitments	926	1,085
Power commitments	3,535	3,645
Other commitments, contingencies and guarantees	2,119	1,846

* Comparatives have been restated to present items on a basis consistent with the current year classification

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 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 2010

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 2010 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 2010 and does not reflect future debt issues. Floating-rate interest has been estimated using future interest rate curves at 31 March 2010.

	Less than 1 year £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m
Financial liabilities					
Borrowings	2,390	3,422	3,707	15,220	24,739
Interest payments on borrowings	915	1,719	1,412	8,417	12,463
Finance lease liabilities	30	73	34	135	272
Other non interest-bearing liabilities	2,287	265	–	–	2,552
Derivatives payments	859	1,568	575	1,299	4,301
Derivatives receipts	(1,027)	(1,820)	(1,022)	(1,213)	(5,082)
Commodity contracts	488	203	64	37	792
Other contractual obligations					
Capital commitments	1,376	284	67	11	1,738
Operating leases	91	163	172	500	926
Energy commitments	1,566	1,064	627	278	3,535
Total at 31 March 2010	8,975	6,941	5,636	24,684	46,236

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 2010

We were not party to litigation that we considered to be material as at 31 March 2010. Save as set out below, there have been no governmental, legal or arbitration proceedings in the last 12 months which may have or have had significant effects on the Company's financial position or profitability.

Metering competition investigation

On 25 February 2008, the Gas and Electricity Markets Authority (GEMA) announced it had decided we breached Chapter II of the Competition Act 1998 and Article 82 (now Article 102) of the Treaty of the Functioning of the European Union and fined us £41.6 million. We appealed GEMA's decision to the Competition Appeal Tribunal (the Tribunal), which upheld the appeal in part in April 2009 and reduced the fine to £30 million. We appealed further to the Court of Appeal in respect of certain aspects of the Tribunal's judgement. On 23 February 2010, in a reserved judgement, the Court of Appeal decided that it would not interfere with the judgement of the Tribunal save that it further reduced the fine to £15 million. On 22 March 2010, we applied to the Supreme Court for leave to appeal the Court of Appeal's judgement.

As at 31 March 2010, we have provided for the fine together with associated costs and have provided against certain trade receivables and other balance sheet items. Without prejudice to our position in relation to appealing the Court of Appeal's judgement, the £15 million fine was paid to GEMA on 1 April 2010.

Gas Distribution mains replacement investigation

In October 2008, we informed Ofgem that mains replacement activity carried out by the UK Gas Distribution business may have been misreported. Ofgem's investigation continues, so that at present it is too early to determine the likely outcome of the investigation and any potential consequences as a result of it, including the quantum of any amounts that may become payable.

KeySpan Department of Justice investigation

As previously reported, in May 2007 KeySpan received a civil investigative demand (CID) from the Antitrust Division of the United States Department of Justice (DOJ), 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. In April 2008, we received a second CID in connection with this matter.

On 22 February 2010, DOJ filed a proposed final judgement in the US District Court for the Southern District of New York. Under the terms of the proposed settlement, DOJ and KeySpan have agreed that KeySpan will pay \$12 million in full and final resolution of DOJ's CIDs. This agreement contains no admissions of wrongdoing by KeySpan and remains subject to court approval, which is currently anticipated later in 2010.

KeySpan class action

On 18 March 2010, a putative class action was commenced against KeySpan and Morgan Stanley in the Supreme Court for the State of New York in Bronx County. The complaint alleges four causes of action based on the core allegation that the financial swap transaction between KeySpan and Morgan Stanley dated 18 January 2006 caused customers of Consolidated Edison, Inc. to overpay for electricity between May 2006 and February 2008. The complaint seeks compensatory damages of not less than \$160 million, as well as punitive damages plus legal costs. We believe that the complaint and its allegations are without merit.

Related party transactions

We provide services to and receive services from related parties, principally joint ventures. In the year ended 31 March 2010, we charged £5 million and received charges of £74 million from related parties (other than Directors) compared with £4 million and £44 million in 2008/09 and £3 million and £33 million in 2007/08.

Further information relating to related party transactions is contained within note 29 to the consolidated financial statements. Details on amounts paid to Directors are included within the Directors' Remuneration Report on pages 98 to 108.

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 health care and life insurance coverage to eligible retired employees. Eligibility is based on certain age and length of service requirements and in most cases retirees must contribute to the cost of their coverage.

Net pension and other post-retirement obligations

The following table summarises the pension and other post-retirement obligations recorded in the consolidated financial statements:

Net plan asset/(liability)	UK £m	US £m	Total £m
As at 1 April 2009	(154)	(2,657)	(2,811)
Exchange movements	–	140	140
Current service cost	(50)	(88)	(138)
Expected return less interest	(76)	(136)	(212)
Curtailments, settlements and other	(17)	(38)	(55)
Actuarial gains/(losses)			
– on plan assets	2,420	772	3,192
– on plan liabilities	(3,038)	(885)	(3,923)
Employer contributions	269	440	709
As at 31 March 2010	(646)	(2,452)	(3,098)
Plan assets	14,883	4,253	19,136
Plan liabilities	(15,529)	(6,705)	(22,234)
Net plan liability	(646)	(2,452)	(3,098)

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 liabilities principally as a consequence of using lower discount rates to calculate the present value of these obligations, partially offset by actuarial gains on plan assets.

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 29.4% of pensionable payroll.

The last completed full actuarial valuation of National Grid Electricity Supply Pension Scheme was as at 31 March 2007. This concluded that the pre-tax funding deficit was £405 million on the basis of the funding assumptions. Employer cash contributions for the ongoing cost of this plan are currently being made at a rate of 20.5% of pensionable payroll.

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 £59 million during 2009/10 which ensured that the deficit reported at the 2007 valuation was paid in full; and
- National Grid Electricity Supply Pension Scheme: the Company made deficit contributions of £90 million during 2009/10 and anticipates no further payments in the year to 31 March 2011, in line with the recovery plan.

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 £414 million to these plans during 2010/11.

Plan assets

Our plans are trustee administered and the trustees are responsible for setting the investment strategy and monitoring investment performance, consulting with us where appropriate.

Accounting policies

Basis of accounting

The consolidated financial statements present our results for the years ended 31 March 2010, 2009 and 2008 and our financial position as at 31 March 2010 and 2009. 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

IFRS provides certain options available within accounting standards. Material choices we have made, and continue to make, 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.

Customer contributions

Contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.

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.

Timing of goodwill impairment reviews

Goodwill impairment reviews are carried out annually in the final quarter of the financial year.

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.

Certain accounting policies, described below, 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 the consolidated financial statements on pages 112 to 117.

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 2010 are estimated at £415 million in the US and £308 million in the UK compared with £522 million and £315 million respectively at 31 March 2009.

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.

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 other comprehensive income or by being offset by adjustments to the carrying value of debt.

Exceptional items, remeasurements and stranded cost recoveries

Exceptional items, remeasurements and stranded cost recoveries 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 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, significant changes in environmental or decommissioning provisions, integration of acquired businesses and gains or losses on disposals of businesses or investments.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and of derivative financial instruments. These fair values increase or decrease as a consequence of changes in commodity and financial indices and prices over which we have no control.

Stranded cost recoveries 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 generation assets.

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.

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. 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.

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 is that 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.

Provisions

Provisions are made for liabilities, the timing and amount of which is uncertain. These include provisions for the cost of environmental restoration and remediation, decommissioning of nuclear facilities we no longer own but to which we still have a responsibility to contribute, 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 amounts and timing of cash flows relating to these liabilities are based on management estimates supported by external consultants.

Pensions and other post-retirement obligations

Pensions and other post-retirement benefit obligations recorded in the balance sheet 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 to calculate the present value of the obligation.

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.

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 judged 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:

Revenue accruals

A 10% change in our estimate of unbilled revenues at 31 March 2010 would result in an increase or decrease in our recorded net assets and profit for the year by approximately £47 million net of tax.

Asset useful lives

An increase in the economic useful lives of assets of one year on average would reduce our annual depreciation charge on property, plant and equipment by £39 million (pre-tax) and our annual amortisation charge on intangible assets by £7 million (pre-tax).

Hedge accounting

If using our derivative financial instruments, hedge accounting had not been achieved during the year ended 31 March 2010 then the profit after tax for the year would have been £341 million higher than that reported net of tax, and net assets would have been £299 million lower.

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 £87 million and £22 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 £171 million.

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 £317 million, £166 million and £670 million and a change in the annual pension cost of £4 million, £8 million and £5 million respectively.

Accounting developments

Accounting standards, amendments to standards and interpretations adopted in 2009/10

In preparing our consolidated financial statements we have complied with International Financial Reporting Standards, International Accounting Standards and interpretations applicable for 2009/10. The standards, amendments to standards and interpretations adopted during 2009/10 are discussed in the consolidated financial statements on page 118. None of these resulted in a material change to our consolidated results, assets or liabilities in 2009/10 or in those of previous periods.

Accounting standards, amendments to standards and interpretations not yet adopted

New accounting standards, amendments to standards and interpretations which have been issued but not yet adopted by National Grid are discussed in the consolidated financial statements on page 119.

Corporate Governance

Chairman's foreword

In 2009, the Financial Reporting Council (FRC) issued a number of consultations looking at areas for improvement to governance practices in the UK's largest companies. National Grid has participated fully in these consultations and used them as an opportunity to consider further the governance and effectiveness of its Board and Committees. Good corporate governance is at the heart of the Company's drive to deliver shareholder value. We aim to be at the forefront of best practice in order to promote the success of the business using the Combined Code on Corporate Governance, soon to be updated and renamed the UK Corporate Governance Code, as a guide to the components of good practice.

As a Board, my fellow Directors and I are committed to the highest standards of corporate governance. As you would expect, we do not always do this as stand-alone items on our agendas, but instead we consider good governance to be part of our ongoing decision-making process. By embedding strong governance into our routine processes, we are doing our utmost to secure the future wellbeing of the Company.

Our review of the December 2009 FRC Consultation on the revised UK Corporate Governance Code, which primarily captures the lessons learned from the governance failures of the UK's banking and financial institutions that can be applied to the benefit of all companies, showed that National Grid is in a strong position to comply with the provisions of that Code. However, as would currently be the case with the Combined Code, if we do not think compliance with a particular provision is in the best interests of the Company or our shareholders we will of course explain our good reasons for this.

For many years now, in recognition of the Company's risk profile we have had, in addition to the required Audit Committee, both a separate Risk & Responsibility and a Finance Committee, see pages 89 and 90. These Committees probe into a considerable range of operational and financing issues that impact safety, health, environment, sustainability, policies and control mechanisms. These debates lead to direct reporting of findings and recommendations to the Board following each meeting.

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. This year an external specialist in global corporate governance reviewed the process and I am proud to report that he concluded that we are in line with top quartile best practice globally, see page 86.

The Nominations Committee continues to consider if the Board has the right breadth of skills, experience and domain knowledge to secure the necessary level of challenge on key business decisions and risks that confront the Company, together with appropriate insight to enhance executive performance. It also considers Non-executive Director attendance at meetings and time spent on Company business and the influence and ability of each Non-executive Director to challenge the Executive Directors. I believe the Board continues to be focused on sound governance practices and that we have the right composition and skillset in our Directors to ensure the Board performs effectively, to enable us to respond to the challenges we face. To further enhance our processes, we will introduce annual re-election of the Chairman and all Directors from the 2010 Annual General Meeting (AGM) onwards.

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 2008 (the Code), currently applicable to UK listed companies until the UK Corporate Governance Code becomes effective. The Company also has regard to, and regularly reviews, developing corporate governance best practice including matters contained in various investor guidelines.

The Board considers that it complied in full with the provisions of the Code during the year. While Bob Catell is not considered to have been independent during his period as a Non-executive Director from 1 April to 27 July 2009, throughout the year at least half the Board, excluding the Chairman, comprised Non-executive Directors determined by the Board to be independent.

This report explains key features of the Company's governance structure and how it applies the principles of the Code. Areas required to be covered under the Disclosure and Transparency Rules can be found in this report and in the Directors' Report on pages 96 and 97.

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. As a result of this review, the Delegations of Authority were amended in September 2009 primarily with respect to US rate plans, operating expenditure and one of our operational subsidiaries. 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; approval of shareholder documents and results announcements; consideration of dividend policy and payments; and 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 the Company's governance, are available on our website at www.nationalgrid.com.

The Board during the year was composed as set out in the following table. The Board currently consists of a Non-executive Chairman, 5 Executive Directors and 7 Non-executive Directors determined by the Board to be independent. Balance is considered a key requirement for the composition of the Board, not only in terms of the Executives and Non-executives but also with regard to the mix of skills, experience and knowledge. Biographical details for all the Directors can be found on pages 12 and 13 together with details of Board Committee memberships. Attendance at Board meetings was as indicated from a total of 10 meetings:

Name	Attendance*
Chairman	
Sir John Parker	10 of 10
Chief Executive	
Steve Holliday	10 of 10
Executive Directors	
Mark Fairbairn	10 of 10
Tom King	10 of 10
Steve Lucas	9 of 10
Nick Winsor	10 of 10
Non-executive Directors	
Ken Harvey (Senior Independent Director)	10 of 10
Linda Adamany	10 of 10
Philip Aiken	10 of 10
John Allan	9 of 10
Stephen Pettit	10 of 10
Maria Richter	10 of 10
George Rose	7 of 10
Bob Catell (Deputy Chairman to 27 July 2009)	3 of 3

* 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 the business and accordingly can contribute to meetings. Directors are informed of proposed meeting dates well in advance.

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 for their non attendance recorded. Should any Directors be unable to attend a meeting, they are encouraged to communicate their opinions and comments on the matters to be considered via the Chairman of the Board or the relevant Committee chairman. 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. Guidelines are in place concerning the content, timeliness and preferred presentation of papers to ensure Directors are briefed appropriately.

In addition to the performance evaluation described on page 86, 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 at the Annual General Meeting (AGM). In accordance with the Articles of Association, Directors would normally submit themselves for re-election by shareholders at the first AGM following their initial appointment to the Board and then at subsequent AGMs at least once every three years. In accordance with investor guidelines, all Directors will seek re-election in 2010 as set out in the Notice of 2010 AGM. The Board has also decided, consistent with emerging best practice, that all Directors will seek re-election annually thereafter.

As referenced in the Consultation on the revised UK Corporate Governance Code, we welcome and support the view that a perceived lack of independence, in particular due to length of tenure, should not be considered an impediment for re-election where the individual brings clear skills, experience and knowledge to the Board.

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 98 to 108. The Board continues to note and monitor possible conflicts of interest that each Director may have. Potential conflicts are considered and, if appropriate, approved and noted, with the conflicted Director not voting on the matter. Directors are reminded of their continuing obligations in relation to conflicts at each Board meeting. During the year ended 31 March 2010, the Board has authorised a number of situations advised to it by the Directors, most of which are the holding of directorships or similar offices with companies or organisations not competing with the Company. The Board has not, in relation to any of those situations, identified any actual conflict of interest and has authorised such situations in accordance with its powers.

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. 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 Non-executive Directors, in their letters of appointment, have each committed individually to allocate sufficient time to Company business to meet the expectations of the role. The agreement of the Chairman should be sought before Non-executive Directors accept additional commitments that might affect the time they are able to devote to the Company. The Board in its deliberations specifically took into consideration the Code and examples of indicators of potential non independence including length of service. Following such evaluation, each of the Non-executive Directors at year end has been determined by the Board to be independent notwithstanding that Ken Harvey and George Rose have served on the Board for more than nine years when including their appointments as directors of Lattice Group plc. The Board believes they have retained independent character and judgement. The Board considers that the varied and relevant experience of all the independent Directors combines to provide an exceptional balance of skills and knowledge which is of great benefit to the Company.

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 ensuring, for example, that the forward agendas are appropriate, that relevant business is brought to the Board for consideration in accordance with the schedule of matters reserved to 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

Corporate Governance continued

contracted hours. The number and perceived responsibility of other directorships are considered annually 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. His responsibilities include leading the Non-executive Directors' annual consideration of the Chairman's performance and holding discussions with Non-executive Directors without Executive Directors or other members of 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 involved with ongoing development of all Directors. This includes a discussion on any personal development needs at the one-to-one meetings held with the Chairman as part of the Board and Board Committee performance evaluation. 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 the Company's 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 them of legal and corporate governance updates and best practice; and
- management presentations.

For Executive Directors, coaching and development programmes include:

- external coaching;
- 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: Steve Holliday, the Chief Executive, 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 Stagecoach Group plc and, previously in the year but not simultaneously, Aga Rangemaster Group plc. The fees for these positions are retained by the Directors and the Company Secretary & General Counsel respectively and details for Directors are on page 102.

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, at the Company's expense, 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

Continuous improvement and development of Board and Board Committee processes and procedures is key to ensuring that National Grid's governance structures remain in line with best practice. Since 2003/04, an internal process has been established for evaluating the performance of the Board, Board Committees and individual Directors. Each year the Nominations Committee reviews the appropriateness of the internal process and considers if an external party should be engaged to facilitate and/or perform the annual evaluation. Although the Committee agreed the internal review remains robust it determined that a review of international best practice may provide assurance that the Company's process remains at the forefront of best practice, and potentially provide insights into how the process could be further improved. Subsequent to this decision, the Consultation on the revised UK Corporate Governance Code proposed the use of an external facilitator to undertake the evaluation of board performance at least every three years.

Professor Andrew Kakabadse, Professor of International Management Development, Cranfield School of Management, presented a paper in January 2010 to the Board. The presentation entitled Chairman and Global Board Best Practice: An International Investigation summarised Professor Kakabadse's research over the past decade through interviews with non-executive directors, CEOs, chairs and executive directors from around the globe, including the UK, US, Australia, Germany, Russia, China and South Africa. The discussion provoked debate and ideas on how the internal process could be updated in future years. Professor Kakabadse also reviewed the Company's current evaluation process and concluded that it was in line with top quartile best practice globally.

The 2009/10 process was led by the Chairman, assisted by the Company Secretary & General Counsel, and consisted of a confidential survey which invited anonymous comments. It was completed by all Directors in relation to the Board and all Committees of which they are a member. The Board survey focused on a number of key areas including Board size, composition, training, governance, performance and operation. One-to-one meetings were then held between the Chairman and each Director (Executive and Non-executive) together with a separate Non-executive Director only informal meeting, this element having been introduced in 2008/09. In addition, regular attendees at Committee meetings were also asked to complete surveys in relation to the relevant Committees.

The Company Secretary & General Counsel collated the survey results, together with any key issues arising out of the one-to-one meetings with the Chairman and the separate Non-executive Directors' meeting, and incorporated these into an action plan for 2010/11. In accordance with established practice the results were considered first by the Nominations Committee and then by the Board and each Committee, which each reviewed the matters highlighted by the evaluation, the formal response and the action plan. During the year, the action plan is monitored actively. Actions arising in last year's survey were implemented throughout 2009/10 and included: greater emphasis on inclusion and diversity and strategic business trends analysis on business agendas; improved use of video conferencing; and earlier issue of Board and Board Committee papers.

The 2009/10 results showed improvement on the previous year's Board and Board Committee performance and no major changes were required to associated processes and procedures.

However, valuable actions to be addressed over the coming year include:

- enhancement of the Non-executive Directors' familiarity and interaction with each line of business;
- development of a more standard presentation format for in depth line of business reviews, in order to promote consistency and ease of comparison; and
- greater transparency of key performance indicator data provided to the Board.

The Chairman's performance was reviewed and his leadership and performance were considered to have been of a high standard.

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, financial policy 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 to the Board, a full description of which are available on our website at www.nationalgrid.com, certain items of strategic, operational 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;
- reports from the Board Committees; and
- updates on the governance of the Company and its businesses and any legal or new risk issues that the Board should be aware of.

In order to have the opportunity to discuss matters, for example relating to governance, independently of management, the Chairman and other Non-executive Directors meet formally at least once a year without Executive Directors or other members of management present. The Chairman and Non-executive Directors also meet formally at least once a year with the Chief Executive. Ad hoc meetings may also be held as required.

In order to operate effectively and to give appropriate attention and consideration to matters, 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 responsibilities of each Board Committee and the areas that they covered during the year.

Audit Committee

Key functions of the Audit Committee include reviewing: the Company's financial reporting and internal controls and their effectiveness; 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, whose members are all independent Non-executive Directors, 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 and to answer questions. Accordingly, others invited to attend meetings include the Chairman, Chief Executive, Finance Director, director of corporate audit, financial controller, Company Secretary & General Counsel, chief accountant and external auditors. Additionally, the Executive Directors, global director of tax and treasury and global head of risk management 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 2009/10 from a total of six meetings:

Name	Attendance*
George Rose (chairman)	6 of 6
Linda Adamany	6 of 6
Philip Aiken	5 of 6
Maria Richter	5 of 6

* Attendance is expressed as number of meetings attended out of number possible for the individual Director

Due to the technical nature of some of the financial and accounting issues that come before it, all the Committee's

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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 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, the principal matters considered by the Committee during the year ended 31 March 2010 included:

- a review of the level and constitution of external audit and non-audit fees and the independence and objectivity of the external auditors, including an evaluation of the external audit process globally, incorporating a review of the expertise of the audit firm;
- monitoring and reviewing the effectiveness of internal (corporate) audit activities, including discussions with the director of corporate audit without management present;
- reviewing the effectiveness of the Company's financial reporting, internal controls and compliance with applicable legal requirements and monitoring risk and compliance management procedures across the Company and reviewing specific risks (details of such risks can be found on pages 93 to 95);
- receiving reports from the business separation compliance officer, as required under National Grid Gas plc's gas transporter licences;
- 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 a review of the whistleblowing policy; 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 Company has established procedures whereby any employee may, via a confidential helpline, raise concerns relating to personal issues, potential fraud, health and safety, harassment, discrimination, security or any other matter. The Company is confident that these whistleblowing arrangements are satisfactory and will enable a proportionate and independent investigation of such matters and appropriate follow up action to be taken.

The Committee has established procedures to ensure that submissions by Company employees arising from the Company's whistleblowing policy, including those relating to questionable accounting or auditing matters utilised by the Company, are treated confidentially and anonymously and are reported in summary to the Committee. It also ensures that matters relating to business conduct and other subjects within the Risk & Responsibility Committee's terms of reference are reported appropriately.

The Committee works closely with both the corporate and external auditors. In relation to the corporate auditors, it receives, reviews and approves the corporate audit plan and ensures that

the corporate audit function has sufficient resources to carry out its work. The appointment and removal of the director of corporate 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 preapproval. The engagement of the external auditors for non-audit services is restricted by the Sarbanes-Oxley Act 2002 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 in the year ended 31 March 2010 related primarily to tax and audit related work and work in connection with our rights issue. Details of the fees paid to the external auditors for non-audit work carried out during the year can be found in note 2 to the consolidated financial statements on page 129.

In addition to the annual review of the service provided by the external auditors, the Committee considers at least every three years if the audit might be provided more efficiently or effectively by an alternative audit firm. As a result, the Company may put the audit out to tender. Following the latest annual review, the Committee is satisfied with the effectiveness, objectivity and independence of the external auditors and they will be recommended to shareholders for reappointment at the AGM. There are no contractual obligations restricting the Company's choice of external auditors and no auditor liability agreement has been entered into by the Company. The external auditors are required to rotate the audit partner responsible for the Company every five years and the current lead audit partner is stepping down on this basis, with a new partner assuming his responsibilities with effect from the 2010/11 financial year.

Executive Committee

The Committee oversees the financial, operational and safety performance of the Company, taking whatever management action it considers necessary to safeguard the interests of the Company and to further the strategy, business objectives and targets established by the Board. From 27 July 2009, the Committee's membership was expanded to include function heads who had previously attended the meetings regularly. The Committee now comprises the Chief Executive, as chairman, the other Executive Directors, the Company Secretary & General Counsel, the global human resources director (Mike Westcott), the global director of strategy and business development (Alison Wood), the corporate affairs director (George Mayhew) and the chief information officer (David Lister). Senior management personnel are invited to attend meetings of the Executive Committee as necessary to keep it fully apprised of the Company's businesses.

Executive Committee membership and attendance at meetings was as follows during 2009/10 from a total of 12 meetings:

Name	Attendance*
Steve Holliday (chairman)	12 of 12
Mark Fairbairn	12 of 12
Tom King	11 of 12
Steve Lucas	12 of 12
Nick Winsor	11 of 12
David Lister	8 of 9
Helen Mahy	12 of 12
George Mayhew	9 of 9
Mike Westcott	7 of 9
Alison Wood	8 of 9

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual

Examples of matters that the Committee considered during the year included:

- the financial, operational, safety and environmental performance of the Company and its businesses;
- strategic business development and implementation;
- approving capital and operational expenditure under the specific authorities delegated to it by the Board;
- global regulatory matters;
- business conduct, risk and compliance reports;
- adequacy and effectiveness of internal control and risk management;
- global inclusion and diversity matters;
- global outsourcing;
- global human resource matters; and
- global information systems strategic issues.

At each meeting there are in depth review sessions on key business areas for the Company.

Finance Committee

The Finance Committee comprises the Chief Executive, the Finance Director and three Non-executive Directors, one of whom is chairman of the Committee. The Committee's responsibilities include setting policy and granting authority for short-, medium- and long-term financing decisions, bank accounts, credit exposure, control mechanisms for hedging and foreign exchange transactions, guarantees and indemnities and approving, or if appropriate recommending for consideration by the Board, other treasury and tax management policies of the Company. It also considers and approves the risk management procedures in relation to trading and hedging activities undertaken. The global director of tax and treasury is invited to attend Committee meetings on a regular basis. External advisors are invited to attend the meetings as and when considered appropriate, together with the global head of retirement plans and other executives from the Company.

Membership and attendance at meetings was as follows during 2009/10 from a total of four meetings:

Name	Attendance*
Maria Richter (chairman)	4 of 4
John Allan	3 of 4
Steve Holliday	3 of 4
Steve Lucas	3 of 4
Stephen Pettit	4 of 4

* Attendance is expressed as number of meetings attended out of number possible for the individual Director

Examples of matters that the Committee considered during the year included:

- long-term funding requirements;
- setting and reviewing treasury management guidelines and policy in light of market conditions;
- taxation issues for the Company;
- treasury performance updates; and
- pensions updates.

"The ability to raise finance is a key factor to the success of the Company, especially with the volume of planned capital investment in both the UK and US and the recent global economic downturn. While market conditions are likely to remain testing for some time, the knowledge and experience of the treasury, taxation and pensions personnel at National Grid, many of whom present to the Committee, provide the members with the confidence that National Grid is well positioned to meet the financial challenges ahead."

Maria Richter, Committee chairman

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. Succession planning ensures the Company is managed by executives with the necessary skills, experience and knowledge and the Board itself has the right balance of individuals to be able to discharge its duties effectively. Generally, external recruitment consultants are 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 2009/10 from a total of six meetings:

Name	Attendance*
Sir John Parker (chairman)	6 of 6
Ken Harvey	6 of 6
Maria Richter	6 of 6
George Rose	5 of 6

* Attendance is expressed as number of meetings attended out of number possible for the individual Director

Corporate Governance continued

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;
- the annual Board and Committee evaluation process;
- 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 policy relating to 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 has oversight of the remuneration policies for other employees of the Company and provides direction over the Company's employee share plans.

Further details of the policy on remuneration and details of individual remuneration are available in the Directors' Remuneration Report on pages 98 to 108.

The Remuneration Committee membership and attendance at meetings was as follows during 2009/10 from a total of seven meetings:

Name	Attendance*
John Allan (chairman)	7 of 7
Ken Harvey	7 of 7
Stephen Pettit	7 of 7
George Rose	6 of 7

* Attendance is expressed as number of meetings attended out of number possible for the individual Director

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. Independent external advisors are also utilised by the Committee where appropriate.

Risk & Responsibility Committee

The Risk & Responsibility Committee, consisting of Non-executive Directors, 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 our website at www.nationalgrid.com. The Committee reviews the Company's non-financial 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 and climate change; employee wellbeing and occupational health; inclusion and diversity; security, including that related to information systems; human rights issues; and business ethics and conduct.

The Risk & Responsibility Committee membership and attendance at meetings was as follows during 2009/10 from a total of four meetings:

Name	Attendance*
Stephen Pettit (chairman)	4 of 4
Linda Adamany	4 of 4
Philip Aiken	4 of 4
Ken Harvey	4 of 4
Bob Catell (retired 27 July 2009)	1 of 1

* 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, US senior VP safety, health, environmental services and security and director of corporate audit are invited to attend Risk & Responsibility Committee meetings. Executive Directors, the corporate affairs director and others, including business representatives, are invited to attend as necessary.

During the year, the Committee:

- reviewed serious incident and near miss reports;
- considered the current and projected environmental impact of the Company, including climate change;
- reviewed safety, health and environment audit plans and the outcome of such audits;
- reviewed progress in embedding a process safety culture;
- considered specific identified future risks and plans for minimising such risks;
- reviewed reports on business conduct issues; and
- considered reports and updates from external safety, health, environment and security advisors.

The members of the Risk & Responsibility Committee take part in site visits where they benefit from close engagement with employees from different parts of the organisation. During the year ended 31 March 2010, the Committee held 2 employee meetings, 1 in the UK and 1 in the US, at which a total of approximately 65 employees were invited to ask questions directly to the Non-executive Directors on matters relating to the terms of reference of the Committee. In addition, Committee members met various gas distribution repair, replacement and maintenance crews on site in London and the Chairman and some Non-executive Directors had a tour of the new US headquarters in Waltham which was awarded platinum level for Leadership in Energy and Environmental Design for shell and core construction.

"All Committee members enjoy and appreciate the opportunity to meet with employees at all levels of the organisation and to hear their views and opinions on matters such as safety, environment, health and other important risks. This enhances significantly our understanding of the matters when they are brought to our meetings in a more formal way. Most of the Non-executive Directors together with the Chairman of the Board also took part in an inclusion and diversity workshop. We explored what the Company means by inclusion and diversity and why both are so important to the Company's success. We also considered what we as Non-executive Directors can do to support the Company on its inclusion and diversity journey. We continually look to apply the knowledge gained at the workshop in our Company meetings and site visits."

Stephen Pettit, Committee chairman

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, global director of tax and treasury, financial controller, director of investor relations, director of corporate 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 the Finance Director in fulfilling their responsibility for oversight of the accuracy and timeliness of the disclosures made by the Company whether in connection with its financial reporting obligations or other material stock exchange announcements and presentations to analysts. 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, the preliminary and half year results statements and the interim management statements.

Shareholders

In accordance with the schedule of matters reserved to 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 preliminary and half year results to offer them the opportunity to meet with him, the Senior Independent Director or any of the Non-executive Directors. This enables major shareholders to take up with these individuals any issue they feel unable to raise with the Chief Executive or Finance Director. Major shareholders are also invited to meet newly appointed Directors.

In order that all Board members are 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. Analysts' notes on the Company are also circulated regularly to Directors.

The Company considers it has a strong level of engagement with its major shareholders and expects to build on this with the future publication of the Stewardship Code for Institutional Investors.

Issues relevant to our smaller shareholders are also considered by the Board. During the year ended 31 March 2010, the Company offered initiatives such as a dividend reunification programme which traces shareholders who have not cashed dividends, a low cost share dealing service for sales and purchases, and the shareholder networking programme. Twice a year, this programme offers retail shareholders the opportunity to understand further the Company's operations through site visits and meetings with Directors and senior managers. Following shareholder approval at the 2009 AGM, the Company offered a Scrip Dividend Scheme under which shareholders could acquire

additional shares in the Company without being subject to dealing costs or stamp duty reserve tax. Further details of these initiatives are available in the Shareholder Information section on page 190.

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 with 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 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 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 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

The Board is committed to the protection of our assets, which include human, property and financial resources, and our reputation, largely through a sound system of internal control, in order to safeguard 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 order to understand the risks and potential control issues facing the Company, the following sections as well as pages 26 and 27 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.

In accordance with the Code and the schedule of matters reserved to the Board, the Board retains overall responsibility for the Company's system of internal control and monitoring its

Corporate Governance continued

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 corporate audit and risk and compliance. These reports are provided to Board Committees in relation to their specific areas of responsibility. The Board's Committee then provides 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 2010 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 meetings; and
- assurances in relation to the certifications required to be given under the Sarbanes-Oxley Act, required as a result of the Company's NYSE 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 Section 404 of the Sarbanes-Oxley Act and the Disclosure and Transparency Rules. The management of the Company, which is responsible under the Sarbanes-Oxley 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 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 2010.

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, Risk & Responsibility and Audit Committees review the risk profile and any changes, and the Audit Committee reviews the overall risk management process.

During the year, an in-house, enterprise-wide risk software system was successfully developed and implemented, thus enabling more consistent recording and reporting, and improved analyses of risk trend information across the Company. In addition, a comprehensive internal review of risk, control and assurance functions was undertaken resulting in the reorganisation of some of these activities, to further improve where possible the integration and efficiency of the Company's risk management framework.

Compliance management

Our enterprise-wide compliance management process is established and continues to raise visibility over key obligations. The process provides assurance to the 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.

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 the back cover.

Changes in law or regulation and decisions by governmental bodies or regulators could have a material 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 or regulatory policy and precedent in the countries or states in which we operate could materially adversely affect us. Decisions or rulings concerning, for example: (i) whether licences, approvals or agreements to operate or supply are granted or are renewed or whether there has been any breach of the terms of a licence, approval or regulatory requirement; (ii) timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs, a decoupling of energy usage and revenue and other decisions relating to the impact of general economic conditions on us, our markets and customers, implications of climate change, remuneration for stranded assets, the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities; and (iii) structural changes in regulation (including as a result of Ofgem's RPI-X@20 review), could have a material 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, regulatory environment and energy policy, regulatory and other developments sections and the business description sections for each of our lines of business.

Breaches of, or changes in, environmental, climate change 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 by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so, such as the effects of electric and magnetic fields. We are subject to laws and regulations relating to pollution, the protection of the environment, and the use and disposal 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 and sites used for the disposal of our waste. The cost of future environmental remediation obligations is often inherently difficult to estimate and uncertainties can include the extent

of contamination, the appropriate corrective actions and our share of the liability. We are also subject to laws and regulations in the UK and the US 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 under relevant regulatory frameworks changes, this could have a material adverse impact on our businesses and our results of operations and financial position. Furthermore, any breach of our regulatory or contractual obligations, or even incidents that do not amount to a breach, could materially adversely affect our results of operations and our reputation.

For further information about environmental, climate change and health and safety matters relating to our businesses, see the Our Responsibility section of our website at www.nationalgrid.com.

Network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure may have significant material adverse impacts on both our financial position and reputation.

We may suffer a major network failure or interruption or may not be able to carry out critical non network operations. Operational performance could be materially adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand or inadequate record keeping or failure of information systems and supporting technology. This could cause us to fail to meet agreed standards of service or incentive and reliability targets or be in breach of a licence, approval, regulatory requirement or contractual obligation, 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 (including as a result of climate change), unlawful or unintentional acts of third parties or force majeure. Weather conditions, including prolonged periods of adverse weather, can affect financial performance and severe weather that causes outages or damages infrastructure will materially 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 a material adverse impact on our results of operations and financial condition.

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 and continue to invest in the development of our information technology. If we do not meet these targets and standards, we may not achieve the expected benefits, our business may be materially adversely affected and our performance, results of operations and our reputation may be materially harmed.

Corporate Governance continued

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 and reliably which, in extreme circumstances, may require us to disconnect consumers, which may damage our reputation.

Fluctuations in exchange rates (in particular in the dollar to sterling exchange rate), interest rates and commodity price indices and settlement of hedging arrangements could have a significant impact on our results of operations, indebtedness and cash flow.

We have significant operations in the US and we are therefore subject to the exchange rate 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 and net debt position 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 dollar to sterling exchange rate. Furthermore, our cash flow may be materially affected as a result of settling hedging arrangements entered into to manage our exchange rate, commodity and interest rate exposure, or by cash collateral movements relating to derivative market values, which also depend on euro and other exchange rates.

For further information see the financial performance section of the Operating and Financial Review.

We are subject to restrictions with respect to our borrowing and debt arrangements, and our funding costs and access to financing may be adversely affected by changes to credit ratings and by prolonged periods of market volatility or illiquidity.

We are subject to certain covenants and restrictions in relation to our listed debt securities and our bank lending facilities. In addition, restrictions imposed by regulators may also limit the manner in which we service the financial requirements of our current businesses or the financing of newly acquired or developing businesses.

Our business is financed through cash generated from ongoing operations and the capital markets, particularly the long-term debt capital markets. The maturity and repayment profile of debt we use to finance investments often does not correlate to cash flows from our assets. As a result we access commercial paper and money markets and longer-term bank and capital markets as sources of finance. Some of the debt we issue is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and the cost of those borrowings. As evidenced during recent periods, financial markets can be subject to periods of volatility and shortages of liquidity and if we were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, our cost of financing may increase, the uncommitted and discretionary elements of our proposed capital investment programme may need to be reconsidered and the manner in which we implement our strategy may need to be reassessed. The occurrence of any such events could have a material adverse impact on our business, results of operations and prospects.

Our results of operations could be affected by deflation or inflation.

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. Conversely, during a period of inflation our operating costs may increase without a corresponding increase in the retail price index and therefore without a corresponding increase in UK revenues. Our income under the rate plans in the US is not typically linked to inflation. In periods of inflation in the US, our operating costs may increase by more than our revenues. In both the UK and US such increased costs may materially adversely affect our results of operations. In addition, even where increased costs are recoverable under our price controls or rate plans, in both the UK and the US there may be a delay in our ability to recover our increased costs.

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

Business development activities, including acquisitions and disposals entail a number of risks, including an inability to identify suitable acquisition opportunities or obtain funding for such acquisitions, that such transactions may be based on incorrect assumptions or conclusions, the inability to integrate acquired businesses effectively with our existing operations, failure to realise planned levels of synergy and efficiency savings from acquisitions, unanticipated operational, financial and tax impacts (including unanticipated costs) and other unanticipated effects. We may also be liable for the past acts, omissions or liabilities of companies or businesses we have acquired, which may be unforeseen or greater than anticipated at the time of the relevant acquisition. The occurrence of any of these events could have a material adverse impact on our results of operations or financial condition, and could also impact our ability to enter into other transactions.

Future funding requirements of our pension schemes and other post-retirement benefits could materially 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. In the US, we also have other post-retirement benefit schemes. 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 materially adversely affect our results of operations and financial condition.

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 and therefore have a material adverse impact on our results of operations.

Customers and counterparties to our transactions may fail to perform their obligations, 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 materially adversely affect our financial position. 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 or adverse economic conditions.

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 weather-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.

The loss of key personnel or the inability to attract, train or retain qualified personnel could affect our ability to implement our strategy and have a material adverse effect on our business, financial condition, results of operations and prospects.

Our ability to implement our long-term business strategy depends on the capabilities and performance of our personnel. Loss of key personnel or an inability to attract, train or retain appropriately qualified personnel (in particular for technical positions where availability of appropriately qualified personnel may be limited) could affect our ability to implement our long-term business strategy and may have a material adverse effect on our business, financial condition, results of operations and prospects.

National Grid plc is a holding company and therefore depends on the operational and financial performance of its subsidiaries.

National Grid plc is a holding company and, as such, has no revenue generating operations of its own. As a result, National Grid plc depends on (i) the earnings and cash flows of its operating subsidiaries, (ii) the ability of its subsidiaries to pay dividends (which may be restricted due to legal or regulatory constraints or otherwise), (iii) subsidiaries repaying funds due to it and (iv) the maintenance by its subsidiaries of certain minimum credit ratings (which also depend on the credit rating of National Grid plc). If National Grid plc's subsidiaries are unable to achieve any of the foregoing, National Grid plc may be unable to pay dividends and there may be a material adverse impact on its operations, costs associated with financing or its ability to access the capital markets or other forms of bank financing at competitive rates.

On behalf of the Board

Helen Mahy

Company Secretary & General Counsel

19 May 2010

National Grid plc, 1-3 Strand, London WC2N 5EH

Registered in England and Wales No. 4031152

Directors' Report

In accordance with the requirements of the Companies Act 2006 and UK Listing Authority's Listing, Disclosure and Transparency Rules, the following sections describe the matters that are required for inclusion in the Directors' Report and were approved by the Board. Further details of matters required to be included in the Directors' Report 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 12 and 13. The names of all persons serving as Directors during the financial year are included on page 85. The Directors' interests in shares and in options to receive shares, and any changes that have occurred since 31 March 2010, are set out in the Directors' Remuneration Report on pages 98 to 108. 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, business and principal risks and uncertainties is contained in the Operating and Financial Review, on pages 14 to 83, and the Corporate Governance section, on pages 84 to 95, which are incorporated by reference into this report.

Dividends

The Directors are recommending a final dividend of 24.84 pence per ordinary share (\$1.7737 per American Depositary Share) to be paid on 18 August 2010 to shareholders on the Register at 4 June 2010. A scrip dividend will also be offered. Further details in respect of dividend payments can be found on page 38.

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 of its subsidiaries made political donations in the US of \$177,000 (£112,000) during the year to affiliated New York and New Hampshire state political action committees (PACs). National Grid USA's affiliated New York PACs were funded partly by contributions from National Grid USA and certain of its subsidiaries and partly by employee contributions. National Grid USA's affiliated New Hampshire PAC was funded wholly by contributions from National Grid USA and certain of its subsidiaries. National Grid USA's affiliated federal PACs were funded wholly by voluntary employee contributions.

Charitable donations

During 2009/10 approximately £11 million (2008/09: £10 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 £1.1 million (2008/09: £1.4 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 76 to 80 and on page 82 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 Regulatory environment and Energy policy, regulatory and other developments on pages 18 to 21.

Post balance sheet events

On 19 May 2010, the Board resolved to offer a fully underwritten rights issue to shareholders to raise up to £3.2 billion net of expenses through the issue of up to 990,439,017 new ordinary shares of 11¹⁷/₄₃ pence nominal value each. The rights issue will be offered on the basis of 2 new shares at 335 pence per new share for every 5 existing shares. The new shares (representing approximately 40% of the existing issued share capital excluding treasury shares and 28.6% of the enlarged issued share capital excluding treasury shares immediately following completion of the rights issue) when fully paid will rank pari passu in all respects with the existing shares, except that they will have no right to participate in the final dividend of 24.84 pence per ordinary share recommended to be paid in respect of the year ended 31 March 2010.

Change of control provisions

No compensation would be paid for loss of office of Directors on a change of control of the Company.

As at 31 March 2010, the Company had undrawn borrowing facilities with a number of its banks of £1.9 billion and a further £1.7 billion of drawn bank loans 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.

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 £19 million (2008/09: £10 million). This included for example, development of new materials for use in the electricity transmission business and research into low carbon energy such as carbon capture and storage.

Share capital

The share capital of the Company consists of ordinary shares of 11¹⁷/₄₃ pence nominal value each and American Depositary Shares (ADS) only. The ordinary shares and ADSs 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, details of which are contained in the Directors' Remuneration Report, 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.

At the Company's 2009 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. No shares were repurchased during the year. Of the shares repurchased in prior years and held in treasury, 12,044,072 have been transferred to employees under the employee share plans and as at the date of this report, 141,092,553 were held in treasury.

Following shareholder approval at the 2009 AGM, a Scrip Dividend Scheme was offered to ordinary shareholders enabling new shares to be acquired without dealing costs or stamp duty reserve tax being payable. The scrip dividend is also available to ADS holders.

Shareholders also approved the authority for the Directors to allot relevant securities up to approximately $\frac{1}{3}$ of the issued share capital and a further $\frac{1}{3}$ in connection with an offer by way of a rights issue. The Directors intend to seek shareholder approval to renew this authority at this year's AGM, details of which are contained in the Notice of AGM.

Employees

The Company employs over 28,000 people. Communication is a key theme both at a corporate and business level. Multiple communication channels are used throughout National Grid, including the use of various business specific intranets, which the Company continues to develop to ensure the timely cascade of information to employees.

Feedback has been provided by employees in confidence via an annual Company wide employee survey. Over 97% of employees took part in the latest survey, an increase from the previous year. Action plans will be developed by each of the businesses to address their key priorities for improvement.

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. Further information on employees is available in our Corporate Responsibility Report which is available on our website www.nationalgrid.com. Employee share schemes are available to encourage alignment of employee and shareholder interests.

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 2010 for National Grid's principal operations in the UK was 14 days (13 days at 31 March 2009).

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 87 to 91.

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
Black Rock Inc	4.99
Legal and General Group plc	4.35
Crescent Holding GmbH	4.34
Capital Group Companies, Inc	3.75
FMR Corp	3.06

No further notifications have been received.

Annual General Meeting

National Grid's 2010 AGM will be held on Monday 26 July 2010 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
19 May 2010

National Grid plc, 1-3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Directors' Remuneration Report

I am pleased to present the Directors' Remuneration Report for 2009/10. 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.

In recognition of the external economic market conditions, the Executive Directors decided voluntarily to forego salary increases in 2009. National Grid's performance has been strong over the last year and therefore Annual Performance Plan awards to the Executive Directors and their teams reflect this strong performance. Half of the award earned by Executive Directors is automatically deferred into National Grid shares for three years. Details of the Annual Performance Plan and Deferred Share Plan can be found in the relevant section of this report.

During the year, the Remuneration Committee has reviewed the performance conditions and the performance required for the Performance Share Plan and believes they remain appropriate and stretching. One important change has been made to our remuneration policy this year, that of increasing our share ownership guidelines, details of which are contained later in this report.

We firmly believe our remuneration package continues to provide an appropriate and balanced opportunity for executives and their senior teams. 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 continue to be appropriate. However, we will continue to review the remuneration package on a regular basis to ensure it remains so.

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 has oversight of the remuneration policies for other employees of the Company and provides direction over the Company's employee 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 2010, the following advisors provided services to the Remuneration Committee:

- Towers Watson (formerly Towers Perrin), independent remuneration advisors (mid-November 2009 onwards). It also provides general remuneration and benefits advice to the Company. Prior to that, Deloitte LLP, independent remuneration advisors (April 2009 until mid-November 2009), who also provide taxation and financial advice to the Company;
- Alithos Limited, provision of Total Shareholder Return calculations for the Performance Share Plan and Executive Share Option Plan;
- Linklaters LLP, advice relating to Directors' service contracts as well as providing other legal advice to the Company; and
- KPMG LLP, advice relating to pension taxation legislation.

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;
- incentive plans, performance measures and targets should be stretching and aligned as closely as possible with shareholders' long-term interests; and
- remuneration structures should motivate employees to enhance the Company's performance without encouraging them to take undue risks, whether financial or operational.

It is currently intended to continue this policy in subsequent years.

To ensure salary and employment benefits across the Company are taken into consideration when decisions regarding Executive Directors' remuneration are made, the Remuneration Committee is briefed on any key changes impacting employees; and depending on the scope of that change its approval is sought.

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 to ensure any increases are broadly in line with those for employees generally in the Company. In 2009, the Executive Directors decided voluntarily to forego salary increases.

Annual Performance Plan including the Deferred Share Plan (DSP)

The Annual Performance Plan is based on the achievement of a combination of demanding Company, individual and, where applicable, divisional targets. The plan is cascaded through the management population, which provides a line of sight for employees to connect day to day activities with National Grid's vision, strategy and key financial and service provision metrics. The principal measures of Company performance in 2009/10 were adjusted earnings per share (EPS), see page 40 for further details; consolidated cash flow and return on equity. The main divisional measures were operating profit and line of business returns targets, with some employees having slightly different targets dependent upon their role and area of the business.

Financial targets for Executive Directors represent 70% of the plan. Individual targets, representing 30% of the plan, are set in relation to key operating and strategic objectives. These include, for example, stretch goals in regulatory management, business development activities, customer satisfaction improvement programmes and carbon efficiency targets. The split between financial targets and individual objectives changes at different levels of seniority in the Company to reflect line of sight and the impact of those different levels of seniority on the Company's performance.

The Remuneration Committee sets financial targets at the start of the year, including Executive Directors' individual objectives. It reviews performance against those targets and individual objectives at year end. When setting financial targets and individual objectives; and when reviewing performance against them, the Remuneration Committee takes into account the long-term impact and any risks that could be associated with those targets and objectives. In addition, the chairmen of the Audit and Risk & Responsibility Committees are both members of the Remuneration Committee and therefore are able to provide input from those Committees' reviews of the Company's performance.

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. Those principles may then be cascaded down the organisation to appropriate employee groups based on the specific circumstances.

In addition, the Remuneration Committee retains the right, in exceptional circumstances, to reclaim any monies based on financial misstatement and/or the misconduct of an individual through means deemed appropriate to those specific circumstances.

Performance against Company and divisional financial targets for this year is shown in the following table:

Financial measures	Level of performance achieved in 2009/10 as determined by the Remuneration Committee	
	Company targets	Divisional targets
Adjusted EPS	stretch	
Consolidated cash flow	stretch	
Return on equity	stretch	
Operating profit		varied performance (i), (ii), (iii)
Line of business returns targets		varied performance (iv), (v), (vi)

- (i) Transmission at stretch.
- (ii) Gas Distribution between target and stretch.
- (iii) Electricity Distribution & Generation between target and stretch.
- (iv) Transmission at stretch (UK), at target (US).
- (v) Gas Distribution between target and stretch (UK), at threshold (US)
- (vi) Electricity Distribution & Generation between target and stretch (US only).

In 2009/10, 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. 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. 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 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.

Directors' Remuneration Report continued

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 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 conditions have 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). The Remuneration Committee continues to believe this approach is appropriate.

These measures are used because the Remuneration Committee continues to believe they offer a balance between meeting the needs of shareholders (by measuring TSR performance against other large UK companies) and providing a measure of performance (EPS growth) over which the Executive Directors have direct influence. The Remuneration Committee considers the PSP performance conditions to be stretching.

In calculating TSR it is assumed that all dividends are reinvested. No shares will be released under the TSR part of the award if the Company's TSR over the three year performance period, when ranked against that of the FTSE 100 comparator group, falls below the median. For TSR at the median, 30% of those shares will be released, 100% will be released where National Grid's TSR performance on an annualised compound basis is 7.5% above that of the median company in the FTSE 100 (upper target).

The EPS measure is calculated by reference to National Grid's real EPS growth, see page 40 for further details. Where annualised growth in adjusted EPS (on a continuing basis and excluding exceptional items, remeasurements and stranded costs) over the three year performance period exceeds the average annual increase in RPI (the general index of retail prices for all items) over the same period by 3% (threshold performance), 30% of the shares under the EPS part of the award will be released. All the shares will be released where EPS growth exceeds RPI growth by 8% (upper target).

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 2006 PSP award

The upper targets for both the EPS and TSR performance criteria were reached for the 2006 award, which has resulted in 100% vesting. The shares then entered 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 2009 and February 2010, 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 tranches released of this award can be found on page 107.

Share ownership guidelines

Share ownership guidelines have been increased this year. The Chief Executive is now required to build up and retain a shareholding representing at least 200% of annual salary (previously 100%). For other Executive Directors, the requirement is 125% of salary (previously 100%). 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.

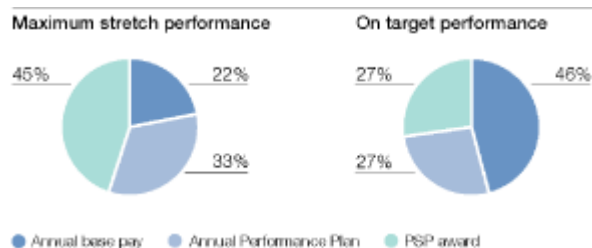
Share dilution through the operation of share-based incentive plans

Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive share-based 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 3.71% and 5.36% respectively.

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 2009/10 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\$16,500 for those under the age of 50 and US\$22,000 for those over 50 for calendar years 2009 and 2010; and/or up to 15% of salary (post-tax) up to applicable limits (US\$245,000 for calendar years 2009 and 2010). Generally, 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. From December 2009, Flexible Pension Savings (FPS), a salary sacrifice arrangement was introduced for all members of the defined benefit pension schemes. All UK-based Executive Directors have chosen to participate in FPS. 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. Alternatively, 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.

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 103.

Directors' Remuneration Report continued

Similar plans are offered to US-based employees. However, they are not salary sacrifice plans and therefore do not affect salary values. Tom King was a participant in such a plan during the year.

Executive Directors' service contracts, termination and mitigation

In its consideration of these matters, the Remuneration Committee takes into account the Companies Act 2006, the UK Listing Authority's Listing Rules, the Combined Code on Corporate Governance, as revised in 2008; and other requirements of legislation, regulation and good governance. Service contracts for all Executive Directors provide for one year's notice by either party.

In the event of early termination by the Company of an Executive Director's employment, contractual base salary reflecting the notice period would normally be payable. The Remuneration Committee operates a policy of mitigation in these circumstances with any payments being made on a monthly basis. The departing Executive Director would generally be expected to mitigate any losses where employment is taken up during the notice period, however, this policy remains subject to the Remuneration Committee's discretion, based on the circumstances 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

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 2010.

	Company	Retained fees (£)
Executive Directors		
Steve Holliday	Marks and Spencer Group plc	79,000
Steve Lucas	Compass Group PLC	90,000
Nick Winser	Kier Group plc	41,000

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 the Annual Performance Plan or the 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 appointment	Date of next election (i)
Non-executive Directors		
Sir John Parker	21 October 2002	2010 AGM
Ken Harvey	21 October 2002	2010 AGM
Linda Adamany	1 November 2006	2010 AGM
Philip Aiken	15 May 2008	2010 AGM
John Allan	1 May 2005	2010 AGM
Stephen Pettit	21 October 2002	2010 AGM
Maria Richter	1 October 2003	2010 AGM
George Rose	21 October 2002	2010 AGM
Bob Catell (ii)	1 April 2009	n/a

(i) The Board has decided that all Directors will seek re-election annually.

(ii) Bob Catell retired as a Non-executive Director on 27 July 2009.

Performance graph

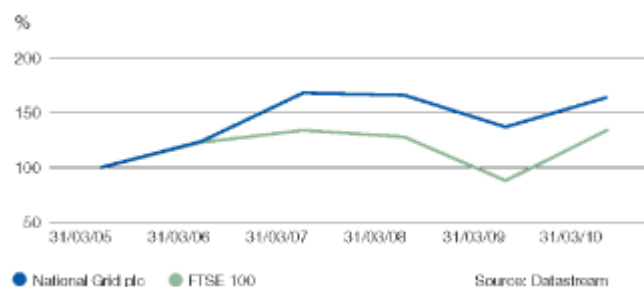
The graph below represents the comparative TSR performance of the Company from 31 March 2005 to 31 March 2010.

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 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

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 during the year ended 31 March 2010

Sections 1, 2, 3, 4 and 6 comprise the 'auditable' part of the Directors' Remuneration Report, being the information required by Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

1. Directors' emoluments

The following tables set out the pre-tax emoluments for the years ended 31 March 2010 and 2009, including Annual Performance Plan awards but excluding pensions, for individual Directors who held office in National Grid during the year ended 31 March 2010.

Table 1A	Year ended 31 March 2010					Year ended 31 March 2009	
	Salary (i) £000s	Annual Performance Plan £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	925	1,323	12	13	—	2,273	2,206
Steve Lucas (iii)	521	730	—	19	—	1,270	1,259
Nick Winser	462	652	—	15	—	1,129	1,096
Mark Fairbairn (iii)	461	527	—	14	—	1,002	1,089
Tom King (iv)	665	898	5	14	—	1,582	1,396
Total	3,034	4,130	17	75	—	7,256	7,046

(i) The Executive Directors decided voluntarily to forego salary increases in 2009. It is anticipated their salaries will next be reviewed in June 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 and the use of a driver when required.

(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 £3,688 and Mark Fairbairn £801.

(iv) For US-based Executive Directors, the exchange rate averaged over the year 1 April 2009 to 31 March 2010 to convert US dollars to UK pounds sterling is \$1.579:£1.

Table 1B	Year ended 31 March 2010			Year ended 31 March 2009	
	Fees £000s	Other emoluments £000s	Total £000s	Total £000s	
Non-executive Directors					
Sir John Parker (i)	550	65	615	604	
Ken Harvey	80	—	80	83	
Linda Adamany	78	—	78	75	
Philip Aiken	68	—	68	59	
John Allan	82	—	82	76	
Stephen Pettit	82	—	82	84	
Maria Richter	94	—	94	92	
George Rose	81	—	81	84	
Bob Catell (ii)	22	—	22	n/a	
Total	1,137	65	1,202	1,157	

(i) Sir John Parker's other emoluments comprise a fully expensed car, private medical insurance and life assurance.

(ii) Bob Catell was a Non-executive Director for the period 1 April 2009 to 27 July 2009, after having retired from the Board as an Executive Director on 31 March 2009.

Directors' Remuneration Report continued

2. Directors' pensions

The table below provides details of the Executive Directors' pension benefits.

Table 2	Personal contributions made to the scheme during the year (i) £000s	Additional benefit earned during year ended 31 March 2010 pension £000s	Accrued entitlement as at 31 March 2010 pension £000s	Transfer value of accrued benefits as at 31 March (ii)		Increase in transfer value less Director's contributions £000s	Additional benefit earned in the year ended 31 March 2010 (excluding inflation) pension £000s	Transfer value of increase in accrued benefit in the year ended 31 March 2010 (excluding inflation & Director's contributions) £000s
				2010	2009			
				£000s	£000s		£000s	£000s
Steve Holliday (iii)	12	33	314	5,995	4,740	1,243	33	610
Steve Lucas	21	19	269	6,006	4,877	1,108	19	408
Nick Winser (iv)	19	11	196	3,379	2,802	559	11	158
Mark Fairbairn (v)	19	13	199	3,714	3,084	612	13	201
Tom King (vi)	—	50	169	832	442	390	50	246

- (i) The UK-based Executive Directors participate in FPS, a salary sacrifice arrangement, the effects of which have not been taken into account when reporting their personal contributions above.
- (ii) The transfer values shown at 31 March 2009 and 2010 represent the value of each Executive Director's accrued benefits based on total service to the relevant date. Transfer values for the UK-based Executive Directors have been calculated in line with transfer value bases agreed with the UK Pension Scheme Trustees. The transfer values for the US-based Executive Director have been calculated using discount rates based on high quality US corporate bonds and associated yields at the relevant dates.
- (iii) In addition to the pension above, there is an accrued lump sum entitlement of £108,000 as at 31 March 2010. The increase to the accumulated lump sum including inflation was £1,000 and excluding inflation was £1,000 in the year to 31 March 2010. 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 £260,000 as at 31 March 2010. The increase to the accumulated lump sum including inflation was £2,000 and excluding inflation was £2,000 in the year to 31 March 2010. 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 £280,000 as at 31 March 2010. The increase to the accumulated lump sum including inflation was £2,000 and excluding inflation was £2,000 in the year to 31 March 2010. The transfer value information above includes the value of the lump sum.
- (vi) The exchange rate as at 31 March 2010 was \$1.51845:£1 and as at 31 March 2009 was \$1.4368:£1. In addition to the pension quoted above, through participation in the 401(k) plan in the US, the Company made contributions worth £4,840 to a defined contribution arrangement.

3. Directors' interests in share options

The table below provides 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 2009	Options exercised or lapsed during the year	Market price at exercise (pence)	Options granted during the year	Options held at 31 March 2010	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
Sharesave	3,432	–	–	–	3,432	488	Apr 2014 to Sep 2014
Total	114,075	–	–	–	114,075		
Steve Lucas							
ESOP	54,404	–	–	–	54,404	434.25	Dec 2005 to Dec 2012
Sharesave	1,693(i)	–	–	–	1,693	558	Apr 2010 to Sep 2010
	–	–	–	2,990	2,990	520	Apr 2015 to Sep 2015
Total	56,097	–	–	2,990	59,087		
Nick Winser							
ESOP	19,755	19,755(ii)	–	–	–	531.5	June 2003 to June 2010
Total	19,755	19,755	–	–	–		
Mark Fairbairn							
ESOP	2,180	2,180(iii)	539.5	–	–	435.75	July 2002 to July 2009
	33,489	33,489(ii)	–	–	–	531.5	June 2003 to June 2010
	31,152	31,152(iii)	539.5	–	–	481.5	June 2005 to June 2012
Sharesave	862(i)	–	–	–	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	69,955	66,821	–	–	3,134		

(i) On 1 April 2010 Steve Lucas and Mark Fairbairn exercised Sharesave options over 1,693 and 862 shares respectively. The market price at the date of exercise was 647.5p.

(ii) The performance condition was not satisfied for the ESOP award granted in 2000. As a result, the awards have lapsed in full.

(iii) Mark Fairbairn exercised simultaneously two ESOP awards over a total of 33,332 shares. The market price at the date of exercise was 539.5p.

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 energy distribution companies; and UK and international utilities.

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. The final re-test was on 31 March 2010 and the performance condition was not met. This award has therefore lapsed.

4. Directors' interests in the PSP, DSP and SRA

The table below provides details of the Executive Directors' holdings of 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 page 100 for further information. Shares are then released on the fourth anniversary of the date of grant, following a retention period. The table includes 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, he 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.

Type of award	PSP, DSP and SRA conditional awards at 1 April 2009	Awards lapsed during year	Awards vested in year	Release of PSP awards in year	Awards granted during year	Market price at award (pence except#)	Date of award	Conditional awards at 31 March 2010	Release date
Steve Holliday									
PSP	100,801	–	–	100,801(i)	–	527.03	June 2005	–	June 2009
PSP	126,788	–	126,788	126,788(ii)	–	591.5382	June 2006	–	Mar 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
PSP	–	–	–	–	342,353	540.3773	June 2009	342,353	June 2013
DSP	36,389	–	36,389(iii)	–	–	583.96	June 2006	–	June 2009
DSP	42,435	–	42,435(iv)	–	–	726.87	June 2007	–	Mar 2010
DSP	85,307	–	–	–	–	697.48	June 2008	85,307	June 2011
DSP	–	–	–	–	68,960(v)	541.14	June 2009	68,960	June 2012
Total	885,131	–	205,612	227,589	411,313			990,031	
Steve Lucas									
PSP	99,615	–	–	99,615(i)	–	527.03	June 2005	–	June 2009
PSP	101,430	–	101,430	101,430(ii)	–	591.5382	June 2006	–	Mar 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
PSP	–	–	–	–	194,308	540.3773	June 2009	194,308	June 2013
DSP	34,882	–	34,882(iii)	–	–	583.96	June 2006	–	June 2009
DSP	29,276	–	29,276(iv)	–	–	726.87	June 2007	–	Mar 2010
DSP	47,263	–	–	–	–	697.48	June 2008	47,263	June 2011
DSP	–	–	–	–	38,656(v)	541.14	June 2009	38,656	June 2012
Total	601,707	–	165,588	201,045	232,964			569,468	

4. Directors' interests in the PSP, DSP and SRA continued

Table 4

Type of award	PSP, DSP and SRA conditional awards at 1 April 2009	Awards lapsed during year	Awards vested in year	Release of PSP awards in year	Awards granted during year	Market price at award (pence except#)	Date of award	Conditional awards at 31 March 2010	Release date
Nick Winser									
PSP	91,314	–	–	91,314(i)	–	527.03	June 2005	–	June 2009
PSP	88,751	–	88,751	88,751(ii)	–	591.5382	June 2006	–	Mar 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
PSP	–	–	–	–	171,102	540.3773	June 2009	171,102	June 2013
DSP	31,316	–	31,316(iii)	–	–	583.96	June 2006	–	June 2009
DSP	25,596	–	25,596(iv)	–	–	726.87	June 2007	–	Mar 2010
DSP	36,008	–	–	–	–	697.48	June 2008	36,008	June 2011
DSP	–	–	–	–	33,804(v)	541.14	June 2009	33,804	June 2012
Total	528,026	–	145,663	180,065	204,906			495,955	
Mark Fairbairn									
PSP	40,225	–	–	40,225(i)	–	527.03	June 2005	–	June 2009
PSP	40,572	–	40,572	40,572(ii)	–	591.5382	June 2006	–	Mar 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
PSP	–	–	–	–	170,991	540.3773	June 2009	170,991	June 2013
DSP	10,800	–	10,800(iii)	–	–	583.96	June 2006	–	June 2009
DSP	13,867	–	13,867(iv)	–	–	726.87	June 2007	–	Mar 2010
DSP	40,646	–	–	–	–	697.48	June 2008	40,646	June 2011
DSP	–	–	–	–	32,605(v)	541.14	June 2009	32,605	June 2012
Total	389,386	–	65,239	80,797	203,596			487,518	
Tom King									
PSP ADSs	24,006	–	–	–	–	\$83.3121#	Nov 2007	ADSs 24,006	Nov 2011
PSP ADSs	32,099	–	–	–	–	\$65.4211#	June 2008	ADSs 32,099	June 2012
PSP	–	–	–	–	ADSs 47,609(vi)	\$44.1091#	June 2009	ADSs 47,609	June 2013
SRA ADSs	23,658	–	ADSs 11,829(vii)	–	–	\$84.5360#	Nov 2007	ADSs 11,829	Nov 2008 to Nov 2010
DSP ADSs	4,843	–	–	–	–	\$68.1174#	June 2008	ADSs 4,843	June 2011
DSP	–	–	–	–	ADSs 12,080(vi)	\$44.8371#	June 2009	ADSs 12,080	June 2012
Total ADSs	ADSs 84,606	–	ADSs 11,829	–	ADSs 59,689			ADSs 132,466	

- (i) The 2005 PSP award vested in full in June 2008 and then entered a retention period. The shares under the award were released on the fourth anniversary of the date of grant (June 2009).
- (ii) The 2006 PSP award vested in full in June 2009 and then entered a retention period. The Remuneration Committee approved an early release of the shares on 1 March 2010. Cash payments in lieu of dividends accrued during the retention period were paid as follows: Steve Holliday £32,401 in August 2009 and £19,230 in February 2010; Steve Lucas £25,921 and £15,384; Nick Winser £22,681 and £13,461; and Mark Fairbairn £10,368 and £6,153 respectively.
- (iii) Following the three year deferral period, the 2006 DSP award was released in June 2009. Cash payments in lieu of dividends accrued during the deferral period were paid as follows: Steve Holliday £39,357, Steve Lucas £37,727, Nick Winser £33,870 and Mark Fairbairn £11,681.
- (iv) Following a near complete deferral period, the Remuneration Committee approved the early release of the 2007 DSP award on 1 March 2010. Cash payments in lieu of dividends accrued during the deferral period were paid as follows: Steve Holliday £38,800, Steve Lucas £26,768, Nick Winser £23,403 and Mark Fairbairn £12,679.
- (v) Exceptionally, the 2009 DSP award for UK-based Executive Directors was made over restricted shares. The award was subject to income tax and National Insurance Contributions on grant and therefore shares shown reflect the net number of shares.
- (vi) Awards were made over ADSs and each ADS represents five ordinary shares.
- (vii) 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 tranches over three years, the second vesting for which was November 2009 for 11,829 ADSs. The ADS price on vesting for the second tranche was \$54.62450.

Directors' Remuneration Report continued

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.

Table 5	Ordinary shares at 31 March 2010 or, if earlier, on retirement †(i)	Ordinary shares at 1 April 2009 or, if later, on appointment	Options/awards over ordinary shares at 31 March 2010	Options/awards over ordinary shares at 1 April 2009
Sir John Parker	81,635	81,337	–	–
Steve Holliday (ii) (iii)	221,472	39,285	1,104,106	999,206
Steve Lucas (ii) (iv) (v)	167,503	88,192	628,555	657,804
Nick Winser (ii)	223,138	83,518	495,955	547,781
Mark Fairbairn (ii) (iii) (iv)	143,372	48,305	490,652	459,341
Tom King	97,640	59,145	662,330	423,030
Ken Harvey	3,740	3,740	–	–
Linda Adamany	2,000	2,000	–	–
Philip Aiken	3,500	2,000	–	–
John Allan	7,000	2,000	–	–
Stephen Pettit	2,632	2,632	–	–
Maria Richter	10,255	5,255	–	–
George Rose	4,852	4,852	–	–
Bob Catell (vi)	72,415†	40,000	–	–

- (i) There has been no other change in the beneficial interests of the Directors in ordinary shares between 1 April 2010 and 19 May 2010, except in respect of routine monthly purchases under the SIP (see note (iii) below) and with respect to the exercise of Sharesave options (see note (iv) below).
- (ii) Each of the Executive Directors, with the exception of 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 238,740 and 544,944 ordinary shares in the aforementioned trusts respectively, as at 31 March 2010 (with the latter holding 36,283 ADSs in addition).
- (iii) Beneficial interest includes shares purchased under the monthly operation of the SIP in the year to 31 March 2010. In April and May 2010 a further 40 shares were purchased on behalf of Steve Holliday and a further 80 shares were purchased on behalf of Mark Fairbairn thereby increasing their beneficial interests.
- (iv) The beneficial interests for Steve Lucas and Mark Fairbairn increased on 1 April 2010 to include Sharesave exercises over 1,693 shares and 862 shares respectively.
- (v) Steve Lucas was for Companies Act purposes deemed to be a potential beneficiary in 11,361 ordinary shares held by Lattice Group Trustees Limited as trustee of the Lattice Group Employee Share Ownership Trust as at 31 March 2010.
- (vi) Bob Catell retired from the Board as a Non-executive Director on 27 July 2009.

6. National Grid share price range

The closing price of a National Grid ordinary share on 31 March 2010 was 641.5p. The range during the year was 682p (high) and 515.5p (low). The Register of Directors' Interests contains full details of shareholdings and options/awards held by Directors as at 31 March 2010.

On behalf of the Board

Helen Mahy

Company Secretary & General Counsel
19 May 2010

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“Intentionally Omitted”

“Intentionally Omitted”

Accounting policies

for the year ended 31 March 2010

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 WC2N 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 19 May 2010.

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 2010 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the European Union IAS Regulation. The 2009 and 2008 comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on an 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 were classified as discontinued operations in the consolidated income statement, in accordance with our accounting policy I. These businesses were sold during the year ended 31 March 2009, except for two engineering companies, which were sold subsequent to that date.

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, joint ventures and associates into line with those used by the Company in its consolidated financial statements under IFRS. Intercompany transactions are eliminated.

The results of subsidiaries, joint ventures and associates 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. 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 where these do not differ materially from rates at the date of the transaction. 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 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 prior to 1 July 2009 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.

Contributions received post 1 July 2009 are recognised in revenue immediately, except where the contributions are consideration for a future service, in which case they are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided.

No depreciation is provided on freehold land or assets in the course of construction.

Other items of property, plant and equipment are depreciated, principally on a straight-line basis, at rates estimated to write off their book values over their estimated economic useful lives. In assessing estimated economic useful 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

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.

Accounting policies continued

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. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment 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 economic useful 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 being recovered from customers. 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 based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between operating segments. The Board of Directors is deemed to be the chief operating decision maker and assesses the performance of operations principally on the basis of operating profit before exceptional items, remeasurements and stranded cost recoveries (see accounting policy T).

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 other comprehensive income.

Past service costs are recognised immediately to the extent that benefits are already vested. Otherwise such costs are amortised on a straight-line basis over the period until the benefits vest.

Settlements are recognised when a transaction is entered into that eliminates all further legal or constructive obligations for benefits under a scheme.

Curtailments are recognised when a commitment is made to a material reduction in the number of employees covered by a scheme.

The retirement benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligations, as reduced by the fair value of scheme assets and any unrecognised past service cost.

The expected return on scheme assets and the unwinding of the discount on defined benefit obligations are recognised within interest income and expense respectively.

O. Leases

Rentals under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Assets held under finance leases are recognised at their fair value or, if lower, the present value of the minimum lease payments on inception. 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 securities below their 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 using the effective interest method 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.

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are closely related to those instruments or contracts. 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 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 for 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 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.

Accounting policies continued

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 customers or for energy that the Company uses itself 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 28).

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.

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 by National Grid. 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 the 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 includes property sales, emissions trading income and pension deficit recovery.

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 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. Net cash and cash equivalents reflected in the cash flow statement are net of 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), the capital redemption reserve 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 3 and 9.
- 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 28.

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 10.
- 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 4.
- Valuation of financial instruments and derivatives – notes 17 and 31.
- 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.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2009/10

During the year ended 31 March 2010, the Company adopted the following International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) or amendments, and interpretations by the International Financial Reporting Interpretations Committee (IFRIC). The impact of IFRIC 18 is to increase operating profit for the year ended 31 March 2010 and reduce liabilities at 31 March 2010 by £22m. In accordance with the transition provisions of IFRIC 18 'Transfers of assets from customers', comparative amounts have not been restated. None of the other pronouncements had a material impact on the Company's consolidated results or assets and liabilities.

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.
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.
Amendment to IFRS 7 on improving disclosures about financial instruments	Introduces a three-level hierarchy for fair value measurement disclosures and requires entities to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk. The additional information required by this amendment can be found in note 32 and note 33.
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.
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.
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.
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.
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.
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.
Improvements to IFRS 2008	Contains amendments to various existing standards.
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 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, on disposal the amounts to be reclassified from equity to profit or loss are the cumulative gain or loss on the hedging instrument and the cumulative translation difference on the foreign operation disposed of.
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.
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.

New IFRS accounting standards and interpretations not yet adopted

The following standards and interpretations were not effective for the year ended 31 March 2010. None of these are expected to have a material impact on the Company's consolidated results or assets and liabilities.

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 has been adopted by the Company with effect from 1 April 2010.
IAS 27R on consolidated and individual financial statements	Requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. The revised standard also specifies the accounting when control is lost. IAS 27R has been adopted by the Company with effect from 1 April 2010.
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 has been adopted by the Company with effect from 1 April 2010.
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 has been adopted by the Company with effect from 1 April 2010.
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 has been adopted by the Company with effect from 1 April 2010.
Improvements to IFRS 2009	Contains amendments to various existing standards. The amendments have been adopted by the Company with effect from 1 April 2010.
Amendment to IFRS 2 on group cash-settled share-based payments	Clarifies the scope and accounting for group cash-settled share-based payment transactions in separate or individual financial statements when there is no obligation to settle the share-based payment transaction. The amendment to IFRS 2 has been adopted by the Company with effect from 1 April 2010.
Amendment to IFRS 1 on first time adoption of IFRS	Provides additional exemptions for first time adopters. The amendment to IFRS 1 will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.
Amendment to IAS 32 on classification of rights issues	Defines as an equity instrument a financial instrument that gives the holder the right to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency, if the financial instrument is offered pro rata to all existing owners of the same class of non-derivative equity instruments. The amendment to IAS 32 has been adopted by the Company with effect from 1 April 2010.
Revised IAS 24 on related party disclosures	Simplifies the definition of a related party and provides a partial exemption for government related entities. The revised version of IAS 24 will be adopted by the Company with effect from 1 April 2011, subject to endorsement by the European Union.
IFRS 9 on financial instruments	Requires that financial assets should be classified as at either amortised cost or fair value on the basis of the entity's business model and contractual cash flows. IFRS 9 will be adopted by the Company with effect from 1 April 2013, subject to endorsement by the European Union.
IFRIC 19 on extinguishing financial liabilities with equity instruments	Clarifies that equity instruments issued to extinguish a financial liability should be measured at fair value, unless fair value cannot reasonably be determined in which case the fair value of the liabilities extinguished should be used. IFRIC 19 will be adopted by the Company with effect from 1 April 2011, subject to endorsement by the European Union.
Amendment to IFRIC 14 on prepayments of a minimum funding requirement	Permits an entity to treat early payments of contributions to cover a minimum funding requirement as an asset. The amendment to IFRIC 14 will be adopted by the Company with effect from 1 April 2011, subject to endorsement by the European Union.
Amendment to IFRS 1 on comparative IFRS 7 disclosures	Provides limited disclosure exemptions in respect of financial instruments for first time adopters of IFRS. The amendment to IFRS 1 will be adopted by the Company with effect from 1 April 2011, subject to endorsement by the European Union.

Consolidated income statement

for the years ended 31 March

	Notes	2010 £m	2010 £m	2009 £m	2009 £m	2008 £m	2008 £m
Revenue	1(a)		13,988		15,624		11,423
Other operating income			19		63		75
Operating costs	2		(10,714)		(13,064)		(8,534)
Operating profit							
Before exceptional items, remeasurements and stranded cost recoveries	1(b)		3,121	2,915		2,595	
Exceptional items, remeasurements and stranded cost recoveries	3		172	(292)		369	
Total operating profit	1(b)		3,293		2,623		2,964
Interest income and similar income	5		1,005		1,315		1,275
Interest expense and other finance costs							
Before exceptional items and remeasurements	5		(2,160)	(2,465)		(2,045)	
Exceptional items and remeasurements	3,5		47	(84)		(16)	
Total interest expense and other finance costs	5		(2,113)		(2,549)		(2,061)
Share of post-tax results of joint ventures and associates	15		8		5		4
Profit before taxation							
Before exceptional items, remeasurements and stranded cost recoveries	1(b)		1,974	1,770		1,829	
Exceptional items, remeasurements and stranded cost recoveries	3		219	(376)		353	
Total profit before taxation	1(b)		2,193		1,394		2,182
Taxation							
Before exceptional items, remeasurements and stranded cost recoveries	6		(553)	(517)		(579)	
Exceptional items, remeasurements and stranded cost recoveries	3,6		(251)	45		(28)	
Total taxation	6		(804)		(472)		(607)
Profit from continuing operations after taxation							
Before exceptional items, remeasurements and stranded cost recoveries			1,421	1,253		1,250	
Exceptional items, remeasurements and stranded cost recoveries	3		(32)	(331)		325	
Profit for the year from continuing operations			1,389		922		1,575
Profit for the year from discontinued operations							
Before exceptional items and remeasurements	7		–	9		28	
Exceptional items and remeasurements	7		–	16		1,590	
Profit for the year from discontinued operations	7		–		25		1,618
Profit for the year			1,389		947		3,193
Attributable to:							
Equity shareholders of the parent			1,386		944		3,190
Minority interests			3		3		3
			1,389		947		3,193
Earnings per share from continuing operations*							
Basic	9		56.1p		36.9p		59.5p
Diluted	9		55.8p		36.6p		59.1p
Earnings per share*							
Basic	9		56.1p		37.9p		120.7p
Diluted	9		55.8p		37.6p		120.0p

*Comparative EPS data have been restated to reflect the impact of the additional shares issued as scrip dividends

The notes on pages 125 to 178 form part of the consolidated financial statements.

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2010 £m	2009 £m	2008 £m
Profit for the year		1,389	947	3,193
Other comprehensive income/(loss):				
Exchange adjustments		33	464	(25)
Actuarial net (losses)/gains	4	(731)	(2,018)	432
Deferred tax on actuarial net gains and losses	6	175	678	(98)
Net losses taken to equity in respect of cash flow hedges		(45)	(1)	(32)
Transferred to profit or loss on cash flow hedges		3	(53)	(7)
Deferred tax on cash flow hedges	6	9	19	2
Net gains taken to equity on available-for-sale investments		54	9	6
Transferred to profit or loss on sale of available-for-sale investments		(6)	(18)	–
Deferred tax on available-for-sale investments	6	(5)	7	2
Share of post-tax other comprehensive income of joint ventures and associates		5	–	–
Other comprehensive (loss)/income for the year		(508)	(913)	280
Total comprehensive income for the year		881	34	3,473
Total comprehensive income attributable to:				
Equity shareholders of the parent		879	26	3,470
Minority interests		2	8	3
		881	34	3,473

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Consolidated balance sheet

as at 31 March

	Notes	2010 £m	2009 £m
Non-current assets			
Goodwill	10	5,102	5,391
Other intangible assets	11	389	370
Property, plant and equipment	12	30,855	29,545
Deferred tax assets	16	–	137
Pension asset	4	–	269
Other non-current assets	13	162	106
Financial and other investments	14,15	486	361
Derivative financial assets	17	1,494	1,533
Total non-current assets		38,488	37,712
Current assets			
Inventories and current intangible assets	18	407	556
Trade and other receivables	19	2,293	2,672
Financial and other investments	14	1,397	2,197
Derivative financial assets	17	248	593
Cash and cash equivalents	20	720	737
Total current assets		5,065	6,755
Total assets	1(d)	43,553	44,467
Current liabilities			
Borrowings	21	(2,806)	(3,253)
Derivative financial liabilities	17	(212)	(307)
Trade and other payables	22	(2,847)	(2,835)
Current tax liabilities		(391)	(383)
Provisions	24	(303)	(248)
Total current liabilities		(6,559)	(7,026)
Non-current liabilities			
Borrowings	21	(22,318)	(23,540)
Derivative financial liabilities	17	(662)	(633)
Other non-current liabilities	23	(1,974)	(2,092)
Deferred tax liabilities	16	(3,324)	(2,661)
Pensions and other post-retirement benefit obligations	4	(3,098)	(3,080)
Provisions	24	(1,407)	(1,451)
Total non-current liabilities		(32,783)	(33,457)
Total liabilities		(39,342)	(40,483)
Net assets		4,211	3,984
Equity			
Called up share capital	25	298	294
Share premium account		1,366	1,371
Retained earnings		7,316	7,135
Other equity reserves	26	(4,781)	(4,830)
Shareholders' equity		4,199	3,970
Minority interests		12	14
Total equity		4,211	3,984

These financial statements comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, accounting policies, adoption of new accounting standards and the notes to the consolidated financial statements 1 to 37, were approved by the Board of Directors on 19 May 2010 and were signed on its behalf by:

Sir John Parker Chairman
Steve Lucas Finance Director

Consolidated statement of changes in equity

for the years ended 31 March

	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 2007	308	1,332	7,635	(5,150)	4,125	11	4,136
Total comprehensive income/(loss) 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
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
Repurchase of share capital and purchase of treasury shares	(15)	—	(1,522)	15	(1,522)	—	(1,522)
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 comprehensive (loss)/income for the year	—	—	(396)	422	26	8	34
Equity dividends	—	—	(838)	—	(838)	—	(838)
Other movements in minority interests	—	—	—	—	—	(12)	(12)
Share-based payment	—	—	22	—	22	—	22
Issue of treasury shares	—	—	8	—	8	—	8
Repurchase of share capital and purchase of treasury shares	—	—	(603)	—	(603)	—	(603)
Tax on share-based payment	—	—	(1)	—	(1)	—	(1)
At 31 March 2009	294	1,371	7,135	(4,830)	3,970	14	3,984
Total comprehensive income for the year	—	—	830	49	879	2	881
Equity dividends	—	—	(893)	—	(893)	—	(893)
Scrip dividend related share issue	4	(5)	205	—	204	—	204
Other movements in minority interests	—	—	—	—	—	(4)	(4)
Share-based payment	—	—	25	—	25	—	25
Issue of treasury shares	—	—	18	—	18	—	18
Purchase of treasury shares	—	—	(7)	—	(7)	—	(7)
Tax on share-based payment	—	—	3	—	3	—	3
At 31 March 2010	298	1,366	7,316	(4,781)	4,199	12	4,211

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Consolidated cash flow statement

for the years ended 31 March

	Notes	2010 £m	2009 £m	2008 £m
Cash flows from operating activities				
Total operating profit	1(b)	3,293	2,623	2,964
Adjustments for:				
Exceptional items, remeasurements and stranded cost recoveries	3	(172)	292	(369)
Depreciation and amortisation		1,188	1,122	994
Share-based payment charge		25	22	18
Changes in working capital		431	54	(150)
Changes in provisions		(98)	(99)	(5)
Changes in pensions and other post-retirement benefit obligations		(521)	(678)	(333)
Cash flows relating to exceptional items		(135)	(131)	(132)
Cash flows relating to stranded cost recoveries		361	359	278
Cash flows generated from continuing operations		4,372	3,564	3,265
Cash flows relating to discontinued operations (excluding tax)	27(a)	–	(8)	10
Cash generated from operations		4,372	3,556	3,275
Tax received/(paid)		144	(143)	(110)
Net cash inflow from operating activities		4,516	3,413	3,165
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired		–	–	(3,502)
Acquisition of other investments		(86)	(73)	(26)
Sale of investments in subsidiaries and other investments		6	–	55
Purchases of intangible assets		(104)	(78)	(45)
Purchases of property, plant and equipment		(3,007)	(3,107)	(2,832)
Disposals of property, plant and equipment		15	27	26
Dividends from joint ventures		18	–	–
Interest received		21	85	206
Purchases of financial investments		(2,832)	(6,173)	(8,788)
Sales of financial investments		3,637	6,272	8,833
Cash flows used in continuing operations – investing activities		(2,332)	(3,047)	(6,073)
Cash flows relating to discontinued operations – investing activities (net of tax)	27(b)	–	1,049	3,050
Net cash flow used in investing activities		(2,332)	(1,998)	(3,023)
Cash flows from financing activities				
Proceeds from issue of share capital and sale of treasury shares		18	8	23
Proceeds from loans received		1,933	4,892	1,568
Repayment of loans		(2,257)	(2,618)	(650)
Net movements in short-term borrowings and derivatives		(175)	(633)	671
Interest paid		(1,003)	(1,061)	(900)
Exceptional finance costs on the redemption of debt		(33)	–	–
Dividends paid to shareholders		(688)	(838)	(780)
Cash paid to shareholders under B share scheme		–	–	(26)
Repurchase of share capital and purchase of treasury shares		(7)	(627)	(1,498)
Net cash flow used in financing activities		(2,212)	(877)	(1,592)
Net (decrease)/increase in cash and cash equivalents	27(c)	(28)	538	(1,450)
Exchange movements		(1)	18	4
Cash included within assets of businesses held for sale		–	–	23
Net cash and cash equivalents at start of year		720	164	1,587
Net cash and cash equivalents at end of year (i)	20	691	720	164

(i) Net of bank overdrafts of £29m (2009: £17m; 2008: £10m).

Notes to the consolidated financial statements – analysis of items in the primary statements

1. Segmental analysis

The Board of Directors is National Grid's chief operating decision making body (as defined by IFRS 8). The segmental analysis is based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between segments. The performance of operating segments is assessed principally on the basis of operating profit before exceptional items, remeasurements and stranded cost recoveries. The following table describes the main activities for each operating segment:

Transmission UK	High voltage electricity transmission networks, the gas transmission network in Great Britain, 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 and electricity metering activities; UK property management; a UK LNG import terminal; other LNG operations; US unregulated transmission pipelines; US gas fields; together with corporate activities.

For the year ended 31 March 2009, 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. These businesses were sold during the year ended 31 March 2009 except for two engineering companies which were sold subsequent to the year end. 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, all of which were disposed of during 2007. For additional disclosures relating to discontinued operations, refer to note 7.

Sales between operating segments are priced having regard to the regulatory and legal requirements to which the businesses are subject.

(a) Revenue

	Total sales 2010 £m	Sales between segments 2010 £m	Sales to third parties 2010 £m	Total sales 2009 £m	Sales between segments 2009 £m	Sales to third parties 2009 £m	Total sales 2008 £m	Sales between segments 2008 £m	Sales to third parties 2008 £m
Operating segments – continuing operations									
Transmission UK	3,460	6	3,454	3,487	2	3,485	2,956	16	2,940
Transmission US	405	74	331	420	83	337	299	61	238
Gas Distribution UK	1,517	70	1,447	1,466	79	1,387	1,383	70	1,313
Gas Distribution US	3,708	5	3,703	4,786	3	4,783	2,845	2	2,843
Electricity Distribution & Generation US	4,339	1	4,338	4,972	1	4,971	3,508	2	3,506
Other activities	738	23	715	719	58	661	642	59	583
	14,167	179	13,988	15,850	226	15,624	11,633	210	11,423
Total excluding stranded cost recoveries			13,612			15,189			11,041
Stranded cost recoveries			376			435			382
			13,988			15,624			11,423
Geographical areas									
UK			5,524			5,334			4,787
US			8,464			10,290			6,636
			13,988			15,624			11,423

The table above represents revenue from continuing operations only.

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.

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 future prices 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 £100m at 31 March 2010 (2009: £52m; 2008: £23m). In the US, under-recoveries and other regulatory entitlements to future revenue (including stranded cost recoveries) amounted to £2,333m at 31 March 2010 (2009: £2,289m; 2008: £1,652m).

Notes to the consolidated financial statements continued

1. Segmental analysis continued

A reconciliation of the operating segments' measure of profit to total profit before taxation is provided below. Further details of the exceptional items, remeasurements and stranded cost recoveries are provided in note 3.

(b) Operating profit

	Before exceptional items, remeasurements and stranded cost recoveries			After exceptional items, remeasurements and stranded cost recoveries		
	2010 £m	2009 £m	2008 £m	2010 £m	2009 £m	2008 £m
Operating segments – continuing operations						
Transmission UK	1,311	1,126	1,021	1,252	1,063	1,013
Transmission US	153	175	128	151	173	122
Gas Distribution UK	723	672	595	682	629	574
Gas Distribution US	414	612	392	448	226	487
Electricity Distribution & Generation US	374	265	330	701	531	696
Other activities	146	65	129	59	1	72
	3,121	2,915	2,595	3,293	2,623	2,964
Geographical areas						
UK	2,180	1,875	1,752	2,007	1,729	1,667
US	941	1,040	843	1,286	894	1,297
	3,121	2,915	2,595	3,293	2,623	2,964
Reconciliation to profit before tax:						
Operating profit	3,121	2,915	2,595	3,293	2,623	2,964
Interest income and similar income	1,005	1,315	1,275	1,005	1,315	1,275
Interest expense and other finance costs	(2,160)	(2,465)	(2,045)	(2,113)	(2,549)	(2,061)
Share of post-tax results of joint ventures and associates	8	5	4	8	5	4
Profit before tax – continuing operations	1,974	1,770	1,829	2,193	1,394	2,182

The table above represents operating profit from continuing operations only, as disclosed in the consolidated income statement, and excludes the results of discontinued operations.

(c) Capital expenditure and depreciation

	Capital expenditure			Depreciation and amortisation		
	2010 £m	2009 £m	2008 £m	2010 £m	2009 £m	2008 £m
Operating segments – continuing operations						
Transmission UK	1,254	1,259	1,600	373	353	372
Transmission US	240	182	111	59	56	40
Gas Distribution UK	670	598	514	201	177	181
Gas Distribution US	409	421	188	173	172	91
Electricity Distribution & Generation US	372	355	257	215	223	146
Other activities	307	427	383	173	146	164
	3,252	3,242	3,053	1,194	1,127	994
Discontinued operations	–	–	1	–	–	–
	3,252	3,242	3,054	1,194	1,127	994
Geographical areas						
UK	2,187	2,270	2,493	733	679	709
US	1,065	972	560	461	448	285
Rest of the world	–	–	1	–	–	–
	3,252	3,242	3,054	1,194	1,127	994

Capital expenditure comprises additions to property, plant and equipment and other non-current intangible assets amounting to £3,148m (2009: £3,164m; 2008: £3,009m) and £104m (2009: £78m; 2008: £45m) respectively.

Depreciation and amortisation includes expensed depreciation of property, plant and equipment and amortisation of other intangible assets amounting to £1,131m (2009: £1,058m; 2008: £940m) and £63m (2009: £69m; 2008: £54m) respectively.

1. Segmental analysis continued

(d) Total assets

	Total assets	
	2010 £m	2009 £m
Operating segments		
Transmission UK	11,085	10,451
Transmission US	2,467	2,238
Gas Distribution UK	6,592	6,158
Gas Distribution US	9,454	10,112
Electricity Distribution & Generation US	7,289	7,854
Other activities	2,557	2,289
	39,444	39,102
Joint ventures	250	168
Unallocated	3,859	5,197
	43,553	44,467
Geographical areas		
UK	19,720	18,527
US	19,974	20,743
Unallocated	3,859	5,197
	43,553	44,467

The analysis of total assets includes all attributable goodwill and excludes inter segment balances. Unallocated total assets comprise cash and cash equivalents, taxation, current financial investments and total derivative financial assets.

2. Operating costs

	Before exceptional items, remeasurements and stranded cost recoveries			Exceptional items, remeasurements and stranded cost recoveries			Total		
	2010 £m	2009 £m	2008 £m	2010 £m	2009 £m	2008 £m	2010 £m	2009 £m	2008 £m
Depreciation of property, plant and equipment	1,131	1,058	940	–	–	–	1,131	1,058	940
Amortisation of intangible assets	57	64	50	6	5	4	63	69	54
Payroll costs	1,354	1,415	1,071	48	34	108	1,402	1,449	1,179
Other operating charges:									
Purchases of electricity	1,592	2,199	1,589	(19)	28	(95)	1,573	2,227	1,494
Purchases of gas	2,294	3,228	2,011	(52)	334	(141)	2,242	3,562	1,870
Rates and property taxes	907	881	608	–	–	–	907	881	608
Electricity transmission services scheme direct costs	691	904	574	–	–	–	691	904	574
Payments to Scottish electricity transmission network owners	260	243	226	–	–	–	260	243	226
Other	2,224	2,345	1,452	221	326	137	2,445	2,671	1,589
	10,510	12,337	8,521	204	727	13	10,714	13,064	8,534
Operating costs include:									
Inventory consumed							475	788	390
Research expenditure							19	10	13
Operating lease rentals									
Plant and machinery							55	48	33
Other							32	33	30

Notes to the consolidated financial statements continued

2. Operating costs continued

(a) Payroll costs

	2010 £m	2009 £m	2008 £m
Wages and salaries	1,596	1,615	1,169
Social security costs	120	118	84
Other pension costs	161	160	218
Share-based payments	25	22	18
Severance costs (excluding pension costs)	16	16	14
	1,918	1,931	1,503
Less: payroll costs capitalised	(516)	(482)	(324)
	1,402	1,449	1,179

Payroll costs above represent continuing operations only. Payroll costs of discontinued operations for the year ended 31 March 2010 were £nil (2009: £11m; 2008: £16m).

(b) Number of employees

	31 March 2010 Number	Average 2010 Number	31 March 2009 Number*	Average 2009 Number*
UK	10,211	10,269	10,297	10,296
US	17,895	17,798	17,694	17,829
Continuing operations	28,106	28,067	27,991	28,125
Discontinued operations	–	–	–	83
	28,106	28,067	27,991	28,208

* Comparatives have been restated to present items on a basis consistent with the current year classification

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 2010, 3,533 (2009: 3,597) employees were employed in other operations, excluding shared services.

(c) Key management compensation

	2010 £m	2009 £m	2008 £m
Salaries and short-term employee benefits	10	11	9
Post-employment benefits	4	3	8
Share-based payments	5	5	3
	19	19	20

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 forms part of these financial statements.

2. Operating costs continued

(e) Auditors' remuneration

	2010 £m	2009 £m	2008 £m
Audit services:			
Audit of parent company and consolidated financial statements	1.1	1.5	1.4
Other services:			
Audit of subsidiary financial statements pursuant to legislation	5.4	5.8	5.1
Other services supplied pursuant to legislation	1.9	2.4	2.4
Services relating to tax compliance	0.6	0.6	0.7
Services relating to tax advisory	0.8	0.3	0.5
Services relating to corporate finance transactions	–	0.1	0.7
All other services	1.2	0.8	0.4
	11.0	11.5	11.2
Total services pursuant to legislation	8.4	9.7	8.9
Total other services	2.6	1.8	2.3
	11.0	11.5	11.2

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 auditors. 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.

All other services include fees relating to corporate responsibility reporting, treasury related projects, work in connection with our rights issue and sundry services, all of which have been subject to Audit Committee approval.

Notes to the consolidated financial statements continued

3. Exceptional items, remeasurements and stranded cost recoveries

	2010 £m	2009 £m	2008 £m
Exceptional items – restructuring costs (i)	(149)	(192)	(133)
Exceptional items – environmental related provisions (ii)	(63)	(78)	(92)
Exceptional items – gain on disposal of subsidiary and associate (iii)	11	–	6
Exceptional items – other (iv)	(67)	(5)	(23)
Remeasurements – commodity contracts (v)	71	(443)	232
Stranded cost recoveries (vi)	369	426	379
Total exceptional items, remeasurements and stranded cost recoveries included within operating profit	172	(292)	369
Exceptional items – debt redemption costs (vii)	(33)	–	–
Remeasurements – commodity contracts (v)	(1)	(2)	(9)
Remeasurements – net gains/(losses) on derivative financial instruments (viii)	81	(82)	(7)
Total exceptional items and remeasurements included within finance costs	47	(84)	(16)
Total exceptional items, remeasurements and stranded cost recoveries before taxation	219	(376)	353
Exceptional tax item – deferred tax credit arising from the reduction in the UK tax rate (ix)	–	–	170
Exceptional tax item – deferred tax charge arising from change in UK industrial building allowance regime (x)	–	(49)	–
Exceptional tax item – other (xi)	(41)	–	–
Tax on exceptional items – restructuring costs (i)	45	59	49
Tax on exceptional items – environmental related provisions (ii)	8	16	20
Tax on exceptional items – gain on disposal of subsidiary and associate (iii)	(2)	–	(4)
Tax on exceptional items – other (iv)	19	2	5
Tax on exceptional items – debt redemption costs (vii)	2	–	–
Tax on remeasurements – commodity contracts (v)	(28)	179	(90)
Tax on remeasurements – derivative financial instruments (viii)	(106)	8	(28)
Tax on stranded cost recoveries (vi)	(148)	(170)	(150)
Tax on exceptional items, remeasurements and stranded cost recoveries	(251)	45	(28)
Total exceptional items, remeasurements and stranded cost recoveries after taxation	(32)	(331)	325
Total exceptional items after taxation	(270)	(247)	(2)
Total commodity contract remeasurements after taxation	42	(266)	133
Total derivative financial instrument remeasurements after taxation	(25)	(74)	(35)
Total stranded cost recoveries after taxation	221	256	229
Total exceptional items, remeasurements and stranded cost recoveries after taxation	(32)	(331)	325

- (i) Restructuring costs include costs related to the integration of KeySpan of £30m (2009: £53m; 2008: £101m), the further restructuring of our liquefied natural gas (LNG) storage facilities of £41m (2009: £50m; 2008: £nil), transformation related initiatives of £56m (2009: £68m; 2008: £11m) and costs associated with the outsourcing of elements of our UK shared services organisation of £22m. Charges in the comparative years also included planned cost reduction programmes in our UK businesses (2009: £21m; 2008: £21m).
- (ii) Environmental charges include £21m related to specific exposures in the US together with £42m arising from changes in landfill tax legislation in the UK. For the year ended 31 March 2010, the UK charge was £42m (2009: £37m; 2008: £44m) and the US charge £21m (2009: £41m; 2008: £48m). Costs incurred with respect to US environmental provisions are substantially recoverable from customers.
- (iii) During the year there was a gain of £5m on the sale of a 30.29% investment in the associate Steuben Gas Storage Company. In addition there was the release of various unutilised provisions amounting to £6m originally recorded on the sale of Advantica in 2008.
- (iv) Other costs for the year ended 31 March 2010 include: an impairment charge of £11m and an amortisation charge of £6m (2009: £5m; 2008: £4m) in relation to acquisition-related intangibles; a charge of £9m relating to US healthcare costs arising from recent legislative changes; and £41m related to a fine of £15m together with associated costs and provisions against receivables and other balance sheet items. For further details on the fine levied upon us by the Gas and Electricity Markets Authority (GEMA) refer to note 28 (f).
- (v) 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.
- (vi) 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 £376m (2009: £435m; 2008: £382m) and operating costs of £7m (2009: £9m; 2008: £3m).
- (vii) Debt redemption costs in the year represent one-off costs relating to the early redemption of a significant loan.
- (viii) 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. The tax charge in the year ended 31 March 2010 includes a £78m (2009: £1m; 2008: £11m) charge in respect of prior years.
- (ix) The exceptional tax credit in the year ended 31 March 2008 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.
- (x) The exceptional tax charge of £49m in the year ended 31 March 2009 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.
- (xi) The exceptional tax charge of £41m arises due to a change in US tax legislation under the Patient Protection and Affordable Care Act.

4. 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 30.

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		
	2010 £m	2009 £m	2008 £m	2010 £m	2009 £m	2008 £m
Defined contribution scheme costs	7	5	5	–	–	–
Defined benefit scheme costs						
Current service cost*	112	134	125	26	32	21
Past service cost	19	–	5	6	7	5
Curtailment gain on redundancies	(7)	(4)	(16)	–	–	(4)
Settlements on redundancies	–	–	16	–	–	–
Special termination benefits on redundancies	26	19	80	–	–	1
Curtailment cost – augmentations	4	6	3	–	–	–
US healthcare reform cost	–	–	–	9	–	–
Total in payroll costs – continuing	161	160	218	41	39	23
Curtailment gain on sale of subsidiary undertaking	–	–	(12)	–	–	–
Interest cost	1,050	1,106	912	143	144	89
Expected return on plan assets	(931)	(1,163)	(1,014)	(50)	(73)	(50)
Total in finance costs – continuing	119	(57)	(102)	93	71	39
Current service cost	–	2	2	–	–	1
Total in discontinued operations	–	2	2	–	–	1

* As a result of flexible pension saving, a salary sacrifice arrangement introduced from December 2009, the current service cost has increased by £2m with a corresponding decrease in wages and salaries

The amounts recognised in the statement of comprehensive income are as follows:

	Pensions			US other post-retirement benefits		
	2010 £m	2009 £m	2008 £m	2010 £m	2009 £m	2008 £m
Actuarial net (loss)/gain during the year	(572)	(1,906)	497	(159)	(112)	(65)
Exchange differences	64	(141)	3	76	(408)	3
Total recognised for the year	(508)	(2,047)	500	(83)	(520)	(62)
Cumulative actuarial (loss)/gain	(1,156)	(584)	1,322	(362)	(203)	(91)

Notes to the consolidated financial statements continued

4. 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		
	2010 £m	2009 £m	2008 £m	2010 £m	2009 £m	2008 £m
Present value of funded obligations	(19,372)	(15,797)	(16,233)	(2,602)	(2,299)	(1,784)
Fair value of plan assets	18,186	14,797	16,536	950	722	737
	(1,186)	(1,000)	303	(1,652)	(1,577)	(1,047)
Present value of unfunded obligations	(226)	(203)	(158)	–	–	–
Other post-employment liabilities	–	–	–	(62)	(74)	(34)
Unrecognised past service cost	–	–	–	28	43	36
Net (liability)/asset in the balance sheet	(1,412)	(1,203)	145	(1,686)	(1,608)	(1,045)
Liabilities	(1,412)	(1,472)	(701)	(1,686)	(1,608)	(1,045)
Assets	–	269	846	–	–	–
Net (liability)/asset	(1,412)	(1,203)	145	(1,686)	(1,608)	(1,045)

Changes in the present value of the defined benefit obligations (including unfunded obligations)

Opening defined benefit obligations	(16,000)	(16,391)	(16,127)	(2,299)	(1,784)	(1,126)
Current service cost	(112)	(136)	(127)	(26)	(32)	(22)
Interest cost	(1,050)	(1,106)	(912)	(143)	(144)	(89)
Actuarial (losses)/gains	(3,563)	1,719	1,335	(360)	215	8
Curtailment gain on redundancies	7	4	16	–	–	4
Curtailment gain on sale of subsidiary undertaking	–	–	12	–	–	–
Net transfers and disposals	(3)	3	8	–	–	–
Special termination benefits	(26)	(19)	(80)	–	–	(1)
Curtailment cost – augmentations	(4)	(6)	(3)	–	–	–
Acquisition of subsidiary undertakings	–	–	(1,362)	–	–	(639)
Plan amendments	(19)	–	(5)	9	–	–
Plan amendments – US healthcare reform	–	–	–	(9)	–	–
Medicare subsidy received	–	–	–	(10)	–	–
Employee contributions	(10)	(13)	(15)	–	–	–
Benefits paid	1,008	1,003	875	132	116	78
Exchange adjustments	174	(1,058)	(6)	104	(670)	3
Closing defined benefit obligations	(19,598)	(16,000)	(16,391)	(2,602)	(2,299)	(1,784)

Changes in the fair value of plan assets

Opening fair value of plan assets	14,797	16,536	15,468	722	737	531
Expected return on plan assets	931	1,163	1,014	50	73	50
Actuarial gains/(losses)	2,991	(3,625)	(838)	201	(327)	(73)
Assets distributed on settlements and transfers	–	–	(16)	–	–	–
Transfers in/(out)	3	(3)	(8)	–	–	–
Employer contributions	572	799	465	137	93	46
Employee contributions	10	13	15	–	–	–
Acquisition of subsidiary undertakings	–	–	1,302	–	–	259
Benefits paid	(1,008)	(1,003)	(875)	(132)	(116)	(76)
Exchange adjustments	(110)	917	9	(28)	262	–
Closing fair value of plan assets	18,186	14,797	16,536	950	722	737
Actual return on plan assets	3,922	(2,462)	176	251	(254)	(23)
Expected contributions to defined benefit plans in the following year	353	552	581	148	123	128

5. Finance income and costs

	2010 £m	2009 £m	2008 £m
Interest income and similar income			
Expected return on pension and other post-retirement benefit plan assets	981	1,236	1,064
Interest income on financial instruments:			
Interest income from bank deposits and other financial assets	18	60	209
Interest receivable on finance leases	–	1	2
Gains transferred from equity on disposal of available-for-sale investments	6	18	–
Interest income and similar income	1,005	1,315	1,275
Interest expense and other finance costs			
Interest on pension and other post-retirement benefit plan obligations	(1,193)	(1,250)	(1,001)
Interest expense on financial liabilities held at amortised cost:			
Interest on bank loans and overdrafts	(80)	(136)	(71)
Interest on other borrowings	(938)	(1,135)	(990)
Interest on finance leases	–	(14)	(11)
Interest on derivatives	22	5	(46)
Unwinding of discounts on provisions	(70)	(68)	(45)
Less: Interest capitalised (i)	99	133	119
Interest expense and other finance costs before exceptional items and remeasurements	(2,160)	(2,465)	(2,045)
Exceptional items			
Exceptional debt redemption costs	(33)	–	–
Remeasurements			
Net gains/(losses) on derivative financial instruments included in remeasurements (ii):			
Ineffectiveness on derivatives designated as fair value hedges (iii)	67	(34)	1
Ineffectiveness on derivatives designated as cash flow hedges	(5)	(18)	13
Ineffectiveness on derivatives designated as net investment hedges	(19)	(2)	14
On undesignated forward rate risk relating to derivatives designated as net investment hedges	51	112	(53)
On derivatives not designated as hedges or ineligible for hedge accounting	(13)	(140)	18
Financial element of remeasurements on commodity contracts	(1)	(2)	(9)
	80	(84)	(16)
Interest expense and other finance costs	(2,113)	(2,549)	(2,061)
Net finance costs	(1,108)	(1,234)	(786)
Comprising:			
Interest income and similar income	1,005	1,315	1,275
Interest expense and other finance costs:			
Before exceptional items and remeasurements	(2,160)	(2,465)	(2,045)
Exceptional items and remeasurements	47	(84)	(16)
After exceptional items and remeasurements	(2,113)	(2,549)	(2,061)
	(1,108)	(1,234)	(786)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 2.8% (2009: 5.7%; 2008: 6.3%).

(ii) Includes a net foreign exchange gain on financing activities of £334m (2009: £1,500m loss; 2008: £885m loss) offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

(iii) Includes a net loss on instruments designated as fair value hedges of £90m (2009: £382m gain; 2008: £87m gain) offset by a net gain of £157m (2009: £416m loss; 2008: £86m loss) arising from fair value adjustments to the carrying value of debt.

Notes to the consolidated financial statements continued

6. Taxation

Taxation on items charged/(credited) to the income statement

	2010 £m	2009 £m	2008 £m
Taxation before exceptional items, remeasurements and stranded cost recoveries	553	517	579
Exceptional tax items (see note 3)	41	49	(170)
Taxation on other exceptional items, remeasurements and stranded cost recoveries	210	(94)	198
Taxation on total exceptional items, remeasurements and stranded cost recoveries (see note 3)	251	(45)	28
Total tax charge	804	472	607

Taxation as a percentage of profit before taxation

	2010 %	2009 %	2008 %
Before exceptional items, remeasurements and stranded cost recoveries	28.0	29.2	31.7
After exceptional items, remeasurements and stranded cost recoveries	36.7	33.9	27.8

The tax charge for the year can be analysed as follows:

	2010 £m	2009 £m	2008 £m
United Kingdom			
Corporation tax at 28% (2009: 28%; 2008: 30%)	197	37	214
Corporation tax adjustment in respect of prior years (i)	(31)	(54)	(156)
Deferred tax	259	339	42
Deferred tax adjustment in respect of prior years (ii)	(5)	—	67
	420	322	167
Overseas			
Corporate tax	74	105	209
Corporate tax adjustment in respect of prior years	(364)	38	31
Deferred tax	279	37	191
Deferred tax adjustment in respect of prior years	395	(30)	9
	384	150	440
Total tax charge	804	472	607

(i) The UK corporation tax adjustment in respect of prior years includes a £76m charge (2009: £2m credit; 2008: £9m charge) 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 (2009: £1m charge; 2008: £2m charge) that relates to exceptional items, remeasurements and stranded cost recoveries.

Taxation on items (credited)/charged to equity

	2010 £m	2009 £m	2008 £m
Corporation tax credit on share-based payments	(3)	(2)	(7)
Deferred tax charge on share of other comprehensive income of joint ventures and associates	4	—	—
Deferred tax charge/(credit) on available-for-sale investments	5	(7)	(2)
Deferred tax credit on revaluation of cash flow hedges	(9)	(19)	(2)
Deferred tax charge on share-based payments	—	3	12
Deferred tax (credit)/charge on actuarial (losses)/gains (i)	(175)	(678)	98
	(178)	(703)	99
Total tax (credit)/charge recognised in the consolidated statement of comprehensive income	(175)	(704)	94
Total tax (credit)/charge relating to share-based payments recognised directly in equity	(3)	1	5
	(178)	(703)	99

(i) 2010 includes a £42m charge relating to a change in US tax legislation under the Patient Protection and Affordable Care Act.

6. Taxation continued

The tax charge for the year after exceptional items, remeasurements and stranded cost recoveries is higher than (2009: higher; 2008: lower) the standard rate of corporation tax in the UK of 28% (2009: 28%; 2008: 30%). The differences are explained below:

	Before exceptional items, remeasurements and stranded cost recoveries 2010 £m	After exceptional items, remeasurements and stranded cost recoveries 2010 £m	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
Profit before taxation						
Before exceptional items, remeasurements and stranded cost recoveries	1,974	1,974	1,770	1,770	1,829	1,829
Exceptional items, remeasurements and stranded cost recoveries	–	219	–	(376)	–	353
Profit before taxation from continuing operations	1,974	2,193	1,770	1,394	1,829	2,182
Profit from continuing operations multiplied by rate of corporation tax in the UK of 28% (2009: 28%; 2008: 30%)	553	614	496	390	549	655
Effects of:						
Adjustments in respect of prior years	(82)	(5)	(45)	(46)	(60)	(49)
Expenses not deductible for tax purposes	62	237	76	82	102	117
Non-taxable income	(6)	(131)	(35)	(34)	(75)	(51)
Adjustment in respect of foreign tax rates	37	77	38	32	25	67
Impact of share-based payments	–	–	1	1	2	2
Remeasurement of deferred tax – change in UK tax rate	–	–	–	–	–	(170)
Other	(11)	12	(14)	47	36	36
Total taxation from continuing operations	553	804	517	472	579	607
	%	%	%	%	%	%
Effective income tax rate	28.0	36.7	29.2	33.9	31.7	27.8

Factors that may affect future tax charges

A number of changes to the UK corporation tax system were announced in the 2010 Budget Report which have been enacted in the Finance Act 2010. The impact of these is not considered to be material to the future tax charge in the UK.

There is currently ongoing consultation on the reform of the controlled foreign company legislation. The outcome of the consultation process will not be known for some time and we will monitor the impact of the taxation on our holdings in our overseas operations.

The worldwide debt cap, which restricts the amount of finance expense available for UK tax purposes, will apply for accounting periods ending 31 March 2011 onwards but is not expected to have a material effect on our future tax charge.

In connection with the US, on 23 March 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. This legislation includes a new tax that effectively eliminates the tax free treatment applied to the subsidy National Grid receives from the US government's Medicare Part D program. Therefore an increase in the effective tax rate will apply for accounting periods ending 31 March 2011 onwards but this is expected to be minimal.

Notes to the consolidated financial statements continued

7. Discontinued operations

For the years ended 31 March 2009 and 2008, discontinued operations comprised 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 ended 31 March 2009, the remaining two engineering companies were sold.

For the year ended 31 March 2008, discontinued operations also included 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

	2010 £m	2009 £m	2008 £m
Revenue	–	97	201
Operating costs	–	(84)	(166)
Total operating profit from discontinued operations	–	13	35
Remeasurement finance income (i)	–	–	8
Profit before tax from discontinued operations	–	13	43
Taxation	–	(4)	(7)
Profit after tax from discontinued operations	–	9	36
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 (ii)	–	(11)	(4)
Gain on disposal of discontinued operations	–	16	1,582
Total profit for the year from discontinued operations	–	25	1,618
Before exceptional items, remeasurements and stranded cost recoveries	–	9	28
Exceptional items, remeasurements and stranded cost recoveries	–	16	1,590

(i) Remeasurement finance income comprised £8m of mark-to-market gains on financial instruments.

(ii) The tax charge for the year ended 31 March 2009 included a current tax charge of £564m offset by a deferred tax credit of £564m.

8. Dividends

	2010 pence (per ordinary share)	2010 Total £m	2010 settled via scrip £m	2009 pence (per ordinary share)	2009 Total £m	2008 pence (per ordinary share)	2008 Total £m
Interim dividend for the year ended 31 March 2010	13.65	336	68	–	–	–	–
Final dividend for the year ended 31 March 2009	23.00	557	137	–	–	–	–
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
	36.65	893	205	33.94	838	29.50	780

In addition, the Directors are proposing a final dividend for 2010 of 24.84p per share that will absorb approximately £615m of shareholders' equity (assuming all amounts are settled in cash). It will be paid on 18 August 2010 to shareholders who are on the register of members at 4 June 2010. A scrip dividend will be offered as an alternative.

9. 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 3.

Diluted earnings per share have been calculated by dividing the net profit attributable to 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 2010 £m	Earnings per share 2010 pence	Earnings 2009 £m	Earnings per share 2009* pence	Earnings 2008 £m	Earnings per share 2008* pence
Adjusted earnings – continuing operations	1,418	57.4	1,250	50.2	1,247	47.2
Exceptional items after taxation	(270)	(10.9)	(247)	(9.9)	(2)	(0.1)
Commodity contract remeasurements after taxation	42	1.7	(266)	(10.7)	133	5.0
Derivative financial instrument remeasurements after taxation	(25)	(1.0)	(74)	(3.0)	(35)	(1.3)
Stranded cost recoveries after taxation	221	8.9	256	10.3	229	8.7
Earnings – continuing operations	1,386	56.1	919	36.9	1,572	59.5
Adjusted earnings – discontinued operations	–	–	9	0.4	28	1.1
Gain on disposal of operations after taxation	–	–	16	0.6	1,582	59.8
Other exceptional items and remeasurements	–	–	–	–	8	0.3
Earnings – discontinued operations	–	–	25	1.0	1,618	61.2
Earnings	1,386	56.1	944	37.9	3,190	120.7
		2010 millions		2009* millions		2008* millions
Weighted average number of shares – basic*		2,470		2,490		2,644

* Comparative EPS data have been restated to reflect the impact of the additional shares issued as scrip dividends

(b) Diluted earnings per share

	Earnings 2010 £m	Earnings per share 2010 pence	Earnings 2009 £m	Earnings per share 2009* pence	Earnings 2008 £m	Earnings per share 2008* pence
Adjusted diluted earnings – continuing operations	1,418	57.1	1,250	49.9	1,247	46.9
Exceptional items after taxation	(270)	(10.9)	(247)	(9.9)	(2)	(0.1)
Commodity contract remeasurements after taxation	42	1.7	(266)	(10.6)	133	5.0
Derivative financial instrument remeasurements after taxation	(25)	(1.0)	(74)	(3.0)	(35)	(1.3)
Stranded cost recoveries after taxation	221	8.9	256	10.2	229	8.6
Diluted earnings – continuing operations	1,386	55.8	919	36.6	1,572	59.1
Adjusted diluted earnings – discontinued operations	–	–	9	0.4	28	1.1
Gain on disposal of operations after taxation	–	–	16	0.6	1,582	59.5
Other exceptional items and remeasurements	–	–	–	–	8	0.3
Diluted earnings – discontinued operations	–	–	25	1.0	1,618	60.9
Diluted earnings	1,386	55.8	944	37.6	3,190	120.0
		2010 millions		2009* millions		2008* millions
Weighted average number of shares – diluted*		2,483		2,507		2,659

* Comparative EPS data have been restated to reflect the impact of the additional shares issued as scrip dividends

(c) Reconciliation of basic to diluted average number of shares

	2010 millions	2009 millions	2008 millions
Weighted average number of ordinary shares – basic	2,470	2,490	2,644
Effect of dilutive potential ordinary shares – employee share plans	13	17	15
Weighted average number of ordinary shares – diluted	2,483	2,507	2,659

Notes to the consolidated financial statements continued

10. Goodwill

	£m
Cost at 1 April 2008	3,904
Exchange adjustments	1,487
Cost at 31 March 2009	5,391
Exchange adjustments	(289)
Cost at 31 March 2010	5,102
Net book value at 31 March 2010	5,102
Net book value at 31 March 2009	5,391

The amounts disclosed above as at 31 March 2010 include balances relating to our US gas operations of £3,077m (2009: £3,251m), our New England electricity distribution operations of £881m (2009: £931m), our operations run by our subsidiary Niagara Mohawk Power Corporation of £898m (2009: £949m) and our New England transmission operations of £246m (2009: £260m).

Goodwill is reviewed annually for impairment and the recoverability of goodwill at 31 March 2010 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.

A future growth rate of 3% is used to extrapolate projections beyond five years. 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% (2009: 10%). 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.

11. Other intangible assets

	Software £m	Acquisition- related £m	Other £m	Total £m
Non-current				
Cost at 1 April 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
Exchange adjustments	(8)	(7)	–	(15)
Additions	103	–	1	104
Reclassifications (i)	5	–	1	6
Disposals	(1)	–	–	(1)
Cost at 31 March 2010	624	122	18	764
Amortisation at 1 April 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)
Exchange adjustments	6	–	–	6
Amortisation charge for the year	(52)	(6)	(5)	(63)
Impairment charge for the year	(7)	(11)	–	(18)
Reclassifications (i)	–	–	(1)	(1)
Disposals	1	–	–	1
Amortisation at 31 March 2010	(334)	(27)	(14)	(375)
Net book value at 31 March 2010	290	95	4	389
Net book value at 31 March 2009	243	119	8	370

(i) Primarily represents reclassifications between property, plant and equipment, trade and other receivables and between categories.

Notes to the consolidated financial statements continued

12. 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 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
Exchange adjustments	(54)	(765)	(19)	(2)	(840)
Additions	43	893	2,108	104	3,148
Disposals	(12)	(288)	(2)	(48)	(350)
Reclassifications (i)	91	1,874	(2,031)	83	17
Cost at 31 March 2010	1,572	39,230	2,541	1,026	44,369
Depreciation at 1 April 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 (iii)	—	(29)	—	—	(29)
Disposals	19	157	—	26	202
Reclassifications	(5)	(25)	—	30	—
Depreciation at 31 March 2009	(242)	(12,084)	—	(523)	(12,849)
Exchange adjustments	4	206	—	2	212
Depreciation charge for the year (ii)	(30)	(1,027)	—	(91)	(1,148)
Impairment charge for the year (iii)	(3)	(23)	(2)	(1)	(29)
Disposals	10	261	—	44	315
Reclassifications (i)	(22)	43	—	(36)	(15)
Depreciation at 31 March 2010	(283)	(12,624)	(2)	(605)	(13,514)
Net book value at 31 March 2010	1,289	26,606	2,539	421	30,855
Net book value at 31 March 2009	1,262	25,432	2,485	366	29,545

(i) Primarily represents reclassifications between categories, other intangible assets and trade and other receivables.

(ii) Includes amounts in respect of capitalised depreciation of £17m (2009: £19m).

(iii) Relates to write-down of property, plant and equipment items in the liquefied natural gas (LNG) storage facilities.

The net book value of land and buildings comprised:

	2010 £m	2009 £m
Freehold	1,208	1,191
Long leasehold (over 50 years)	5	5
Short leasehold (under 50 years)	76	66
	1,289	1,262

The cost of property, plant and equipment at 31 March 2010 included £903m (2009: £822m) relating to interest capitalised.

Included within trade and other payables and other non-current liabilities at 31 March 2010 are contributions to the cost of property, plant and equipment amounting to £39m (2009: £37m) and £1,478m (2009: £1,449m) respectively.

The carrying value of property, plant and equipment held under finance leases at 31 March 2010 was £202m (2009: £240m). Additions during the year included £13m (2009: £19m) of property, plant and equipment held under finance leases.

13. Other non-current assets

	2010 £m	2009 £m
Prepayments	7	6
Other receivables	71	92
Commodity contract assets	84	8
	162	106

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 33. Other receivables include £47m (2009: £61m) receivable from the Long Island Power Authority.

14. Financial and other investments

	2010 £m	2009 £m
Non-current		
Available-for-sale investments	236	193
Investments in joint ventures and associates (note 15)	250	168
	486	361
Current		
Available-for-sale investments	1,285	2,038
Loans and receivables	112	159
	1,397	2,197
Total financial and other investments	1,883	2,558
Financial and other investments include the following:		
Investments in short-term money funds	1,000	1,758
Managed investments in equity and bonds (i)	385	363
Restricted cash balances		
Collateral	58	159
Other	57	–
Cash surrender value of life insurance policies	126	102
Investment in joint ventures and associates (note 15)	250	168
Other investments	7	8
	1,883	2,558

(i) Includes £286m of current investments which are held by insurance captives and are therefore restricted.

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 32(c). None of the financial investments are past due or impaired.

15. Investments in joint ventures and associates

	2010 £m	2009 £m
Share of net assets at 1 April	168	71
Exchange adjustments	(7)	19
Additions	86	73
Share of retained profit for the year	8	5
Dividends received	(18)	–
Share of other comprehensive income	9	–
Other movements	4	–
Share of net assets at 31 March	250	168

A list of principal joint ventures and associates is provided in note 36.

Notes to the consolidated financial statements continued

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 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
At 1 April 2009	4,297	(13)	(1,388)	(4)	(368)	2,524
Exchange adjustments	(54)	—	84	(3)	13	40
Charged/(credited) to income statement	1,129	1	154	(42)	(314)	928
Credited to equity	—	—	(175)	—	—	(175)
Other	(285)	—	180	(42)	154	7
At 31 March 2010	5,087	(12)	(1,145)	(91)	(515)	3,324
Deferred tax assets at 31 March 2010	(2)	(12)	(1,235)	(103)	(657)	(2,009)
Deferred tax liabilities at 31 March 2010	5,089	—	90	12	142	5,333
	5,087	(12)	(1,145)	(91)	(515)	3,324

(i) Deferred tax credited to the income statement for the year ended 31 March 2009 includes a £564m 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 an intention to settle the balances net. The following is an analysis of the deferred tax balances (after offset) for balance sheet purposes:

	2010 £m	2009 £m
Deferred tax liabilities	3,324	2,661
Deferred tax assets	—	(137)
	3,324	2,524

At the balance sheet date there were no material current deferred tax assets or liabilities (2009: £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:

	2010 £m	2009 £m
Capital losses	401	214
Non-trade deficits	2	2
Trading losses	2	4

The trading losses arise overseas and are available to carry forward 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 £1,495m (2009: £1,137m). 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.

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 31. The fair value amounts by designated hedge type can be analysed as follows:

	2010			2009		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Fair value hedges						
Interest rate swaps	128	(4)	124	193	–	193
Cross-currency interest rate swaps	589	(20)	569	899	(26)	873
	717	(24)	693	1,092	(26)	1,066
Cash flow hedges						
Interest rate swaps	2	(112)	(110)	5	(94)	(89)
Cross-currency interest rate swaps	924	(16)	908	1,056	(5)	1,051
Foreign exchange forward contracts	2	–	2	–	–	–
	928	(128)	800	1,061	(99)	962
Net investment hedges						
Cross-currency interest rate swaps	135	(660)	(525)	55	(1,033)	(978)
Foreign exchange forward contracts	5	(42)	(37)	62	–	62
	140	(702)	(562)	117	(1,033)	(916)
Derivatives not in a formal hedge relationship						
Interest rate swaps	200	(233)	(33)	247	(257)	(10)
Cross-currency interest rate swaps	58	(1)	57	67	(9)	58
Foreign exchange forward contracts	3	(43)	(40)	32	(1)	31
Forward rate agreements	–	(47)	(47)	–	(16)	(16)
Other	–	–	–	11	–	11
	261	(324)	(63)	357	(283)	74
	2,046	(1,178)	868	2,627	(1,441)	1,186
Hedge positions offset within derivative instruments	(304)	304	–	(501)	501	–
Total	1,742	(874)	868	2,126	(940)	1,186

The maturity of derivative financial instruments is as follows:

	2010			2009		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
In one year or less	248	(212)	36	593	(307)	286
Current	248	(212)	36	593	(307)	286
In more than one year, but not more than two years	278	(174)	104	44	(28)	16
In more than two years, but not more than three years	152	(69)	83	259	(229)	30
In more than three years, but not more than four years	240	(106)	134	128	(48)	80
In more than four years, but not more than five years	57	(14)	43	281	(113)	168
In more than five years	767	(299)	468	821	(215)	606
Non-current	1,494	(662)	832	1,533	(633)	900
	1,742	(874)	868	2,126	(940)	1,186

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

	2010 £m	2009 £m
Interest rate swaps	(13,320)	(12,382)
Cross-currency interest rate swaps	(9,528)	(10,701)
Foreign exchange forward contracts	(1,989)	(2,802)
Forward rate agreements	(10,454)	(10,388)
Other	(314)	(758)
Total	(35,605)	(37,031)

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

Notes to the consolidated financial statements continued

18. Inventories and current intangible assets

	2010 £m	2009 £m
Raw materials and consumables	162	163
Work in progress	12	13
Fuel stocks	198	341
Current intangible assets – emission allowances	35	39
	407	556

The above table includes a £19m provision for obsolescence as at 31 March 2010 (2009: £15m).

19. Trade and other receivables

	2010 £m	2009 £m
Trade receivables	1,296	1,569
Other receivables	39	47
Commodity contract assets	21	41
Prepayments and accrued income	937	1,015
	2,293	2,672

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 33. All other receivables are recorded at amortised cost.

Provision for impairment of receivables

	2010 £m	2009 £m
At 1 April	303	159
Exchange adjustments	(15)	72
Charge for the year, net of recoveries	161	206
Uncollectible amounts written off against receivables	(138)	(134)
At 31 March	311	303

As at 31 March 2010, trade receivables of £248m (2009: £283m) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2010 £m	2009 £m
Up to 3 months past due	111	160
3 to 6 months past due	35	45
Over 6 months past due	102	78
	248	283

For further information on our wholesale and retail credit risk, refer to note 32(c). For further information on our commodity risk, refer to note 33.

20. Cash and cash equivalents

	2010 £m	2009 £m
Cash at bank	136	87
Short-term deposits	584	650
Cash and cash equivalents excluding bank overdrafts	720	737
Bank overdrafts	(29)	(17)
Net cash and cash equivalents	691	720

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 32(a)(i).

At 31 March 2010, £59m (2009: £52m) of cash and cash equivalents were restricted. This primarily relates to cash held in insurance captive companies.

21. Borrowings

	2010 £m	2009 £m
Current		
Bank loans	890	604
Bonds	1,730	1,826
Commercial paper	121	766
Finance leases	29	33
Other loans	7	7
Bank overdrafts	29	17
	2,806	3,253
Non-current		
Bank loans	2,163	3,140
Bonds	19,835	20,002
Finance leases	173	205
Other loans	147	193
	22,318	23,540
Total	25,124	26,793

Total borrowings are repayable as follows:

	2010 £m	2009 £m
In one year or less	2,806	3,253
In more than one year, but not more than two years	2,146	2,014
In more than two years, but not more than three years	1,356	2,543
In more than three years, but not more than four years	1,890	1,400
In more than four years, but not more than five years	1,862	2,457
In more than five years:		
by instalments	22	76
other than by instalments	15,042	15,050
	25,124	26,793

The fair value of borrowings at 31 March 2010 was £26,196m (2009: £25,230m). 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 2010 was £25,011m (2009: £26,619m).

Notes to the consolidated financial statements continued

21. Borrowings continued

Charges over property, plant and other assets were provided as collateral over borrowings totalling £515m at 31 March 2010 (2009: £493m).

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 £501m (2009: £473m) in respect of cash received under collateral agreements. Cash placed under collateral agreements is shown in note 14.

Obligations under finance leases at the balance sheet dates are analysed as follows:

	2010 £m	2009 £m
Gross finance lease liabilities repayable as follows:		
In one year or less	30	46
In more than one year, but not more than five years	107	148
In more than five years	135	124
	272	318
Less: finance charges allocated to future periods	(70)	(80)
	202	238
The present value of finance lease liabilities is as follows:		
In one year or less	29	33
In more than one year, but not more than five years	86	117
In more than five years	87	88
	202	238

For further details of our bonds in issue and borrowing facilities, refer to note 34.

22. Trade and other payables

	2010 £m	2009 £m
Trade payables	1,702	1,653
Commodity contract liabilities	184	203
Social security and other taxes	132	111
Other payables	585	650
Deferred income	244	218
	2,847	2,835

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 33. All other trade and other payables are recorded at amortised cost.

23. Other non-current liabilities

	2010 £m	2009 £m
Commodity contract liabilities	143	156
Other payables	265	396
Deferred income	1,566	1,540
	1,974	2,092

Commodity contract liabilities are recorded at fair value. For further details of commodity risk, refer to note 33. 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.

24. Provisions

	Decommissioning £m	Environmental £m	Emissions £m	Restructuring £m	Other £m	Total provisions £m
At 1 April 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
Exchange adjustments	(9)	(46)	(1)	–	(12)	(68)
Additions	5	85	4	36	16	146
Reclassifications*	–	–	–	–	70	70
Unused amounts reversed	(1)	(4)	–	(1)	(2)	(8)
Unwinding of discount	2	54	–	–	14	70
Utilised	(8)	(117)	(6)	(30)	(38)	(199)
At 31 March 2010	97	1,076	22	105	410	1,710

*Primarily represents reclassifications from other non-current liabilities

Provisions have been analysed as current and non-current as follows:

	2010 £m	2009 £m
Current	303	248
Non-current	1,407	1,451
	1,710	1,699

Decommissioning provision

The decommissioning provision of £97m at 31 March 2010 (2009: £108m) primarily represented the net present value of the estimated expenditure (discounted at a nominal rate of 6%) expected to be incurred until 2015 in respect of the decommissioning of certain nuclear generating units that National Grid no longer owns. It also included £46m (2009: £47m) of expenditure relating to other asset retirement obligations expected to be incurred until 2064.

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to a number of sites owned and managed by subsidiary undertakings, with the exception of certain US sites that National Grid no longer owns. The environmental provision is as follows:

	2010		2009*		Real discount rate
	Discounted £m	Undiscounted £m	Discounted £m	Undiscounted £m	
UK gas site decontamination (i)	262	376	226	317	2.0%
US sites (ii)	813	942	876	1,037	3.2%
Other (iii)	1	1	2	2	n/a
	1,076	1,319	1,104	1,356	

*Comparatives have been restated to present items on a basis consistent with the current year classification

(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 2011 to 2058 with some 40% of the spend over the next five years.

There are a number of uncertainties that affect the calculation of the provision for UK gas site decontamination, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. We have made our best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision and hence the income 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 2011 and 2067. 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.

Notes to the consolidated financial statements continued

24. Provisions continued

Emissions provision

The provision for emission costs is expected to be settled using emission allowances granted.

Restructuring provision

At 31 March 2010, £24m of the total restructuring provision (2009: £30m) 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 until 2015.

Other provisions

Other provisions at 31 March 2010 included £63m (2009: £61m) 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 also included £6m (2009: £12m) in respect of the sales of four UK gas distribution networks relating to property transfer costs; and £13m (2009: £13m) in respect of obligations associated with investments in joint ventures.

As at 31 March 2010 other provisions also included a £192m (2009: £219m) 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

Ordinary shares	Allotted, 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 & 2009	2,582	294
Issued during the year in lieu of dividends (iii)	35	4
At 31 March 2010	2,617	298

- (i) 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.
- (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.
- (iii) The issue of shares in lieu of cash dividends is considered to be a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to share premium account.

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.

Rights issue

On 19 May 2010, the Board resolved to offer a fully underwritten rights issue to shareholders to raise up to £3.2bn through the issue of up to 990,439,017 new ordinary shares of 11¹⁷/₄₃ pence nominal value each. The rights issue will be offered on the basis of 2 new shares at 335 pence per new share for every 5 existing shares. The new shares (representing approximately 40% of the existing issued share capital excluding treasury shares and 28.6% of the enlarged issued share capital excluding treasury shares immediately following completion of the rights issue) when fully paid will rank pari passu in all respects with the existing shares, except that they will have no right to participate in the final dividend of 24.84 pence per ordinary share proposed to be paid in respect of the year ended 31 March 2010.

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.

25. Share capital continued

Treasury shares

At 31 March 2010, the Company held 144m (2009: 153m; 2008: 67m) of its own shares. The market value of these shares as at 31 March 2010 was £925m (2009: £821m; 2008: £462m).

The Company made the following transactions in respect of its own shares during the year ended 31 March 2010:

- (i) During the year, 4m (2009: 1m; 2008: 0.1m) treasury shares were gifted to National Grid Employee Share Trusts and 5m (2009: 2m; 2008: 3m) treasury shares were reissued in relation to employee share schemes, in total representing approximately 0.3% (2009: 0.1%; 2008: 0.1%) of the ordinary shares in issue as at year-end date. The nominal value of these shares was £1m (2009: £0.3m; 2008: £0.3m) and the total proceeds received were £18m (2009: £8m; 2008: £10m).
- (ii) During the year, the Company made gifts totalling £7m (2009: £5m; 2008: £6m) to National Grid Employee Share Trusts, 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 shares held during the year was 154m ordinary shares (2009: 154m; 2008: 67m) representing approximately 5.9% (2009: 6%; 2008: 3%) of the ordinary shares in issue as at 31 March 2010 and having a nominal value of £18m (2009: £18m; 2008: £8m).

The Company made the following additional transactions in respect of its own shares during the years ended 31 March 2009 and 2008:

- (i) During the year, the Company repurchased under its share repurchase programme 85m (2008: 73m) ordinary shares for aggregate consideration of £597m (2008: £570m) including transaction costs. The shares repurchased had a nominal value of £10m (2008: £8m) and represented approximately 3% (2008: 3%) of the ordinary shares in issue at the year end.

Additional information in respect of share capital

	2010 millions	2010 £m	2009 millions	2009 £m	2008 millions	2008 £m
Consideration received in respect of ordinary shares issued during the year	—	—	—	—	8	23
Authorised share capital – ordinary shares (i)	4,392	501	4,392	501	4,392	501

(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 35.

26. Other equity reserves

	Translation £m	Cash flow hedge £m	Available- for-sale £m	Capital redemption £m	Merger £m	Total £m
At 1 April 2007	(48)	26	1	4	(5,133)	(5,150)
Total other comprehensive (loss)/income for the year	(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)
Total other comprehensive (loss)/income for the year	457	(30)	(5)	—	—	422
At 31 March 2009	384	(72)	4	19	(5,165)	(4,830)
Total other comprehensive (loss)/income for the year	30	(25)	44	—	—	49
At 31 March 2010	414	(97)	48	19	(5,165)	(4,781)

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 2010 will be continuously transferred to the income statement until the borrowings are repaid. The amount of the cash flow hedge reserve due to be released from reserves to the income statement within the next year is £7m, 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.

Notes to the consolidated financial statements continued

27. Consolidated cash flow statement

(a) Cash flow from operating activities – discontinued operations

	2010 £m	2009 £m	2008 £m
Operating profit	–	13	35
Adjustments for:			
Changes in working capital, provisions and pensions	–	(21)	(25)
Cash flow relating to discontinued operations	–	(8)	10

(b) Cash flow from investing activities – discontinued operations

	2010 £m	2009 £m	2008 £m
Disposal proceeds (i)	–	1,617	3,064
Tax arising on disposal	–	(564)	–
Other investing activities	–	(4)	(14)
Cash flow relating to discontinued operations	–	1,049	3,050

(i) Disposal proceeds are in respect of the sale of assets and liabilities classified as held for sale.

(c) Reconciliation of net cash flow to movement in net debt

	2010 £m	2009 £m	2008 £m
(Decrease)/increase in cash and cash equivalents	(28)	538	(1,450)
Decrease in financial investments	(805)	(99)	(45)
Decrease/(increase) in borrowings and related derivatives	499	(1,641)	(1,589)
Cash paid to shareholders under B share scheme	–	–	26
Net interest paid on the components of net debt	999	956	694
Change in net debt resulting from cash flows	665	(246)	(2,364)
Changes in fair value of financial assets and liabilities and exchange movements	865	(3,625)	(133)
Net interest charge on the components of net debt	(996)	(1,161)	(901)
Borrowings of subsidiary undertaking acquired	–	–	(2,446)
Other non-cash movements	–	–	(9)
Movement in net debt (net of related derivative financial instruments) in the year	534	(5,032)	(5,853)
Net debt (net of related derivative financial instruments) at start of year	(22,673)	(17,641)	(11,788)
Net debt (net of related derivative financial instruments) at end of year	(22,139)	(22,673)	(17,641)

(d) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Total ⁽ⁱ⁾ £m
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)
Cash flow	(16)	(12)	(28)	(826)	2,079	(560)	665
Fair value gains and losses and exchange movements	(1)	–	(1)	2	644	220	865
Interest charges	–	–	–	24	(1,042)	22	(996)
At 31 March 2010	720	(29)	691	1,397	(25,095)	868	(22,139)
Balances at 31 March 2010 comprise:							
Non-current assets	–	–	–	–	–	1,494	1,494
Current assets	720	–	720	1,397	–	248	2,365
Current liabilities	–	(29)	(29)	–	(2,777)	(212)	(3,018)
Non-current liabilities	–	–	–	–	(22,318)	(662)	(22,980)
	720	(29)	691	1,397	(25,095)	868	(22,139)

(i) Includes accrued interest at 31 March 2010 of £232m (2009: £258m).

Notes to the consolidated financial statements – supplementary information

28. Commitments and contingencies

(a) Future capital expenditure

	2010 £m	2009* £m
Contracted for but not provided	1,738	1,626

* Comparatives have been restated to present items on a basis consistent with the current year classification

(b) Lease commitments

Total commitments under non-cancellable operating leases (the majority of which were in respect of properties) were as follows:

	2010 £m	2009* £m
In one year or less	91	96
In more than one year, but not more than two years	84	92
In more than two years, but not more than three years	79	86
In more than three years, but not more than four years	96	85
In more than four years, but not more than five years	76	104
In more than five years	500	622
	926	1,085

* Comparatives have been restated to present items on a basis consistent with the current year classification

(c) Energy purchase commitments

At 31 March 2010, there were obligations under contracts for the forward purchase of energy. The following table analyses these commitments, excluding commodity contracts carried at fair value.

	2010 £m	2009 £m
In one year or less	1,566	990
In more than one year, but not more than two years	653	816
In more than two years, but not more than three years	411	620
In more than three years, but not more than four years	343	412
In more than four years, but not more than five years	284	379
In more than five years	278	428
	3,535	3,645

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 33.

Notes to the consolidated financial statements continued

28. Commitments and contingencies continued

(d) Other commitments, contingencies and guarantees

The value of other commitments, contingencies and guarantees at 31 March 2010 amounted to £2,119m (2009: £1,846m), including guarantees amounting to £1,189m (2009: £1,202m) and other commitments and contingencies largely relating to gas purchasing and property remediation of £930m (2009: £644m). Details of the guarantees entered into by the Company or its subsidiary undertakings at 31 March 2010 are shown below:

- (i) a guarantee in respect of Ravenswood Unit 40 financing amounting to approximately £377m. 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 £254m. This expires on commissioning expected early 2011;
- (iii) guarantees of certain obligations in respect of the UK Grain LNG Import Terminal amounting to approximately £164m. These run for varying lengths of time, expiring between now and 2028;
- (iv) a guarantee amounting to approximately £120m of half of the obligations of the interconnector project between Britain and The Netherlands. This expires on commissioning expected early 2011;
- (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 £26m, lasting for less than one year;
- (viii) guarantees of £14m 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;
- (xi) guarantees of the liabilities of our subsidiary, National Grid Carbon Limited, under contracts in connection with work on a carbon capture and storage demonstration project amounting to £20m. These expire on completion of the project expected 2011; and
- (xii) other guarantees amounting to £92m arising in the normal course of business and entered into on normal commercial terms. These guarantees run for varying lengths of time.

(e) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £14m (2009: £28m).

(f) Litigation and claims

We reported in previous Annual Reports and Accounts a decision by the Gas and Electricity Markets Authority (GEMA) to fine National Grid £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. This decision was overturned in part and the fine reduced to £30m by the Competition Appeal Tribunal in April 2009 and the fine was further reduced to £15m by the Court of Appeal in a reserved judgement (not otherwise affecting the Competition Appeal Tribunal's judgement) issued in February 2010. On 22 March 2010, National Grid applied for leave to appeal the Court of Appeal's judgement to the Supreme Court.

As at 31 March 2010, we have provided for the fine together with associated costs and have provided against certain trade receivables and other balance sheet items. Without prejudice to our position in relation to appealing the Court of Appeal's judgement, the £15m fine was paid to GEMA on 1 April 2010.

In October 2008, we informed Ofgem that mains replacement activity carried out by the UK Gas Distribution business may have been misreported. Ofgem's investigation continues, so that at present it is too early to determine the likely outcome of the investigation and any potential consequences arising from it.

As previously reported, in May 2007, KeySpan received a civil investigative demand from the Antitrust Division of the US Department of Justice (the DOJ) and a further one in April 2008, requesting the production of documents and information relating to its investigation of competitive issues in the New York City electricity capacity market prior to the Company's acquisition of KeySpan. In February 2010, the DOJ filed a proposed final judgement in the US District Court for the Southern District of New York. Under the terms of the proposed settlement, the DOJ and KeySpan agreed that KeySpan will pay \$12m in full and final resolution of the DOJ's civil investigative demands. This agreement contains no admissions of liability by KeySpan and remains subject to court approval, which is currently anticipated later in 2010.

On 18 March 2010, a putative class action was commenced against KeySpan and Morgan Stanley in the Supreme Court for the State of New York in Bronx County. The complaint alleges that a financial swap transaction between KeySpan and Morgan Stanley in January 2006 caused customers of Consolidated Edison, Inc. to overpay for electricity between May 2006 and February 2008. The complaint seeks compensatory damages of not less than \$160m, as well as punitive damages plus legal costs. National Grid's management believes that the complaint and its allegations are without merit.

29. 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 a pension plan and were in the normal course of business and are summarised below:

	2010 £m	2009 £m	2008 £m
Sales: Services supplied to a pension plan and joint ventures	5	4	3
Purchases: Services received from joint ventures	73	44	33
Interest income: Interest received on loans with joint ventures	1	—	—
Receivable from a pension plan and joint ventures	1	—	—
Payable to joint ventures	6	6	2
Dividends received from joint ventures	18	—	—

Amounts receivable from and payable to related parties are due on normal commercial terms.

At 31 March 2010, there was a loan receivable from Blue-NG Limited (a joint venture) of £23m (2009: £nil; 2008: £nil) of which £4m is non interest-bearing and the remainder bears interest at 14% per annum.

Details of investments in principal subsidiary undertakings, joint ventures and associates are disclosed in note 36 and information relating to pension fund arrangements is disclosed in notes 4 and 30. For details of Directors' and key management remuneration, refer to note 2(c) and the auditable section of the Directors' Remuneration Report.

30. Actuarial information on pensions and other post-retirement benefits

UK pension schemes

National Grid's defined benefit pension arrangements are funded with assets held in separate trustee administered funds. The arrangements 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. From April 2009 Flexible Pension Saving (FPS), a salary sacrifice arrangement, was introduced for active defined contribution section members of the National Grid UK Pension Scheme. FPS was introduced in respect of active defined benefit members of both pension schemes in December 2009. Member contributions and National Grid's service charge reflects this new arrangement.

National Grid UK Pension Scheme

The National Grid UK Pension Scheme ceased to offer final salary defined benefits for new hires from 31 March 2002. A defined contribution arrangement was offered for employees joining from 1 April 2002.

The latest full actuarial valuation was carried out by Towers Watson 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 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, giving a total Company rate of 32.6% of pensionable earnings. The employer contribution rate will be reviewed at the next valuation on 31 March 2010, while the administration rate is reviewed annually.

In accordance with the recovery plan agreed with the trustees at the 2007 valuation, the Company paid its final contribution of £59m (£42m net of tax) during the year which ensured that the deficit reported at the 2007 valuation was paid in full. Contributions to the scheme during the year to 31 March 2011 are expected to comprise ongoing normal contributions only.

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 ceased to allow new hires to join from 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 light of which the Company agreed a recovery plan with the trustees.

Notes to the consolidated financial statements continued

30. Actuarial information on pensions and other post-retirement benefits continued

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) during the year and anticipates no further deficit payments in the year to 31 March 2011 in line with the recovery plan. Contributions to the scheme in the year to 31 March 2011 are expected to consist of ongoing normal contributions only.

Since 2007, National Grid has also agreed to bring forward payment of the outstanding deficit plus interest in the event that certain triggers are breached. 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 certain agreed levels 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. In general, the Company's policy for funding the US pension plans is to contribute amounts collected in rates. These contributions are expected to meet the requirements of the Pension Protection Act of 2006.

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 US GAAP; 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 \$404m to the US pension plans and \$224m to other post-retirement benefit plans in the year to 31 March 2011, 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		
	2010 %	2009 %	2008 %	2010 %	2009 %	2008 %	2010 %	2009 %	2008 %
Equities (i)	36.8	35.2	35.9	52.8	50.4	60.6	68.6	63.7	63.1
Corporate bonds (ii)	32.3	32.7	25.0	41.5	42.3	33.6	24.8	34.2	32.3
Gilts	22.4	22.2	29.8	—	—	—	—	—	—
Property	5.9	5.4	6.7	—	—	—	—	—	—
Other	2.6	4.5	2.6	5.7	7.3	5.8	6.6	2.1	4.6
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 2010 were ordinary shares of National Grid plc with a value of £17m (2009: £17m; 2008: £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 33% equities and 67% bond-like (including property). The current target asset allocation for National Grid's section of the Electricity Supply Pension Scheme is 52% equities, 41% 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 the actual asset allocation resulting in a long-term return on asset rate for each plan. 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 70% equities and 30% bonds.

30. Actuarial information on pensions and other post-retirement benefits continued

The principal actuarial assumptions used were:

	UK pensions			US pensions			US other post-retirement benefits		
	2010 %	2009 %	2008 %	2010 %	2009 %	2008 %	2010 %	2009 %	2008 %
Discount rate (i)	5.6	6.8	6.6	6.1	7.3	6.5	6.1	7.3	6.5
Expected return on plan assets	6.4	6.2	6.4	7.5	7.8	7.9	7.2	7.4	7.6
Rate of increase in salaries (ii)	4.7	3.8	4.6	3.5	3.5	4.0	3.5	3.5	4.0
Rate of increase in pensions in payment	3.8	3.0	3.8	—	—	—	n/a	n/a	n/a
Rate of increase in pensions in deferment	3.8	2.9	3.7	—	—	—	n/a	n/a	n/a
Rate of increase in retail price index or equivalent	3.8	2.9	3.7	2.4	2.3	3.0	n/a	n/a	n/a
Initial healthcare cost trend rate	n/a	n/a	n/a	n/a	n/a	n/a	8.5	9.0	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 scale has also been used where appropriate.

The assumed life expectations for a retiree at age 65 are:

	2010		2009	
	UK years	US years	UK years	US years
Today				
Males	21.0	18.8	21.0	18.2
Females	23.4	20.8	23.3	20.5
In 20 years				
Males	23.4	18.8	23.3	18.2
Females	25.7	20.8	25.6	20.5

Sensitivities – all other assumptions held constant:

	Change in pensions and other post-retirement obligation		Change in annual service cost	
	2010 £m	2009 £m	2010 £m	2009 £m
0.1% change in discount rate	317	233	4	4
0.5% change in long-term rate of increase in salaries	166	116	8	5
Change of one year to life expectations at age 60	670	541	5	5

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:

	2010 £m	2009 £m	2008 £m
Increase			
Effect on the aggregate of the service costs and interest costs	25	29	16
Effect on defined benefit obligations	348	294	251
Decrease			
Effect on the aggregate of the service costs and interest costs	(21)	(24)	(13)
Effect on defined benefit obligations	(298)	(254)	(214)

The history of experience adjustments is as follows:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Details of experience gains/(losses) for all plans					
Present value of funded and unfunded obligations	(22,200)	(18,299)	(18,175)	(17,253)	(17,839)
Fair value of plan assets	19,136	15,519	17,273	15,999	15,909
	(3,064)	(2,780)	(902)	(1,254)	(1,930)
Difference between the expected and actual return on plan assets	3,192	(3,952)	(911)	(81)	1,521
Experience gains/(losses) on plan liabilities	509	(125)	152	9	192
Actuarial (losses)/gains on plan liabilities	(3,923)	1,934	1,343	446	(1,340)

Notes to the consolidated financial statements continued

31. 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 33.

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 32. 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.

32. 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 74 to 78.

(a) Market risk

(i) Foreign exchange risk

National Grid operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and investments in foreign operations.

With respect to near term foreign exchange risk, we use foreign exchange forwards to manage foreign exchange transaction exposure. Our policy is to hedge a minimum percentage of known contracted foreign currency flows in order to mitigate foreign currency movements in the intervening period. Where cash forecasts are less certain, we generally cover a percentage of the foreign currency flows depending on the level of agreed probability for those future cash flows.

We also manage the foreign exchange exposure to net investments in foreign operations, within a policy range, by maintaining a percentage of net debt and foreign exchange forwards in the relevant currency. The primary managed foreign exchange exposure arises from the US dollar denominated assets and liabilities held by the US operations, with a further small euro exposure in respect of a joint venture investment.

During 2010 and 2009, derivative financial instruments were used to manage foreign currency risk as follows:

	2010					2009				
	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	428	4	288	–	720	632	4	101	–	737
Financial investments	455	127	736	79	1,397	1,377	132	617	71	2,197
Borrowings (i)	(10,651)	(6,361)	(7,394)	(718)	(25,124)	(12,424)	(7,214)	(6,435)	(720)	(26,793)
Pre-derivative position	(9,768)	(6,230)	(6,370)	(639)	(23,007)	(10,415)	(7,078)	(5,717)	(649)	(23,859)
Derivative effect	438	6,172	(6,388)	646	868	2,040	7,116	(8,622)	652	1,186
Net debt position	(9,330)	(58)	(12,758)	7	(22,139)	(8,375)	38	(14,339)	3	(22,673)

(i) Includes bank overdrafts.

The overall exposure to US dollars largely relates to our net investment hedge activities as described in note 31.

The currency exposure on other financial instruments is as follows:

	2010					2009				
	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	128	–	1,228	–	1,356	138	–	1,519	–	1,657
Trade and other payables	(1,221)	–	(1,382)	–	(2,603)	(1,196)	–	(1,421)	–	(2,617)
Other non-current liabilities	(15)	–	(393)	–	(408)	1	–	(553)	–	(552)

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.

Notes to the consolidated financial statements continued

32. 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 77 is to minimise the finance costs (being interest costs and changes in the market value of debt). Some of our borrowings 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 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:

	2010 £m	2009 £m
Fixed interest rate borrowings		
In one year or less	(1,237)	(2,103)
In more than one year, but not more than two years	(1,413)	(809)
In more than two years, but not more than three years	(956)	(1,398)
In more than three years, but not more than four years	(1,762)	(981)
In more than four years, but not more than five years	(1,265)	(1,821)
In more than five years	(8,791)	(8,637)
	(15,424)	(15,749)
Floating interest rate borrowings (including inflation linked)	(9,700)	(11,044)
Total borrowings	(25,124)	(26,793)

During 2010 and 2009, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2010					2009				
	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	599	121	–	–	720	–	737	–	–	737
Financial investments	602	673	–	122	1,397	217	1,922	–	58	2,197
Borrowings (iii)	(15,424)	(4,604)	(5,096)	–	(25,124)	(15,749)	(6,001)	(5,043)	–	(26,793)
Pre-derivative position	(14,223)	(3,810)	(5,096)	122	(23,007)	(15,532)	(3,342)	(5,043)	58	(23,859)
Derivative effect (iv)	(1,552)	2,292	204	(76)	868	148	589	345	104	1,186
Net debt position	(15,775)	(1,518)	(4,892)	46	(22,139)	(15,384)	(2,753)	(4,698)	162	(22,673)

(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 2010/11 (2009: 2009/10) maturing short-dated interest rate derivatives is included.

(b) Fair value analysis

The following is an analysis of our financial instruments that are measured at fair value. They are reported in a tiered hierarchy based on the valuation methodology described on page 78, and reflecting the significance of market observable inputs.

The classification is as follows:

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs is based on unobservable market data.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

32. Financial risk continued

The fair value classification of our financial assets and financial liabilities is as follows:

	2010			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale investments	1,346	175	–	1,521
Derivative financial instruments	–	1,706	36	1,742
	1,346	1,881	36	3,263
Liabilities				
Derivative financial instruments	–	(874)	–	(874)
Total	1,346	1,007	36	2,389

The financial instruments classified as level 3 include cross-currency swaps with an embedded call option and currency swaps where the currency forward curve is illiquid. Third party valuations are obtained from more than one source to support the reported fair value.

The changes in the value of our level 3 derivative financial instruments are as follows:

	2010 £m
At 1 April 2009	10
Net gains for the year (i)	29
Settlements	(3)
At 31 March 2010	36

(i) Gains of £29m are attributable to assets or liabilities held at the end of the reporting period and have been recognised in finance costs in the income statement.

(c) 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 2010, 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 2010 and 2009, we had a number of exposures to individual counterparties. In accordance with our treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. Management does not expect any significant losses from non performance by these counterparties.

The counterparty exposure under derivative financial contracts as shown in note 17 was £1,742m (2009: £2,126m); after netting agreements it was £1,229m (2009: £1,674m). This exposure is further reduced by collateral received as shown in note 21. Additional information for commodity contract credit risk is in note 33.

Notes to the consolidated financial statements continued

32. Financial risk continued

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 security deposits prior to providing utility services. Collection activities are managed on a daily basis. Sales to retail customers are usually settled in cash or using major credit cards. We are committed to measuring, monitoring, minimising and recording counterparty credit risk in our wholesale business. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 19.

(d) 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 2010					
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(2,390)	(2,100)	(1,322)	(18,927)	(24,739)
Interest payments on borrowings (i)	(915)	(874)	(845)	(9,829)	(12,463)
Finance lease liabilities	(30)	(53)	(20)	(169)	(272)
Other non interest-bearing liabilities	(2,287)	(265)	–	–	(2,552)
Derivative financial liabilities					
Derivative contracts – receipts	1,027	1,649	171	2,235	5,082
Derivative contracts – payments	(859)	(1,464)	(104)	(1,874)	(4,301)
Commodity contracts	(488)	(168)	(35)	(101)	(792)
Total at 31 March 2010	(5,942)	(3,275)	(2,155)	(28,665)	(40,037)
	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)

(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.

32. Financial risk continued

(e) Sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits, derivative financial instruments and commodity contracts. The following analysis illustrates the sensitivity to changes in market variables, being UK and US interest rates, the UK retail price index and the 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 benefit 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 2010 and 31 March 2009 respectively. As a consequence, this sensitivity analysis relates to the positions at those dates and is not representative of the years then ended, as all of these varied.

The following assumptions were made in calculating the sensitivity analysis:

- the balance sheet sensitivity to interest rates relates only to derivative financial instruments and available-for-sale investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- changes in the carrying value of derivatives from movements in interest rates designated as cash flow hedges are assumed to be recorded fully within equity;
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in interest rates are recorded in the income statement as they are designated using the spot rather than the forward translation method. The impact of movements in the 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 dollar to sterling exchange rate, after the effects of tax.

	2010		2009	
	Income statement +/- £m	Other equity reserves +/- £m	Income statement +/- £m	Other equity reserves +/- £m
UK retail price index +/- 0.50%	17	–	17	–
UK interest rates +/- 0.50%	51	71	67	77
US interest rates +/- 0.50%	52	14	63	13
US dollar exchange rate +/- 10%	68	623	55	880

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 £796m (2009: £964m) in the opposite direction if the dollar exchange rate changed by 10%.

Notes to the consolidated financial statements continued

32. Financial risk continued

(f) 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 2010 increased to 3.9 from 3.1 for the year ended 31 March 2009. 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. This year's interest cover was above the long-term target range, reflecting the low average retail price index (RPI) during the year, which reduced the interest expense on the accretion of our RPI linked debt. Additional information is provided on page 38.

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%.

National Grid USA and its public utility subsidiaries, all consolidated subsidiaries of National Grid, are subject to restrictions on the payment of dividends by administrative order and contract. Orders by the Federal Energy Regulatory Commission and applicable state regulatory commissions limit the payment of dividends to cumulative retained earnings, including pre-acquisition retained earnings. Other orders by federal and state commissions require National Grid USA and its public utility subsidiaries to maintain a ratio of at least 30% equity to capital, and debt covenants in effect require that this ratio be maintained at a level of at least 35%.

Some of our regulatory and bank loan agreements additionally impose lower limits for the long-term credit ratings that certain companies within the group must hold. All of the aforementioned requirements are monitored on a regular basis in order to ensure compliance. Additional information is provided on page 74. The Company has complied with all externally imposed capital requirements to which it is subject.

33. 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 are used to 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 where 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 is £105m (2009: £49m), and after netting agreements it was £91m (2009: £43m).

33. Commodity risk continued

(a) Fair value analysis

The fair value of our commodity contracts by type can be analysed as follows:

	2010			2009		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Commodity purchase contracts accounted for as derivative contracts						
Forward purchases of electricity	–	(127)	(127)	–	(121)	(121)
Forward purchases/sales of gas	51	(101)	(50)	35	(34)	1
Derivative financial instruments linked to commodity prices						
Electricity swaps	–	(47)	(47)	–	(30)	(30)
Electricity options	51	–	51	–	–	–
Gas swaps	3	(52)	(49)	14	(173)	(159)
Gas options	–	–	–	–	(1)	(1)
	105	(327)	(222)	49	(359)	(310)

The fair value classification of our commodity contracts is as follows; a definition of each level can be found on page 158:

	2010			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Commodity contracts	–	2	103	105
Liabilities				
Commodity contracts	–	(100)	(227)	(327)
Total	–	(98)	(124)	(222)

Our level 3 commodity contracts primarily consist of our forward purchases of electricity and gas where pricing inputs are unobservable, as well as other complex transactions. Complex transactions can introduce the need for internally developed models based on reasonable assumptions. Industry standard valuation techniques such as the Black-Scholes pricing model and Monte Carlo simulation are used for valuing such instruments. Level 3 is also applied in cases when optionality is present or where an extrapolated forward curve is considered unobservable. All published forward curves are verified to market data; if forward curves differ from market data by 5% or more they are considered unobservable.

The changes in the value of our level 3 commodity contracts are as follows:

	2010 £m
At 1 April 2009	(115)
Net gains for the year (i)	8
Purchases	(12)
Sales	(1)
Reclassification into level 3	(3)
Reclassification out of level 3	(1)
At 31 March 2010	(124)

(i) Losses of £67m are attributable to assets or liabilities held at the end of the reporting period.

During the year £3m was transferred out of level 2 and into level 3. These transfers were driven by extrapolated forward curves moving from observable to unobservable.

Notes to the consolidated financial statements continued

33. Commodity risk continued

The impacts on a post-tax basis of reasonably possible changes in significant level 3 assumptions are as follows:

	2010 Income statement £m
10% increase in commodity prices (i)	46
10% decrease in commodity prices (i)	(39)
10% increase in commodity volumes	(9)
10% decrease in commodity volumes	9
Forward curve extrapolation (ii)	(12)

(i) Level 3 commodity price sensitivity is included within the sensitivity analysis disclosed in (d) below.

(ii) Alternative regression assumption applied to the forward curve extrapolation.

The impacts disclosed above were considered on a contract by contract basis with the most significant unobservable inputs identified. The sensitivity is hypothetical only and should be used with caution as the relationship between complex valuation inputs varies over time.

(b) Maturity analysis

The maturity of commodity contracts measured at fair value can be analysed as follows:

	2010			2009		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
In one year or less	21	(184)	(163)	41	(203)	(162)
Current	21	(184)	(163)	41	(203)	(162)
In more than one year, but not more than two years	8	(49)	(41)	6	(41)	(35)
In more than two years, but not more than three years	11	(21)	(10)	2	(27)	(25)
In more than three years, but not more than four years	13	(19)	(6)	–	(17)	(17)
In more than four years, but not more than five years	11	(19)	(8)	–	(16)	(16)
In more than five years	41	(35)	6	–	(55)	(55)
Non-current	84	(143)	(59)	8	(156)	(148)
Total	105	(327)	(222)	49	(359)	(310)

(c) Notional quantities

For each class of commodity contract, our exposure based on the notional quantities is as follows:

	2010	2009*
Forward purchases of electricity (i)	3,883 GWh	4,524 GWh
Forward purchases/sales of gas (ii)	171m Dth	298m Dth
Electricity swaps	3,141 GWh	4,090 GWh
Electricity options	30,294 GWh	30,294 GWh
Gas swaps	59m Dth	88m Dth
Gas options	–	1m Dth
NYMEX electricity futures (iii)	–	18 GWh
NYMEX gas futures (iii)	48m Dth	30m Dth

*Prior year comparatives have been restated on a basis consistent with current year

(i) Forward electricity purchases have terms up to 12 years. The contractual obligations under these contracts are £269m (2009: £348m).

(ii) Forward gas purchases have terms up to 7 years. The contractual obligations under these contracts are £434m (2009: £700m).

(iii) NYMEX futures have been offset with related margin accounts.

(d) Sensitivity analysis

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:

	2010		2009*	
	Income statement £m	Other equity reserves £m	Income statement £m	Other equity reserves £m
10% increase in commodity prices	71	(1)	33	(1)
10% reduction in commodity prices	(64)	1	(43)	1

*Prior year comparatives have been restated to be consistent on a post-tax basis

The income statement sensitivities would affect commodity remeasurements.

34. Bonds and facilities

The table below shows our significant bonds in issue, being those with £100m equivalent notional value or greater. Unless otherwise indicated, these instruments were outstanding at both 31 March 2010 and 31 March 2009.

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 (i)	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 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 (i)	2010
Massachusetts Electric Company	USD 800m	5.90% Fixed Rate (ii)	2039
National Grid Electricity Transmission plc	EUR 600m	6.625% Fixed Rate	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	2031
National Grid Gas plc	GBP 300m	5.375% Fixed Rate (i)	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 (i)	2009
	GBP 503m	4.1875% Index Linked	2022
	GBP 503m	7.0% Fixed Rate	2024
	EUR 800m	5.125% Fixed Rate	2013
	EUR 163m	4.36% EUR-HICP Linked	2018
	GBP 457m	6.0% Fixed Rate	2038

Notes to the consolidated financial statements continued

34. Bonds and facilities continued

Issuer	Original Notional Value	Description of instrument	Due
Bonds continued			
National Grid plc	CAD 200m	4.98% Fixed Rate	2011
	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 (i)	2009
	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	2014
	GBP 414m	6.125% Fixed Rate	2014
NGG Finance plc	EUR 750m	6.125% Fixed Rate	2011
Niagara Mohawk Power Corporation	USD 750m	4.881% Fixed Rate (ii)	2019
	USD 500m	3.553% Fixed Rate (ii)	2014
The Narragansett Electric Company	USD 250m	4.534% Fixed Rate (ii)	2020
	USD 300m	5.638% Fixed Rate (ii)	2040
Bank loans and other loans			
National Grid plc	USD 250m	Floating Rate	2014
	USD 150m	Floating Rate	2014
	USD 150m	Floating Rate (i)	2011
	USD 200m	Floating Rate	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	2011
NGT Five Limited	GBP 500m	5.917% Index Linked (i)	2013

(i) Matured or repurchased during the year ended 31 March 2010.

(ii) Issued during the year ended 31 March 2010.

The following bonds and loans have been issued since 31 March 2010:

Issuer	Original Notional Value	Description of instrument	Due
Bonds and loans issued after 31 March 2010			
National Grid Gas plc	GBP 180m	Index Linked (i)	2024

(i) Of this loan agreement a further £120m is expected to be drawn by 30 June 2010.

Borrowing facilities

At 31 March 2010, there were bilateral committed credit facilities of £2,279m (2009: £1,273m), of which £2,189m (2009: £1,180m) were undrawn. In addition, there were committed credit facilities from syndicates of banks of £833m at 31 March 2010 (2009: £1,796m), of which £833m (2009: £1,796m) were undrawn. An analysis of the maturity of these undrawn committed facilities is shown below:

	2010 £m	2009 £m
Undrawn committed borrowing facilities expiring:		
In one year or less	1,708	1,155
In more than one year, but not more than two years	1,314	1,820
	3,022	2,975

At 31 March 2010, of the unused facilities £2,673m (2009: £2,816m) was held as back up to commercial paper and similar borrowings, while £349m is available as back up to specific US borrowings.

35. 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 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 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 Annual Performance Plan awarded to the Executive Directors and a predetermined part of any Annual Performance award 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 across the Company. Awards were made predominately to senior US employees following the acquisition of KeySpan. Awards vest in equal tranches over two and four years, provided the employee remains employed by the Company. The Retention Awards are conditional awards with no performance conditions attached.

Additional information in respect of active share plans

	2010 millions	2009 millions	2008 millions
Performance Share Plan			
Awards of ordinary share equivalents at 1 April	9.5	7.5	8.0
Awards made	4.1	3.5	3.1
Lapses/forfeits	(0.8)	(0.7)	(3.4)
Awards vested	(3.8)	(0.8)	(0.2)
Awards of ordinary share equivalents at 31 March	9.0	9.5	7.5
Conditional awards available for release at 31 March	0.1	1.8	–
Deferred Share Plan			
Awards of ordinary share equivalents at 1 April	1.0	0.5	0.4
Awards made	0.5	0.6	0.2
Awards vested	(0.6)	(0.1)	(0.1)
Awards of ordinary share equivalents at 31 March	0.9	1.0	0.5
Conditional awards available for release at 31 March	–	–	–
Retention Award Plans			
Awards of ordinary share equivalents at 1 April	0.5	0.8	–
Awards made	0.1	–	0.8
Lapses/forfeits	(0.1)	–	–
Awards vested	(0.2)	(0.3)	–
Awards of ordinary share equivalents at 31 March	0.3	0.5	0.8
Conditional awards available for release at 31 March	–	–	–

Notes to the consolidated financial statements continued

35. 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 were subject to a final retest on 31 March 2010 and the performance condition was not met. This award has therefore lapsed. 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

	2010 000s	2009 000s	2008 000s
Share Matching Plan			
Awards at 1 April	89	201	384
Awards exercised	(18)	(112)	(183)
Awards at 31 March	71	89	201
Options exercisable at 31 March	71	89	109
Transitional Share Awards/Special Share Awards			
Awards of ordinary share equivalents at 1 April	–	3	77
Lapses/forfeits	–	–	(1)
Awards vested	–	(3)	(73)
Awards of ordinary share equivalents at 31 March	–	–	3
Conditional awards available for release at 31 March	–	–	3

Share options

Movement in options to subscribe for ordinary shares under the Company's various options schemes for the three years ended 31 March 2010 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 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
Granted	5.20	3.7	–	–	3.7
Lapsed – expired	5.38	(0.9)	5.24	(0.1)	(1.0)
Exercised	3.77	(4.5)	4.93	(0.5)	(5.0)
At 31 March 2010	5.05	18.4	4.92	0.9	19.3

Included within options outstanding were the following options that were exercisable:

At 31 March 2010	4.98	0.8	4.71	0.5	1.3
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

35. Share options and reward plans continued

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2010 was 2 years and 6 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:

	2010 £	2009 £	2008 £
Sharesave scheme options	5.74	6.99	7.79
Executive Plan options	6.03	6.81	7.68

Additional information in respect of share options

	2010 £m	2009 £m	2008 £m
Share options exercised			
Cash received on exercise of all share options during the year	18	8	23
Tax benefits realised from share options exercised during the year	8	4	10

Options outstanding and exercisable and their weighted average exercise prices for the respective ranges of exercise prices and years at 31 March 2010 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	5.27	0.1	5.28	0.4	526.0-531.5	2004-2011
	4.62	0.4	4.62	0.5	434.5-481.5	2006-2013
	4.71	0.5	4.92	0.9		

The aggregate intrinsic value of all options outstanding and exercisable at 31 March 2010 amounted to £30m and £2m respectively.

Share-based payment charges

The charge to the income statement for the year ended 31 March 2010 was £25m (2009: £22m; 2008: £18m). The related tax charge recognised in the income statement was £1m (2009: £1m credit; 2008: £1m 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:

	2010	2009	2008
Average share price	676.0p	684.0p	846.0p
Average exercise price	520.0p	488.0p	655.0p
Average fair value	161.1p	153.7p	190.0p

These amounts have been calculated in respect of options where the exercise price is less than the market price at the date of grant.

The fair values of the options granted were estimated using the following principal assumptions:

	2010	2009	2008
Dividend yield (%)	5.0	5.0	4.5
Volatility (%)	22.4-26.1	22.4-26.1	15.6-18.9
Risk-free investment rate (%)	2.5	2.5	4.2
Average life (years)	4.0	4.2	4.1

Notes to the consolidated financial statements continued

35. 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. A Black-Scholes European model calculation is carried out every three years. In the intervening years fair values are calculated by reference to the previous full calculation. Consequently, the fair value of awards made in 2010 have been calculated by reference to the 2009 Black-Scholes European model calculation and the fair values of awards made in 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:

	2010	2009	2008
Average share price	598.2p	670.1p	766.9p
Average fair value	355.6p	458.1p	522.8p

The fair values of the awards granted were estimated using the following principal assumptions:

	2010	2009	2008
Dividend yield (%)	4.4	4.4	4.4
Risk-free investment rate (%)	2.5	2.5	4.1

Fair values have been calculated using a Monte Carlo simulation model for awards with total shareholder return performance conditions. A Monte Carlo simulation model calculation is carried out every three years. In the intervening years fair values are calculated by reference to the previous full Monte Carlo simulation model calculation. Consequently, the fair value of awards made in 2010 have been calculated by reference to the 2009 Monte Carlo simulation model calculation and the fair value of awards made in 2008 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.

36. Subsidiary undertakings, joint ventures and associates

Principal subsidiary undertakings

The principal subsidiary undertakings included in the consolidated financial statements at 31 March 2010 are listed below. These undertakings are wholly-owned and, unless otherwise indicated, are incorporated in England and Wales.

The issued share capital is held by subsidiary undertakings in each case, except for NGG Finance plc, National Grid Holdings One plc and National Grid (US) Holdings Limited where the issued share capital is held directly by National Grid plc.

	Principal activity
National Grid Gas plc	Transmission and distribution of gas
National Grid Electricity Transmission plc	Transmission of electricity
New England Power Company (incorporated in the US)	Transmission of electricity
Massachusetts Electric Company (incorporated in the US)	Distribution of electricity
The Narragansett Electric Company (incorporated in the US)	Transmission and distribution of electricity
Niagara Mohawk Power Corporation (incorporated in the US)	Transmission of electricity and distribution of electricity and gas
National Grid Metering Limited	Metering services
Utility Metering Services Limited	Metering services
National Grid Grain LNG Limited	LNG importation terminal
Boston Gas Company (incorporated in the US)	Distribution of gas
National Grid Electric Services LLC (incorporated in the US)	Transmission and distribution of electricity
National Grid Generation LLC (incorporated in the US)	Generation of electricity
New England Electric Transmission Corporation (incorporated in the US)	Transmission of electricity
Nantucket Electric Company (incorporated in the US)	Distribution of electricity
KeySpan Gas East Corporation (incorporated in the US)	Distribution of gas
The Brooklyn Union Gas Company (incorporated in the US)	Distribution of gas
NGG Finance plc	Financing
British Transco Finance Inc. (incorporated in the US)	Financing
British Transco International Finance BV (incorporated in The Netherlands)	Financing
National Grid Property Limited	Property services
National Grid Holdings One plc	Holding company
Lattice Group plc	Holding company
National Grid USA (incorporated in the US)	Holding company
Niagara Mohawk Holdings, Inc. (incorporated in the US)	Holding company
National Grid Commercial Holdings Limited	Holding company
National Grid Gas Holdings Limited	Holding company
National Grid (US) Holdings Limited	Holding company
National Grid Holdings Limited	Holding company
KeySpan Corporation (incorporated in the US)	Holding company

Principal joint ventures and associates

The principal joint ventures and associated undertakings included in the financial statements at 31 March 2010 are listed below. These undertakings are incorporated in England and Wales (unless otherwise indicated).

	% of ordinary shares held	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	Transmission of gas
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

37. 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 financial information should be read in conjunction with the Company's financial statements and footnotes presented in our 2009/10 Annual Report and Accounts.

Summary income statements are presented, on a consolidating basis, for the three years ended 31 March 2010. 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 summary balance sheets present these investments within non-current financial and other investments.

The consolidation adjustments column includes the necessary amounts to eliminate the intercompany balances and transactions between National Grid plc, National Grid Gas plc, British Transco Finance Inc., Niagara Mohawk Power Corporation and other subsidiaries.

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Summary income statements for the year ended 31 March 2010 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			National Grid consolidated £m
	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	
Revenue	–	2,409	–	2,773	9,003	(197)	13,988
Other operating income	–	–	–	14	5	–	19
Operating costs							
Depreciation and amortisation	–	(131)	–	(430)	(633)	–	(1,194)
Payroll costs	–	(274)	–	(224)	(904)	–	(1,402)
Purchases of electricity	–	(575)	–	–	(998)	–	(1,573)
Purchases of gas	–	(253)	–	(155)	(1,834)	–	(2,242)
Rates and property taxes	–	(126)	–	(248)	(533)	–	(907)
Electricity transmission services scheme direct costs	–	–	–	–	(691)	–	(691)
Payments to Scottish electricity transmission network owners	–	–	–	–	(260)	–	(260)
Other operating charges	4	(435)	–	(633)	(1,578)	197	(2,445)
	4	(1,794)	–	(1,690)	(7,431)	197	(10,714)
Operating profit	4	615	–	1,097	1,577	–	3,293
Net finance costs	(227)	(96)	–	(224)	(561)	–	(1,108)
Dividends receivable	–	–	–	–	300	(300)	–
Interest in equity accounted affiliates	1,558	–	–	12	8	(1,570)	8
Profit before taxation	1,335	519	–	885	1,324	(1,870)	2,193
Taxation	54	(225)	–	(285)	(348)	–	(804)
Profit for the year from continuing operations	1,389	294	–	600	976	(1,870)	1,389
Profit for the year from discontinued operations	–	–	–	–	–	–	–
Profit for the year	1,389	294	–(i)	600	976	(1,870)	1,389
Attributable to:							
Equity shareholders	1,386	294	–	600	973	(1,867)	1,386
Minority interests	3	–	–	–	3	(3)	3
	1,389	294	–(i)	600	976	(1,870)	1,389

(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

37. 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 consolidated £m
	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	
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.

37. 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)	–	–	(885)	–	(1,494)
Purchases of gas	–	(297)	–	(110)	(1,463)	–	(1,870)
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

(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

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Balance sheets as at 31 March 2010 – 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	–	738	–	–	4,364	–	5,102
Other intangible assets	–	3	–	126	260	–	389
Property, plant and equipment	–	3,920	–	10,817	16,118	–	30,855
Deferred tax assets	2	–	–	–	–	(2)	–
Other non-current assets	–	–	–	7	155	–	162
Amounts owed by subsidiary undertakings	1,700	–	–	5,611	1,127	(8,438)	–
Financial and other investments	6,954	23	–	25	9,731	(16,247)	486
Derivative financial assets	655	51	–	564	224	–	1,494
Total non-current assets	9,311	4,735	–	17,150	31,979	(24,687)	38,488
Current assets							
Inventories and current intangible assets	–	30	–	44	333	–	407
Trade and other receivables	6	503	–	270	1,524	(10)	2,293
Amounts owed by subsidiary undertakings	8,649	–	202	114	7,862	(16,827)	–
Financial and other investments	180	17	–	307	893	–	1,397
Derivative financial assets	218	1	–	72	43	(86)	248
Cash and cash equivalents	198	2	–	–	520	–	720
Total current assets	9,251	553	202	807	11,175	(16,923)	5,065
Total assets	18,562	5,288	202	17,957	43,154	(41,610)	43,553
Current liabilities							
Borrowings	(1,183)	(27)	(5)	(371)	(1,220)	–	(2,806)
Derivative financial liabilities	(174)	–	–	(30)	(94)	86	(212)
Trade and other payables	(30)	(310)	–	(665)	(1,842)	–	(2,847)
Amounts owed to subsidiary undertakings	(6,701)	(220)	–	(942)	(8,964)	16,827	–
Current tax liabilities	–	(32)	–	–	(369)	10	(391)
Provisions	–	(36)	–	(62)	(205)	–	(303)
Total current liabilities	(8,088)	(625)	(5)	(2,070)	(12,694)	16,923	(6,559)
Non-current liabilities							
Borrowings	(5,307)	(1,358)	(197)	(6,387)	(9,069)	–	(22,318)
Derivative financial liabilities	(431)	–	–	(121)	(110)	–	(662)
Other non-current liabilities	–	(256)	–	(1,100)	(618)	–	(1,974)
Amounts owed to subsidiary undertakings	(537)	(341)	–	(250)	(7,310)	8,438	–
Deferred tax liabilities	–	(131)	–	(1,890)	(1,305)	2	(3,324)
Pensions and other post-retirement benefit obligations	–	(1,102)	–	–	(1,996)	–	(3,098)
Provisions	–	(215)	–	(108)	(1,084)	–	(1,407)
Total non-current liabilities	(6,275)	(3,403)	(197)	(9,856)	(21,492)	8,440	(32,783)
Total liabilities	(14,363)	(4,028)	(202)	(11,926)	(34,186)	25,363	(39,342)
Net assets	4,199	1,260	–	6,031	8,968	(16,247)	4,211
Equity							
Called up share capital	298	123	–	45	183	(351)	298
Share premium account	1,366	1,942	–	204	7,183	(9,329)	1,366
Retained earnings	7,316	(808)	–	4,493	1,821	(5,506)	7,316
Other equity reserves	(4,781)	3	–	1,289	(231)	(1,061)	(4,781)
Total shareholders' equity	4,199	1,260	–	6,031	8,956	(16,247)	4,199
Minority interests	–	–	–	–	12	–	12
Total equity	4,199	1,260	–	6,031	8,968	(16,247)	4,211

37. 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	6,384	23	–	14	9,621	(15,681)	361
Derivative financial assets	558	–	–	688	287	–	1,533
Total non-current assets	8,741	4,904	–	16,762	32,315	(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	20,737	5,488	213	18,396	45,333	(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	3,970	1,377	–	5,769	8,549	(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	3,970	1,377	–	5,769	8,535	(15,681)	3,970
Minority interests	–	–	–	–	14	–	14
Total equity	3,970	1,377	–	5,769	8,549	(15,681)	3,984

Notes to the consolidated financial statements continued

37. 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 2010 (i)							
Net cash provided by operating activities	–	527	–	1,449	2,540	–	4,516
Net cash provided by/(used in) investing activities	600	(307)	–	(367)	(1,451)	(807)	(2,332)
Net cash (used in)/provided by financing activities	(637)	(222)	–	(1,088)	(1,072)	807	(2,212)
(Decrease)/increase in cash and cash equivalents in the year	(37)	(2)	–	(6)	17	–	(28)
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 (used in)/provided by 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 provided by/(used in) 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 provided by/(used in) investing activities – continuing operations	1,547	(209)	–	(1,630)	(3,658)	(2,123)	(6,073)
Net cash (used in)/provided by investing activities – discontinued operations	–	–	–	(4)	3,054	–	3,050
Net cash provided by/(used in) investing activities	1,547	(209)	–	(1,634)	(604)	(2,123)	(3,023)
Net cash (used in)/provided by financing activities	(2,302)	(105)	–	(87)	(1,221)	2,123	(1,592)
(Decrease)/increase in cash and cash equivalents in the year	(751)	2	–	(169)	(532)	–	(1,450)

(i) For the year ended 31 March 2010 all cash flows relate to continuing operations.

Cash dividends were received by National Grid plc from subsidiary undertakings amounting to £504m during the year ended 31 March 2010 (2009: £592m; 2008: £2,500m).

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 2006.

These individual financial statements of the Company have been prepared on an 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 408 of the Companies Act 2006. 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 using the effective interest rate method 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. 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.

Company accounting policies continued

F. Hedge accounting

The Company enters into derivatives and non-derivative financial instruments in order to manage its interest rate and foreign currency exposures, with a view to managing these risks associated with the Company's underlying business activities and the financing of those activities. The principal derivatives used include interest rate swaps, forward rate agreements, currency swaps, forward foreign currency contracts and interest rate swaptions.

Hedge accounting allows derivatives to be designated as a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility in the profit and loss account. The Company uses two hedge accounting methods.

Firstly, changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ('cash flow hedges') are recognised directly in equity and any ineffective portion is recognised immediately in the profit and loss account. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the profit and loss account in the same period in which the hedged item affects net profit or loss.

Secondly, changes in the carrying value of financial instruments that are designated as hedges of the changes in the fair value of assets or liabilities ('fair value hedges') are recognised in the profit and loss account. An offsetting amount is recorded as an adjustment to the carrying value of hedged items, with a corresponding entry in the profit and loss account, to the extent that the change is attributable to the risk being hedged and that the fair value hedge is effective.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

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

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the profit and loss account immediately.

G. Parent Company guarantees

The Company has guaranteed the repayment of the principal and any associated premium and interest on specific loans due from certain subsidiary undertakings to third parties. In the event of default or non performance by the subsidiary, the Company recognises such guarantees as insurance contracts, at fair value with a corresponding increase in the carrying value of the investment.

H. Share-based payments

The Company issues equity-settled, share-based payments to certain employees of subsidiary undertakings, detailed in the Directors' Report, the Directors' Remuneration Report and in note 35 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	2010 £m	2009 £m
Fixed assets			
Investments	2	7,865	7,840
Current assets			
Debtors (amounts falling due within one year)	3	8,655	11,157
Debtors (amounts falling due after more than one year)	3	1,702	1,799
Derivative financial instruments (amounts falling due within one year)	5	218	329
Derivative financial instruments (amounts falling due after more than one year)	5	655	558
Current asset investments	6	377	509
Cash at bank		1	1
		11,608	14,353
Creditors (amounts falling due within one year)			
Borrowings	7	(1,183)	(1,422)
Derivative financial instruments	5	(174)	(375)
Other creditors		(6,731)	(6,926)
	4	(8,088)	(8,723)
Net current assets		3,520	5,630
Total assets less current liabilities		11,385	13,470
Creditors (amounts falling due after more than one year)			
Borrowings	7	(5,307)	(6,471)
Derivative financial instruments	5	(431)	(511)
Amounts owed to subsidiary undertakings		(537)	(1,062)
		(6,275)	(8,044)
Net assets employed		5,110	5,426
Capital and reserves			
Called up share capital	8	298	294
Share premium account	9	1,366	1,371
Cash flow hedge reserve	9	14	12
Other equity reserves	9	171	146
Profit and loss account	9	3,261	3,603
Total shareholders' funds	10	5,110	5,426

Commitments and contingencies are shown in note 11 to the Company financial statements on page 185.

The notes on pages 182 to 185 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 19 May 2010 and were signed on its behalf by:

Sir John Parker Chairman
Steve Lucas Finance Director

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Notes to the Company financial statements

1. Adoption of new accounting standards

New financial reporting standards (FRS) and abstracts adopted in 2009/10

During the year the Company has adopted the following amendments to FRS. None of these had 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.
Improvements to FRS 2008	Contains amendments to various existing standards.
UITF 46 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.
Amendment to FRS 29 on improving financial instrument disclosures	Enhances disclosures about fair value and liquidity risk.
Amendment to FRS for Companies Act changes	Makes consequential amendments to FRS to reflect provisions of the Companies Act 2006.
Amendments to FRS 26 and UITF 42 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.

New FRS not yet adopted

The Company has yet to adopt the following FRS, however, they are not expected to have a material impact on the Company's results or assets and liabilities.

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 have been adopted by the Company with effect from 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 has been adopted by the Company with effect from 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 has been adopted by the Company with effect from 1 April 2010.
FRS 30 on heritage assets	Sets out disclosure requirements in respect of assets that are held and maintained principally for their contribution to knowledge and culture. FRS 30 has been adopted by the Company with effect from 1 April 2010.
Amendment to FRS 20 on group cash-settled share-based payments	Clarifies the scope and accounting for group cash-settled share-based payment transactions in separate or individual financial statements when there is no obligation to settle the share-based payment transaction. The amendment to FRS 20 has been adopted by the Company with effect from 1 April 2010.
Improvements to FRS 2009	Contains amendments to various existing standards. The amendments have been adopted by the Company with effect from 1 April 2010.
Amendment to FRS 25 on classification of rights issues	Defines as an equity instrument a financial instrument that gives the holder the right to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency, if the financial instrument is offered pro rata to all existing owners of the same class of non-derivative equity instruments. The amendment to FRS 25 has been adopted by the Company with effect from 1 April 2010.

2. Fixed asset investments

	Shares in subsidiary undertakings £m
At 1 April 2008	4,276
Additions	7,103
Disposals	(3,539)
At 31 March 2009	7,840
Additions	25
At 31 March 2010	7,865

During the year there was a capital contribution which represents the fair value of equity instruments granted to subsidiaries' employees arising from equity-settled employee share schemes.

The names of the principal subsidiary undertakings, joint ventures and associates are included in note 36 in the consolidated financial statements.

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

3. Debtors

	2010 £m	2009 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	8,649	11,153
Prepayments and accrued income	6	4
	8,655	11,157
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	1,700	1,796
Deferred taxation	2	3
	1,702	1,799

	Deferred taxation £m
At 1 April 2008	3
Credited to equity	1
Charged to the profit and loss account	(1)
At 31 March 2009	3
Charged to the profit and loss account	(1)
At 31 March 2010	2

4. Creditors (amounts falling due within one year)

	2010 £m	2009 £m
Borrowings (note 7)	1,183	1,422
Derivative financial instruments	174	375
Amounts owed to subsidiary undertakings	6,701	6,898
Other creditors	30	28
	8,088	8,723

Notes to the Company financial statements continued

5. Derivative financial instruments

The fair values of derivative financial instruments are:

	2010			2009		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	218	(174)	44	329	(375)	(46)
Amounts falling due after more than one year	655	(431)	224	558	(511)	47
	873	(605)	268	887	(886)	1

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

	2010 £m	2009 £m
Interest rate swaps	(7,337)	(6,343)
Cross-currency interest rate swaps	(6,463)	(7,612)
Foreign exchange forward contracts	(7,234)	(9,013)
Forward rate agreements	(7,784)	(5,063)
Total	(28,818)	(28,031)

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

6. Current asset investments

	2010 £m	2009 £m
Investments in short-term money funds	162	166
Short-term deposits	197	234
Restricted cash balances – collateral	18	109
	377	509

7. Borrowings

	2010 £m	2009 £m
Amounts falling due within one year:		
Bank loans	299	205
Commercial paper	121	737
Bonds	763	480
	1,183	1,422
Amounts falling due after more than one year:		
Bank loans	398	720
Bonds	4,909	5,751
	5,307	6,471
Total borrowings	6,490	7,893
	2010 £m	2009 £m
Total borrowings are repayable as follows:		
In one year or less	1,183	1,422
In more than one year, but not more than two years	1,081	976
In more than two years, but not more than three years	900	1,360
In more than three years, but not more than four years	435	933
In more than four years, but not more than five years	1,180	450
In more than five years, other than by instalments	1,711	2,752
	6,490	7,893

The notional amount of borrowings outstanding as at 31 March 2010 was £6,338m (2009: £7,776m). For further information on significant borrowings, refer to note 34 in the consolidated financial statements.

8. Called up share capital

	Called up and fully paid	
	millions	£m
At 31 March 2008 and 31 March 2009	2,582	294
Issued during the year in lieu of dividends (i)	35	4
At 31 March 2010	2,617	298

(i) The issue of shares in lieu of cash dividends is considered to be a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

9. Reserves

	Share premium account £m	Cash flow hedge reserve £m	Other equity reserves £m	Profit and loss account £m
At 1 April 2008	1,371	14	124	4,664
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
Transferred from equity in respect of cash flow hedges (net of tax)	—	2	—	—
Shares issued in lieu of dividends (ii)	(5)	—	—	—
Purchase of treasury shares	—	—	—	(7)
Issue of treasury shares	—	—	—	18
Share-based payment	—	—	25	—
Loss for the year	—	—	—	(353)
At 31 March 2010	1,366	14	171	3,261

(i) From 1 April 2008 to 24 September 2008, the Company repurchased under its share repurchase programme 85 million ordinary shares for aggregate consideration of £597m including transaction costs. Further purchases of shares outside the official share repurchase programme were for an aggregate consideration of £5m.

(ii) In addition to the nominal value of shares issued in lieu of dividends of £4m there have also been various associated administrative costs of £1m charged to the share premium account.

There were no gains and losses, other than losses for the years stated above, therefore no separate statement of total recognised gains and losses has been presented. The Company's profit after taxation was £335m (2009: £371m). At 31 March 2010, £1,023m (2009: £1,323m) of the profit and loss account reserve relating to gains on intra-group transactions was not distributable to shareholders.

10. Reconciliation of movements in shareholders' funds

	2010 £m	2009 £m
Profit for the year after taxation	335	371
Dividends (i)	(688)	(838)
Loss for the financial year	(353)	(467)
Expenses charged to share premium account	(1)	—
Proceeds of issue of treasury shares	18	8
Movement on cash flow hedge reserve (net of tax)	2	(2)
Share-based payment	25	22
Repurchase of share capital and purchase of treasury shares	(7)	(602)
Net decrease in shareholders' funds	(316)	(1,041)
Opening shareholders' funds	5,426	6,467
Closing shareholders' funds	5,110	5,426

(i) For further details of dividends paid and payable to shareholders, refer to note 8 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 2010, the sterling equivalent amounted to £2,141m (2009: £2,302m). The guarantees are for varying terms from 2 years to open-ended. The Company had also guaranteed the lease obligations of a former associate to a subsidiary undertaking, which expired during the year. The balance at 31 March 2009 was £4m.

12. Directors and employees

There are no employees of the Company (2009: nil). The Directors of the Company were paid by subsidiary undertakings in 2010 and 2009. 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

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

Board

The Board of Directors of the Company (for more information see pages 12 and 13).

BritNed

BritNed Development Limited.

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 were 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.

circuit length

See route length.

Combined Code

The Combined Code on Corporate Governance, soon to be replaced by the UK Corporate Governance Code, 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 liabilities

Possible obligations or potential liabilities arising from past events for which no provision has been recorded, but for which disclosure in the financial statements is made.

D

decoupling

See revenue decoupling.

deferred tax

For most assets and liabilities, deferred tax is the amount of tax that will be payable or receivable in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the balance sheet and the value for tax purposes of the same asset or liability.

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.

dollars or \$

Except as otherwise noted all references to dollars or \$ in this Report are to the US currency.

E

employee engagement index

A key performance indicator, based on the percentage of favourable responses to certain indicator questions repeated in each employee 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 179 to 185, which are prepared in accordance with UK GAAP.

G

Grain LNG

National Grid Grain LNG Limited.

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 a period of one hour.

H**HSE**

Health and 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

Kilovolt, being an amount of electric force equal to 1,000 volts.

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

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 rate

The number of lost time injuries per 100,000 hours worked in a 12 month period.

M**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**National Grid Metering**

National Grid Metering Limited, National Grid's UK regulated metering business.

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.

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.

OnStream

Utility Metering Services Limited, National Grid's UK unregulated metering business.

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.

price control

The mechanism by which Ofgem sets restrictions on the amounts of revenue we are allowed to collect from customers in our UK businesses. The allowed revenues are intended to cover efficiently incurred operational expenditure, capital expenditure and financing costs, including a return on equity invested.

Definitions and glossary of terms continued

R

rate base

The base investment on which the utility is authorised to earn a cash return. It includes the original cost of facilities, minus depreciation, an allowance for working capital and other accounts.

rate plan

The term given to the mechanism by which a US utility regulator sets terms and conditions for utility service, including in particular tariffs and rate schedules. The term can mean a multi-year plan that is approved for a specified period, or an order approving tariffs and rate schedules that remain in effect until changed as a result of a future regulatory proceeding. Such proceedings can be commenced through a filing by the utility or on the regulator's own initiative.

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.

revenue decoupling

Revenue decoupling is the term given to the elimination of the dependency of a utility's revenue on the volume of gas or electricity transported. The purpose of decoupling is to eliminate the disincentive a utility otherwise has to encourage energy efficiency programmes.

route length

The route length of an electricity transmission line is the geographical distance from the start tower to the end tower. In most cases in the UK, and in many cases in the US, the transmission line consists of a double circuit for additional reliability. In such cases, the circuit length is twice the route length.

RPI-X@20

A project conducted by Ofgem to review the workings of the current approach to regulating Great Britain's energy networks and develop future policy recommendations, which is expected to have an impact on future price controls.

S

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.

shrinkage

Shrinkage is the difference between the amount of gas entering the system and that which is billed to consumers, due to either transportation consumption or loss. This difference is mainly

made up of gas leakage from distribution mains and certain activities and equipment which vent gas. Shrinkage also occurs when gas is stolen or not charged for in error.

standard cubic metre

A quantity of gas which at 15°C and atmospheric pressure (1.013 bar) occupies the volume of 1m³.

stranded cost recoveries

The recovery of historical generation-related costs in the US, related to generation assets that are no longer owned by us.

subsidiary

A company or other entity that is controlled by National Grid.

T

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 carbon dioxide 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 a period of 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 2010. 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 2006, 2007, 2008, 2009 and 2010 has been prepared under IFRS issued by the IASB and as adopted by the European Union.

	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m	31 March 2006 £m
Summary income statement					
Revenue	13,988	15,624	11,423	8,695	8,868
Operating profit					
Before exceptional items, remeasurements and stranded cost recoveries	3,121	2,915	2,595	2,031	1,968
Exceptional items, remeasurements and stranded cost recoveries	172	(292)	369	482	406
	3,293	2,623	2,964	2,513	2,374
Profit before taxation					
Before exceptional items, remeasurements and stranded cost recoveries	1,974	1,770	1,829	1,486	1,369
Exceptional items, remeasurements and stranded cost recoveries	219	(376)	353	265	349
	2,193	1,394	2,182	1,751	1,718
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements and stranded cost recoveries	1,418	1,259	1,275	1,146	1,075
Exceptional items, remeasurements and stranded cost recoveries	(32)	(315)	1,915	248	2,773
	1,386	944	3,190	1,394	3,848
Summary statement of net assets					
Non-current assets	38,488	37,712	30,830	21,109	22,106
Current assets	5,065	6,755	5,435	5,312	3,818
Assets of businesses held for sale	–	–	1,506	1,968	–
Total assets	43,553	44,467	37,771	28,389	25,924
Current liabilities	(6,559)	(7,026)	(7,146)	(3,360)	(5,683)
Non-current liabilities	(32,783)	(33,457)	(25,188)	(20,443)	(16,748)
Liabilities of businesses held for sale	–	–	(63)	(450)	–
Total liabilities	(39,342)	(40,483)	(32,397)	(24,253)	(22,431)
Net assets	4,211	3,984	5,374	4,136	3,493
Summary cash flow statement					
Cash generated from operations					
Continuing operations	4,372	3,564	3,265	3,090	2,973
Discontinued operations	–	(8)	10	181	138
	4,372	3,556	3,275	3,271	3,111
Tax received/(paid)	144	(143)	(110)	(313)	(140)
Net cash inflow from operating activities	4,516	3,413	3,165	2,958	2,971
Net cash flows (used in)/from investing activities	(2,332)	(1,998)	(3,023)	(4,061)	4,052
Net cash flows (used in)/from financing activities	(2,212)	(877)	(1,592)	1,278	(5,842)
Net (decrease)/increase in cash and cash equivalents	(28)	538	(1,450)	175	1,181

Shareholder Information

Financial calendar

The following dates have been announced or are indicative of future dates:

2 June 2010	Ordinary shares go ex-dividend for 2009/10
4 June 2010	Record date for 2009/10 final dividend
9 June 2010	Scrip reference price announced
21 July 2010	Scrip election date
26 July 2010	2010 Annual General Meeting and interim management statement
18 August 2010	2009/10 final dividend paid to qualifying ordinary shareholders
18 November 2010	2010/11 half year results
1 December 2010	Ordinary shares go ex-dividend
3 December 2010	Record date for 2010/11 interim dividend
19 January 2011	2010/11 interim dividend paid to qualifying ordinary shareholders
January/February 2011	Interim management statement
May 2011	2010/11 preliminary results

Dividends

National Grid normally pays dividends twice each year, in accordance with the timetable above. We encourage shareholders to elect 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 or losing cheques. Alternatively, shareholders can elect to acquire further National Grid ordinary shares without payment of dealing or stamp duty reserve tax through the Scrip Dividend Scheme, details and an application form are available from our Registrar, Capita, or, for the scrip for American Depositary Receipt holders, Bank of New York Mellon, whose contact information are on the back cover. Ordinary shareholders can also elect via the website www.nationalgridshareholders.com.

Website and electronic communication

More information about National Grid, and specifically for shareholders, is available on the National Grid website at www.nationalgrid.com. We encourage shareholders to receive documents electronically via the website and suggest registering an email address via www.nationalgridshareholders.com. Shareholders then receive an email alert when shareholder documents become available on the website and a link directly to them.

Shareholder Networking

The Shareholder Networking programme aims to provide UK resident shareholders with a better understanding of the Company. The programme, which is normally run twice a year over two days, includes visits to UK operational sites and presentations by senior managers and employees. The costs of the programme (including shareholder travel to and from the event) are paid for by National Grid. Participation is by application and selection by ballot from those applying, with priority given to those who have not recently attended.

If you would like to take part, please write to:

Shareholder Networking Organiser
National Grid House
Warwick Technology Park
Gallows Hill
Warwick CV34 6DA

Share dealing, individual savings accounts (ISAs) and ShareGift

A share dealing service is available from Capita Registrars. For more information please call 0871 664 0445 (8am – 4.30pm) or visit www.capitadeal.com. Calls are charged at 10p per minute plus network extras. High street banks may also offer share dealing services. 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.

Rights issue

The securities offered pursuant to the rights issue have not been and will not be registered under the US Securities Act of 1933 and may not be offered or sold in the United States unless in a transaction that is registered thereunder or exempt from the registration requirements thereof. No public offer has been or will be made in or into the United States.

Key milestones

Some of the key dates and actions in the history of National Grid are listed below. The full history of the Company goes back much further. For example, the first national gas company in the UK commenced operations in 1812.

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

Capital Gains Tax (CGT)

CGT information relating to National Grid shares can be found on our website under investors or obtained from Capita Registrars. Share prices on specific dates can also be found on our website at www.nationalgrid.com/shareholders.

Shareholdings

The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2010:

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1-50	212,223	18.8526	6,452,377	0.2465
51-100	335,851	29.8349	22,870,494	0.8739
101-500	475,689	42.2573	95,426,258	3.6461
501-1,000	53,699	4.7703	38,093,786	1.4555
1,001-10,000	45,912	4.0785	107,389,598	4.1032
10,001-50,000	1,265	0.1124	24,633,895	0.9412
50,001-100,000	210	0.0187	15,633,167	0.5973
100,001-500,000	427	0.0379	101,651,819	3.8840
500,001-1,000,000	145	0.0129	103,105,452	3.9395
1,000,001+	276	0.0254	2,101,933,249	80.3126
Total	1,125,697	100	2,617,190,095	100

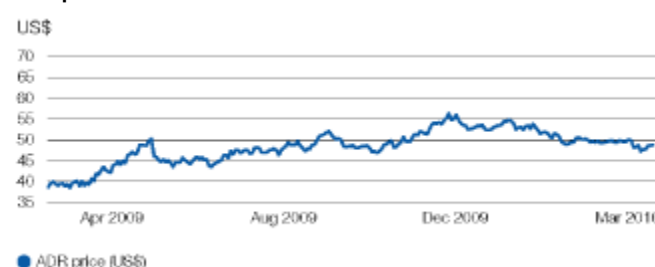
Share price

The following graphs represent the movement of National Grid's share price during 2009/10 and total shareholder return (TSR) over the last five years assuming 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.

Share price



ADR price



National Grid plc TSR v FTSE 100



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For queries about ORDINARY SHARES contact:
Capita Registrars



0871 664 0500*
(from outside UK: +44 20 7098 1198)
(textphone: 18001 0870 242 2379)



nationalgrid@capitaregistrars.com
www.nationalgrid.com/shareholders



National Grid Share Register
Capita Registrars, Northern House
Woodsome Park, Fenay Bridge
Huddersfield HD8 0GA

* Calls are charged at 10p per minute plus network extras

For queries about AMERICAN DEPOSITARY SHARES (ADS or ADR) 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

Cautionary Statement

This document comprises the Annual Report and Accounts for the year ending 31 March 2010 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 Companies Act 2006. The Directors' Report on pages 96 and 97 and the Directors' Remuneration Report on pages 98 to 108 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', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of 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 changes in laws or regulations and decisions by governmental bodies or regulators; breaches of, or changes in, environmental, climate change and health and safety laws or regulations; network failure or interruption, the inability to carry out critical non-network operations and damage to infrastructure; performance against regulatory targets and standards, including delivery of costs and efficiency savings; customers and counterparties failing to perform their obligations to us; and unseasonable weather affecting energy demands. Other factors that could cause actual results to differ materially from those described in this document include fluctuations in exchange rates, interest rates, commodity price indices and settlement of hedging arrangements; restrictions in our borrowing and debt arrangements; changes to credit ratings of the Company and its subsidiaries; adverse changes and volatility in the global credit markets; our ability to access capital markets and other sources of credit in a timely manner and other sources of credit on acceptable terms; deflation or inflation; the seasonality of our businesses; the future funding requirements of our pension schemes and other post-retirement benefit schemes, and the regulatory treatment of pension costs; the loss of key personnel or

the inability to attract, train or retain qualified personnel; new or revised accounting standards, rules and interpretations, including changes of law and accounting standards that may affect our effective rate of tax; incorrect assumptions or conclusions underpinning business development activity, and any unforeseen significant liabilities or other unanticipated or unintended effects of such activities and the performance of the Company's subsidiaries. In addition the Company's reputation may be harmed if consumers of energy suffer a disruption to their supply.

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). 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. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document. The contents of any website references herein do not form part of this document.

Please see page 190 for important information regarding the rights issue.

National Grid plc
1-3 Strand, London WC2N 5EH, United Kingdom
Registered in England and Wales No. 4031152

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, 333-107727, 333-149828 and 333-155527) and Form F-3 (File numbers 333-135407 and 333-160013) of National Grid plc of our report dated May 19, 2010 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

May 25, 2010