

**NATIONAL GRID (US) INVESTMENTS**  
**REPORT OF THE DIRECTORS**  
**AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2005**



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12/01/2006

**REGISTERED NUMBER: 3784527**

**NATIONAL GRID (US) INVESTMENTS**  
**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 31 MARCH 2005**

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2005.

**PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS**

The Company is an investment company.

**RESULTS AND DIVIDENDS**

The profit for the year after taxation was £15,220,000 (2004: £46,980,000).

The Company has paid preference dividends of £146,072,000 during the year (2004: £Nil). The Directors do not recommend payment of any further dividends (2004: £Nil).

**FUTURE DEVELOPMENTS**

The Company will continue to operate as an investment company for the foreseeable future.

**DIRECTORS**

The Directors of the Company during the year and subsequently were:

DC Forward	(Resigned 19 July 2004)
SF Noonan	
RF Pettiifer	
AB Chapman	(Resigned 1 February 2005)
MC Cooper	(Appointed 19 July 2004)
MA Smyth-Osbourne	(Appointed 1 February 2005)

**TRANSACTIONS WITH DIRECTORS**

None of the Directors had a material interest in any contract of significance to which the Company was a party or made any transactions, arrangement or agreement within the provisions of Schedule 6 to the Companies Act 1985, during the year.

**NATIONAL GRID (US) INVESTMENTS**  
**REPORT OF THE DIRECTORS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2005**

**DIRECTORS' INTERESTS IN SHARES**

The Directors had no direct or indirect interests at 31 March 2005 in the shares of the Company or Group, other than the following interests in the ordinary shares of National Grid plc, the ultimate parent company:

**Interests in ordinary shares in National Grid plc**

**Employee Sharesave options**

	<b>1 April 2004 or later on appointment</b>	<b>Granted</b>	<b>Exercised</b>	<b>31 March 2005</b>
MC Cooper	5,362	-	-	5,362
SF Noonan	5,005	3,451	4,005	4,451
RF Pettifer	3,891	-	-	3,891
MA Smyth-Osbourne	2,910	-	-	2,910

**Executive Share options**

	<b>1 April 2004 or later on appointment</b>	<b>Granted</b>	<b>Exercised</b>	<b>31 March 2005</b>
MC Cooper	17,501	-	-	17,501
SF Noonan	34,201	-	-	34,201
RF Pettifer	8,119	-	-	8,119
MA Smyth-Osbourne	8,842	-	-	8,842

**Performance Share Plan Awards**

	<b>1 April 2004 or later on appointment</b>	<b>Granted</b>	<b>Exercised</b>	<b>31 March 2005</b>
MC Cooper	29,611	39,917	-	69,528
SF Noonan	11,844	11,862	-	23,706
RF Pettifer	6,525	6,425	-	12,950
MA Smyth-Osbourne	14,637	-	-	14,637

**Beneficial interests in shares\***

	<b>1 April 2004 or later on appointment</b>	<b>31 March 2005</b>
MC Cooper	49,252	51,647
SF Noonan	1,965	2,289
RF Pettifer	14,822	14,275
MA Smyth-Osbourne	11,991	11,991

**NATIONAL GRID (US) INVESTMENTS**  
**REPORT OF THE DIRECTORS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2005**

**DIRECTORS' INTERESTS IN SHARES (continued)**

\*Note: Includes shares acquired under the Share Matching Plan. Subject to retention of the shares acquired in accordance with the rules of the plan, matching awards totalling 3,560 National Grid plc ordinary shares were exercisable by MC Cooper (31 March 2004: Nil shares) in addition to the above.

**DIRECTORS' RESPONSIBILITIES**

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for the financial year.

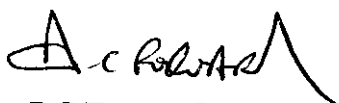
The Directors are responsible for ensuring that the Company keeps accounting records which disclose, with reasonable accuracy, the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They also have general responsibility for taking reasonable steps to safeguard the assets of the Company and for taking reasonable steps to prevent and detect fraud and other irregularities.

The Directors consider that in preparing the financial statements, suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used and that applicable accounting and financial reporting standards have been followed. The Directors also confirm that the going concern basis is appropriate.

**AUDITORS**

The Company has previously taken advantage of the provisions of Section 379A of the Companies Act 1985 that enable a private company to dispense with the requirement to appoint auditors annually. Accordingly, PricewaterhouseCoopers LLP will be deemed to remain in office until further notice.

**FOR THE BOARD**



**DC Forward**  
Secretary  
15 December 2005

**REGISTERED OFFICE**

1-3 STRAND  
LONDON  
WC2N 5EH

**NATIONAL GRID (US) INVESTMENTS**  
**INDEPENDENT AUDITORS' REPORT TO**  
**THE MEMBERS OF NATIONAL GRID (US) INVESTMENTS**

We have audited the financial statements which comprise the Profit and Loss account, the Balance Sheet and the related notes.

**Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the Report of the Directors and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

**Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 March 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
London  
15 December 2005

# NATIONAL GRID (US) INVESTMENTS

## PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2005

	Notes	2005 £'000	2004 £'000
Operating income/(charges)	3	1,577	(75,582)
<b>Operating profit/(loss)</b>		1,577	(75,582)
Interest receivable from Group undertakings		20,166	8,467
<b>Profit/(loss) on ordinary activities before taxation</b>		21,743	(67,115)
Taxation	4	(6,523)	20,135
<b>Profit/(loss) on ordinary activities after taxation</b>		15,220	(46,980)
Dividends	5	(146,072)	-
<b>Loss for the year transferred from reserves</b>	8	<b>(130,852)</b>	<b>(46,980)</b>

The results reported above relate to continuing activities.

The company has no recognised gains and losses other than the profit for the year stated above and therefore no separate statement of total recognised gains and losses has been presented.

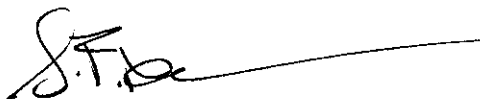
# NATIONAL GRID (US) INVESTMENTS

## BALANCE SHEET

AT 31 MARCH 2005

	Notes	2005 £'000	2004 £'000
<b>Current assets</b>			
Amounts owed by Group undertakings		645,574	649,546
Cash at bank		18,903	13,770
		<u>664,477</u>	<u>663,316</u>
<b>Creditors: amounts falling due within one year</b>	6	(36)	(15,023)
<b>Net assets employed</b>		<u><b>664,441</b></u>	<u><b>648,293</b></u>
<b>Capital &amp; reserves</b>			
Called up share capital	7	1,225	225
Share premium account	8	166,597	20,597
Profit and loss account	8	496,619	627,471
Equity shareholders' funds		517,441	648,293
Non-equity shareholders' funds		147,000	-
<b>Shareholders' funds</b>	9	<u><b>664,441</b></u>	<u><b>648,293</b></u>

The financial statements on pages 5 to 10 were approved by the Board of Directors on 15 December 2005 and signed on its behalf by:



**SF Noonan**  
Director

**NATIONAL GRID (US) INVESTMENTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2005**

**1 Accounting policies**

**a) Basis of accounting**

The financial statements have been prepared on a going concern basis under the historical cost convention and the accounting policies set out below and in accordance with the Companies Act 1985 and applicable accounting and financial reporting standards.

**b) Basis of preparation**

As permitted by Financial Reporting Standard 1 (Revised 1996), no cash flow statement has been presented as the cash flows of the Company have been included in the consolidated cash flow statement of National Grid plc.

**c) Foreign currencies**

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date or, if hedged forward, at the rates of exchange under the related contract. These translation differences are dealt with in the profit and loss account.

**2 Directors and employees**

The emoluments of the Directors are paid by a Group undertaking and are deemed by them to be wholly attributable to their services to that undertaking. Accordingly, no details in respect of their emoluments have been included in these financial statements.

There were no employees of the Company during the year (2004: Nil).

**3 Operating income/(charges)**

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Operating income/(charges) include:		
Foreign exchange gains/(losses)	<b>1,590</b>	(75,582)
Audit fees	<b>(5)</b>	-
Non-audit fees	<b>(5)</b>	-

For the year ended 31 March 2004, audit fees were borne by a fellow Group undertaking.



# NATIONAL GRID (US) INVESTMENTS

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2005

#### 4 Taxation

	2005 £'000	2004 £'000
Amount payable/(receivable) for group relief	6,523	(20,135)

Tax losses of £21,743,000 (2004: £67,115,000) were surrendered by (2004: to) a fellow subsidiary for which the Company will make (2004: receive) a payment of £6,523,000 (2004: £20,135,000).

The UK statutory rate of corporation tax is 30% and the effective rate of tax for the year was 30% (2004: 30%).

#### 5 Dividends

	2005 £'000	2004 £'000
<b>Preference dividends paid</b>		
Special preference dividend (£146 per share plus £72,000)	146,072	-

#### 6 Creditors: amounts falling due within one year

	2005 £'000	2004 £'000
Amounts owed to Group undertaking	28	15,023
Accruals	8	-
	36	15,023

#### 7 Share capital

	2005 £'000	2004 £'000
<b>Authorised</b>		
226,000 ordinary shares of £1 each	226	226
1,000,000 preference shares of £1 each	1,000	-
	1,226	226
<b>Allotted, called up and fully paid</b>		
225,300 ordinary shares of £1 each	225	225
1,000,000 preference shares of £1 each	1,000	-
	1,225	225

**NATIONAL GRID (US) INVESTMENTS**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2005**

**7 Share capital (continued)**

**Preference shares**

On 21 July 2004 the Company established a new class of share capital and authorised 1,000,000 preference shares of £1 each. On the same date the Company issued 1,000,000 preference shares of £1 each at a premium of £146 per share for a total consideration of £147,000,000. This was part of a group reorganisation.

The holders of the preference shares were entitled to a special dividend on or after the third day after the first allotment and issue of the preference shares. This single non-cumulative special dividend would be £146 per share plus an additional amount based on the number of days after the issue date multiplied by a rate of interest equal to 7 day UK sterling LIBOR multiplied by £146. Holders of preference shares were entitled to make a call for the special dividend at any time on or after the third day following allotment.

Following the payment of the special preference dividend, the holders of the preference shares are entitled to be paid a cumulative dividend at the rate of 6 month UK sterling LIBOR per annum on the nominal value of the shares. This dividend shall accrue on a daily basis and shall be payable on 31 March and 30 September each year. The first such payment would not be made until 31 March 2005 in respect of the period from the issue date until 31 March 2005.

On winding up the holders of preference shares rank above ordinary shareholders. They are entitled to receive the sum equal to the amount of share capital and share premium paid up on subscription together with a sum equal to all arrears or accruals of the preference dividends irrespective of whether or not such dividend has been declared.

The holders of the preference shares may attend and speak at General Meetings, but may only vote on matters affecting the rights of the preference shareholders.

**8 Reserves**

	<b>Share premium account £'000</b>	<b>Profit and loss account £'000</b>
At 1 April 2004	20,597	627,471
Issue of preference share capital	146,000	-
Loss for the year	-	(130,852)
<b>At 31 March 2005</b>	<b>166,597</b>	<b>496,619</b>

# NATIONAL GRID (US) INVESTMENTS

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2005

#### 9 Reconciliation of movement in shareholders' funds

	2005 £'000	2004 £'000
Profit/(loss) on ordinary activities after taxation	15,220	(46,980)
Dividends	(146,072)	-
	<u>(130,852)</u>	<u>(46,980)</u>
Issue of preference share capital	147,000	-
Net increase/(decrease) in shareholders' funds	<u>16,148</u>	<u>(46,980)</u>
Opening shareholders' funds	648,293	695,273
<b>Closing shareholders' funds</b>	<b><u>664,441</u></b>	<b><u>648,293</u></b>

#### Shareholders' funds allocated to non-equity

	2005 £'000	2004 £'000
Non-equity share capital	1,000	-
Share premium account	146,000	-
	<u>147,000</u>	<u>-</u>

#### Shareholders' funds allocated to equity

Difference between total shareholders' funds and amount allocated to non-equity interests	<u>517,441</u>	<u>648,293</u>
Made up as follows:		
Equity shares	225	225
Share premium account	20,597	20,597
Profit and loss account	496,619	627,471
	<u>517,441</u>	<u>648,293</u>

**NATIONAL GRID (US) INVESTMENTS**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2005**

**10 Related party transactions and ultimate parent company**

The Company is exempt from disclosing transactions for the year with those companies within the National Grid plc group of companies ("the Group") where all of the voting rights are held within the Group. There were no related party transactions with companies where not all of the voting rights are held within the National Grid plc group of companies.

The ultimate parent and controlling company is National Grid plc (formerly National Grid Transco plc) and the immediate parent company is National Grid Holdings Limited. The largest and smallest groups which include the Company and for which consolidated financial statements are prepared are headed by National Grid plc and National Grid Holdings Limited respectively. Both of these companies are registered in England and Wales.

Copies of the consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.