

LATTICE GROUP PLC
REPORT OF THE DIRECTORS
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006



REGISTERED NUMBER: 3900804

LATTICE GROUP PLC

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 MARCH 2006

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2006.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

The Company is a holding company. The subsidiaries of the Company are involved in owning and operating the gas transmission network and the largest gas distribution network in Great Britain, together with businesses allied to infrastructure technology businesses, such as telecommunications infrastructure, LNG Storage, an LNG importation terminal, property management, and an engineering and software company.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the Company and the execution of the Company's strategy are subject to a number of risks. The Directors have identified the need to manage the Company's material financial risks, including foreign exchange, liquidity, credit and interest rate risks. These risks are monitored through a Group Treasury management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for National Grid plc group companies (the 'Group').

Group Treasury also seeks to limit counter-party risk by conducting most of its banking and dealing activities with a limited number of major international banks, whose status is kept under review.

LIQUIDITY RISK

The Company finances its operations through a combination of retained profits, new share issues and inter company loans.

INTEREST RATE RISK

To the extent that the Company enters into inter company loan agreements, the Company's exposure to interest risk arises on such loans on which interest is based on UK Libor. The Company does not participate in interest rate hedging.

CREDIT RISK

No material exposure is considered to exist in respect of inter company loans.

DEVELOPMENT AND PERFORMANCE DURING THE YEAR

As the Company is part of a larger Group, the management of the Company does not involve the use of key performance indicators, other than the profit or loss for the year, in measuring the development, performance or the position of the Company. For information on the development, performance and position of the Group as a whole, and of the key performance indicators used by the Group, refer to the Operating and Financial Review included in National Grid plc's Annual Report and Accounts 2005/06, which does not form part of this report.

LATTICE GROUP PLC

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 MARCH 2006

RESULTS AND DIVIDENDS

The profit for the year after taxation was £1,287 million (2005: £2,552 million).

Dividends of £1,250 million have been paid during the year (2005: £2,150 million). The Directors do not recommend payment of a final dividend (2005: £Nil).

FINANCIAL POSITION

The financial position of the Company is presented in the balance sheet. Equity shareholders' funds at 31 March 2006 were £841 million (2005: £804 million) comprising fixed asset investments of £706 million (2005: £670 million) and net current assets of £135 million (2005: £134 million).

FUTURE DEVELOPMENTS

The Company will continue to operate as a holding company for the foreseeable future.

DIRECTORS

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

E M Astle
M C Cooper
S C B Lucas
S J Holliday
S F Noonan

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 transaction, arrangement or agreement within the provisions of Schedule 6 to the Companies Act 1985, during the year.

DIRECTORS' INTERESTS

No Director had an interest in any contract to which the Company was a party. No Director had any beneficial interest in the shares of the Company or any other company within the National Grid Group except for their beneficial interests in the shares of the ultimate parent Company, National Grid plc (formerly National Grid Transco plc). In August 2005 National Grid plc carried out a Return of Cash, which consisted of the issue of "B" shares and an ordinary share consolidation – 43 new ordinary shares of 11 ¹⁷/₄₃ pence for every 49 existing ordinary shares of 10 pence each – (the "Share Consolidation"), however interests in share options, the Performance Share Plan and the matching awards under the Share Matching Scheme, were not subject to the Share Consolidation. Edward Astle, Steve Lucas and Steve Holliday are also directors of National Grid plc and details of their interests in National Grid plc appear in that company's report and accounts. The interests held in shares in the ultimate parent company, National Grid plc, held by the other Directors, were as follows:-

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REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 MARCH 2006

DIRECTORS' INTERESTS (continued)

BENEFICIAL INTERESTS IN SHARES

	1 April 2005	31 March 2006
M C Cooper *	49,576	26,299
S F Noonan *	2,289	2,274

* As a result of the Share Consolidation the following directors held "B" shares as at 31 March 2006:-

M C Cooper	2,148 "B" Shares
S F Noonan	640 "B" Shares

Holdings of interests in ordinary shares include shares acquired pursuant to the Lattice All Employee Share Ownership Plan and the National Grid Share Incentive Plan, details of which are included in the annual report and accounts of National Grid plc.

Share Options

	Options as at 1 April 2005	Options exercised during the year	Options lapsed during the year	Options granted during the year	Options as at 31 March 2006
M C Cooper	22,863	5,362	-	3,709	21,210
S F Noonan	38,652	-	-	-	38,652

All options were given under the ultimate parent company's Savings Related Share Option Schemes and Executive Share Option Schemes, details of which are given in that company's annual report and accounts.

Additionally the following directors held interests in the National Grid Share Matching Scheme as follows:-

	Allocation date	No of Shares purchased	Purchase Price	Matching option
M C Cooper	May 2004	1,817 *	431.25 p	3,560
M C Cooper	June 2005	2,129 *	528.50 p	4,153

* Adjusted to take account of the Share Consolidation.

LATTICE GROUP PLC

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FOR THE YEAR ENDED 31 MARCH 2006

DIRECTORS' INTERESTS (continued)

All interests held in accordance with the terms of the National Grid Share Matching Scheme Share Matching Scheme, details of which are given in the annual report and accounts of National Grid plc.

Performance Share Plan Interests

	Beneficial Holding at 1 April 2005	Awarded in year	Beneficial holding at 31 March 2006	Release date
M C Cooper	69,528	33,850	103,378	June 2007 to June 2009
S F Noonan	23,706	14,562	38,268	June 2007 to June 2009

All interests held in accordance with the terms of the National Grid Performance Share Plan, details of which are given in the annual report and accounts of National Grid plc.

DIRECTORS' INDEMNITIES AND INSURANCE

National Grid plc indemnifies officers of subsidiary companies against liabilities arising from the conduct of the Group's business, to the extent permitted by law, by the placing of Directors' and Officers' insurance. The insurance indemnifies individual Directors' and officers' personal legal liability and cost for claims arising out of actions taken in connection with Group business.

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 (other than where new accounting standards are adopted during the year as explained in Note 1 to the financial statements) 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.

LATTICE GROUP PLC

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 MARCH 2006

AUDIT INFORMATION

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 such 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.

AUDITORS

PricewaterhouseCoopers LLP have indicated their willingness to continue as auditors of the Company and to remain in office until the next Annual General Meeting of the Company at which accounts are laid.

FOR THE BOARD



R A Eves
Company Secretary
31 October 2006

REGISTERED OFFICE

1-3 Strand
London
WC2N 5EH

LATTICE GROUP PLC

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF LATTICE GROUP PLC

We have audited the financial statements of Lattice Group plc for the year ended 31 March 2006 which comprise the Profit and Loss account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
31 October 2006

LATTICE GROUP PLC
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2006

	Notes	2006 £m	2005 £m
Operating income	3	<u>1</u>	-
Total operating profit		1	-
Income from shares in Group undertakings		1,250	2,530
Interest received from Group undertakings		38	173
Interest payable to Group undertakings		<u>(41)</u>	(136)
Profit on ordinary activities before taxation		1,248	2,567
Taxation	4	39	(15)
Profit on ordinary activities after taxation		1,287	2,552
Dividends	5	(1,250)	(2,150)
Profit for the year transferred to reserves	10	<u>37</u>	<u>402</u>

The results reported above relate to continuing activities.

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

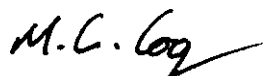
LATTICE GROUP PLC

BALANCE SHEET

AT 31 MARCH 2006

	Notes	2006 £m	2005 £m
Fixed assets			
Fixed asset investments	6	706	670
		<u>706</u>	<u>670</u>
Current assets			
Debtors: amounts falling due within one year	7	1,240	3,859
Debtors: amounts falling due after more than one year	7	117	60
		<u>1,357</u>	<u>3,919</u>
Creditors: amounts falling due within one year	8	<u>(1,222)</u>	<u>(3,785)</u>
Net current assets		<u>135</u>	<u>134</u>
Net assets employed		<u>841</u>	<u>804</u>
Capital and reserves			
Called up share capital	9	361	361
Share premium account	10	3	3
Other reserves	10	14	14
Profit and loss account	10	463	426
Equity shareholders' funds	11	<u>841</u>	<u>804</u>

The financial statements on pages 7 to 14 were approved by the Board of Directors on 31 October 2006 and signed on its behalf by:



MC Cooper
Director

LATTICE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2006

1 Accounting policies

a) Basis of preparation

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

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

In accordance with Section 228 of the Companies Act 1985, the Company is exempt from preparing consolidated financial statements, as it is a wholly owned subsidiary of National Grid Holdings One plc and is included within the consolidated accounts of that company.

The Company has taken the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash flow statements'.

The Company has adopted FRS 21 'Events after the Balance Sheet Date', FRS 23 'The Effects of Changes in Foreign Exchange rates', FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Measurement'. The adoption of these standards had no impact on the Company's net assets at 1 April 2005 or on profit for the years ended 31 March 2006 or 2005.

b) Fixed asset investments

Investments held as fixed assets are stated at cost less any provision for impairment. 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) Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs.

Loans receivable are carried at amortised cost using the effective interest rate method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired are recognised in the profit and loss account.

Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs plus accrued interest less any repayments. Finance charges are recognised in the profit and loss account in the period in which they are incurred using the effective interest method.

LATTICE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2006

1 Accounting policies (continued)

d) Dividends

Dividends are recognised when they are received from subsidiary undertakings.

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 (2005: Nil).

3 Operating income

	2006 £m	2005 £m
Operating income includes:		
Gain on disposal of a loan to a Group undertaking	2	-
Other operating charges	(1)	-
	<u>1</u>	<u>-</u>

Audit fees for the year were £10,000 (2005: £25,000).

4 Taxation

	2006 £m	2005 £m
Current tax		
Amount payable for group relief	(8)	(11)
Adjustments in respect of prior years	21	(16)
Total current tax credit/(charge)	<u>13</u>	<u>(27)</u>
Deferred tax		
Movement in the year	18	-
Adjustments in respect of prior years	8	12
	<u>26</u>	<u>12</u>
Total tax credit/(charge) on profit on ordinary activities	<u>39</u>	<u>(15)</u>

LATTICE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2006

4 Taxation (continued)

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2006 £m	2005 £m
Profit on ordinary activities before tax	1,248	2,567
Profit on ordinary activities before tax multiplied by standard rate in the UK of 30%	(374)	(770)
Effect of:		
Non taxable income from shares in group undertakings	375	759
Timing differences	(5)	(8)
Permanent differences	(4)	8
Adjustments in respect of prior years	21	(16)
Total current tax credit/(charge)	13	(27)

5 Dividends

	2006 £m	2005 £m
Ordinary dividends		
- Interim dividend paid in the year at £3.46 per share (2005: £5.95 per share)	1,250	2,150
	1,250	2,150

6 Fixed asset investments

	Subsidiary undertakings £m
Cost:	
At 1 April 2005	674
Additions	36
At 31 March 2006	710
Provision:	
At 1 April 2005 and 31 March 2006	(4)
Net book value:	
At 31 March 2006	706
At 31 March 2005	670

During the year the Company made an additional investment of £36 million in the ordinary share capital of National Grid Grain LNG Limited.

LATTICE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006

6 Fixed asset investments (continued)

The Company's principal subsidiary undertakings as at 31 March 2006 were:

Name of subsidiary	Principal activity
National Grid Gas Holdings plc	Holding company
National Grid Commercial Holdings Limited	Holding Company
National Grid Grain LNG Limited	LNG storage facility

All of these subsidiaries are 100% owned by the Company and are companies registered in England and Wales.

7 Debtors

	2006 £m	2005 £m
Amounts falling due within one year:		
Amounts owed by Group undertakings	1,240	3,853
Other debtors	-	6
	1,240	3,859
Amounts falling due after more than one year:		
Deferred tax	52	26
Corporation tax recoverable	65	34
	117	60
Total debtors	1,357	3,919

8 Creditors: amounts falling due within one year

	2006 £m	2005 £m
Amounts owed to Group undertakings	1,043	3,617
Other creditors	177	161
Corporation tax payable	-	5
Trade creditors and accruals	2	2
	1,222	3,785

Other creditors includes £177 million (2005: £159 million) received from subsidiary undertakings in relation to group pension scheme costs.

LATTICE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006

9 Share Capital

	2006	2005
	£m	£m
Authorised, allotted, called up and fully paid		
361,349,693 ordinary shares of £1 each	361	361

10 Reserves

	Share Premium Account £m	Other Reserves £m	Profit and loss Account £m
At 1 April 2005	3	14	426
Retained profit for the year transferred to reserves	-	-	37
At 31 March 2006	3	14	463

11 Reconciliation of movements in equity shareholders' funds

	2006	2005
	£m	£m
Profit for the year after taxation	1,287	2,552
Dividends	(1,250)	(2,150)
Net increase in equity shareholders' funds	37	402
Opening equity shareholders' funds	804	402
Closing equity shareholders' funds	841	804

12 Pensions

Lattice Group plc is the sponsoring company of The National Grid UK Pension Scheme. The scheme provides final salary defined benefits for participating employees who joined prior to 31 March 2002 and defined contribution benefits for employees joining from 1 April 2002. The scheme is funded with assets held in a separate trustee administered fund. It is subject to independent 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 scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme.

As the participating companies' share of the underlying assets and liabilities cannot be identified separately, they account for pensions under FRS 17 'Retirement Benefits' as if the scheme were a defined contribution scheme. Consequently, any surplus/deficit in the scheme is not recorded in the accounts of Lattice Group plc.

The deficit in the scheme at 31 March 2006, calculated in accordance with FRS 17, was £479m (£335m net of tax).

LATTICE GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006

12 Pensions (continued)

Lattice Group plc has no employees and is therefore not directly affected by changes in contribution rates.

The latest full actuarial valuation of the scheme was carried out by Watson Wyatt LLP at 31 March 2006. The aggregate market value of the scheme's assets was £12,743m and the value of the assets represented approximately 97% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 March 2006 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £371m (£260m net of tax).

It has been agreed that no funding of the deficit identified in the actuarial valuation will need to be provided to the scheme until the outcome of the interim actuarial assessment at 31 March 2007 is known. At this point, the gross amount of any deficit up to a maximum amount of £520m (£364m net of tax) will be paid into the scheme. Until the 31 March 2007 actuarial valuation has been completed, Lattice Group plc has arranged for banks to provide the trustees of the National Grid UK Scheme with letters of credit. The main conditions under which these letters of credit could be drawn relate to events which imperil the interests of the scheme, such as National Grid Gas plc, a subsidiary undertaking of Lattice Group plc, becoming insolvent or Lattice Group plc failing to make agreed payments into the fund.

13 Related party transactions and ultimate parent company

The Company is exempt from disclosing transactions 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 and the immediate parent company is National Grid Holdings One plc. 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 One plc respectively. Both of these companies are registered in England and Wales.

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