

NATIONAL GRID (US) PARTNER 2 LIMITED

REPORT OF THE DIRECTORS

AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2006



REGISTERED NUMBER: 4314442

NATIONAL GRID (US) PARTNER 2 LIMITED

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 an investment 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 may arise on such loans on which interest is based on Sterling and US dollar 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.

FOREIGN EXCHANGE RISK

To the extent that the Company enters into inter company loan agreements in currencies different to that of the Company's functional currency, there is an exposure to movements in exchange rates. The Company does not participate in cross-currency hedging.

NATIONAL GRID (US) PARTNER 2 LIMITED

REPORT OF THE DIRECTORS (continued)

FOR THE YEAR ENDED 31 MARCH 2006

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.

RESULTS, DIVIDENDS AND CURRENCY OF PREPARATION OF FINANCIAL STATEMENTS

The loss for the year after taxation was US\$10,000 (2005: US\$18,000).

The Directors do not recommend payment of a dividend (2005: US\$ Nil).

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

FINANCIAL POSITION

The financial position of the Company is presented in the balance sheet. Equity shareholders' funds at 31 March 2006 were US\$45,750,000 (2005: US\$45,760,000) comprising fixed asset investments of US\$45,779,000 (2005: US\$45,779,000) less net current liabilities of US\$29,000 (2005: US\$19,000).

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:

MC Cooper
SC Lucas
SF Noonan
RF Pettifer
RJ Urwin
MA Smyth-Osbourne

NATIONAL GRID (US) PARTNER 2 LIMITED

REPORT OF THE DIRECTORS (continued)

FOR THE YEAR ENDED 31 MARCH 2006

DIRECTORS' INTERESTS IN SHARES

The interests of RJ Urwin and SC Lucas at 31 March 2006 in Group companies are disclosed in the financial statements of the ultimate parent undertaking, National Grid plc. The other Directors had no direct or indirect interests at 31 March 2006 in the shares of the Company or Group, other than the following interests in the ordinary shares of National Grid plc:

Interests in ordinary shares in National Grid plc

Employee Sharesave options

	1 April 2005	Granted	Exercised	31 March 2006
MC Cooper	5,362	3,709	5,362	3,709
SF Noonan	4,451	-	-	4,451
RF Pettifer	3,891	861	2,145	2,607
MA Smyth-Osbourne	2,910	-	-	2,910

Executive Share options

	1 April 2005	Granted	Exercised	31 March 2006
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

	1 April 2005	Granted	Exercised	31 March 2006
MC Cooper	69,528	33,850		103,378
SF Noonan	23,706	14,562		38,268
RF Pettifer	12,950	7,115		20,065
MA Smyth-Osbourne	14,637	5,976		20,613

Beneficial interests in shares (* and **)

	1 April 2005	31 March 2006
MC Cooper	51,647	30,245
SF Noonan	2,289	2,274
RF Pettifer	14,275	11,305
MA Smyth-Osbourne	11,991	10,522

NATIONAL GRID (US) PARTNER 2 LIMITED

REPORT OF THE DIRECTORS (continued)

FOR THE YEAR ENDED 31 MARCH 2006

DIRECTORS' INTERESTS IN SHARES (continued)

* On 1 August 2005 National Grid ordinary shares were subject to a 43 for 49 capital consolidation in conjunction with alternative elections involving its 65p per share return of capital. Options to ordinary shareholders included a 'B share election', the rights of which are set out in the Circular to shareholders dated 6 June 2005. Following this, B shares are held as follows: MC Cooper – 2,148; SF Noonan – 640; RF Pettifer – 1,879; MA Smyth-Osbourne – Nil.

** 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 7,713 National Grid plc ordinary shares were exercisable by MC Cooper (31 March 2005: 3,560 shares) in addition to the above.

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' 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.

NATIONAL GRID (US) PARTNER 2 LIMITED

REPORT OF THE DIRECTORS (continued)

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.

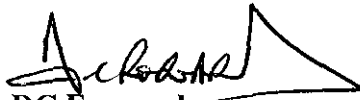
AUDITORS

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

REGISTERED OFFICE

1-3 STRAND
LONDON
WC2N 5EH



DC Forward

Secretary

16 October 2006

NATIONAL GRID (US) PARTNER 2 LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF NATIONAL GRID (US) PARTNER 2 LIMITED

We have audited the financial statements of National Grid (US) Partner 2 Limited 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 loss 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
16 October 2006

NATIONAL GRID (US) PARTNER 2 LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2006

	Notes	2006 US\$'000	2005 US\$'000
Operating charges	3	(14)	(26)
Loss on ordinary activities before taxation		(14)	(26)
Taxation	4	4	8
Loss for the year transferred from reserves	8	(10)	(18)

The results reported above relate to continuing activities.

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

NATIONAL GRID (US) PARTNER 2 LIMITED

BALANCE SHEET

AT 31 MARCH 2006

	Notes	2006 US\$'000	2005 US\$'000
Fixed asset investments	5	45,779	45,779
Current assets			
Amounts owed by a Group undertaking		11	8
Creditors: amounts falling due within one year	6	(40)	(27)
Net current liabilities		(29)	(19)
Net assets employed		45,750	45,760
Capital and reserves			
Called up share capital	7	20	20
Share premium account	8	45,759	45,759
Profit and loss account	8	(29)	(19)
Equity shareholders' funds	9	45,750	45,760

The financial statements on pages 7 to 13 were approved by the Board of Directors on 16 October 2006 and signed on its behalf by:



SF Noonan
Director

NATIONAL GRID (US) PARTNER 2 LIMITED

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 US dollars 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 (US) Investments 4 and is included within the consolidated accounts of National Grid Holdings plc.

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 the profit for the period ended 31 March 2006.

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) Foreign currencies

Transactions denominated in foreign currencies are translated into US dollars at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are retranslated at the rates ruling at that date. These exchange differences are dealt with in the profit and loss account.

NATIONAL GRID (US) PARTNER 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2006

1 Accounting policies (continued)

d) Financial instruments

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.

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 charges

	2006 US\$'000	2005 US\$'000
Operating charges include:		
Audit fees	7	9
Non-audit fees	<u>9</u>	<u>14</u>

4 Taxation

	2006 US\$'000	2005 US\$'000
Amounts receivable for group relief	<u>4</u>	<u>8</u>

The UK statutory rate of corporation tax is 30% and the effective rate of tax for the year was 30% (2005: 30%).

NATIONAL GRID (US) PARTNER 2 LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2006

5 Fixed asset investments

	Shares in Group Undertakings US\$'000
Cost and net book value:	
At 1 April 2005	45,779
Additions	47,202
Disposals	(47,202)
At 31 March 2006	<u>45,779</u>

The fixed asset investments at 31 March 2005 represented 1% of the US\$ ordinary share capital in the following companies which it held through its 1% share of the National Grid General Partnership, a partnership registered in the United States of America:

National Grid Holdings Inc.
National Grid US LLC
NG Chicago 1 LLC

During the year, on 16 January 2006, the Company disposed of its shareholding in National Grid US LLC and NG Chicago 1 LLC and exchanged them for additional ordinary shares in National Grid Holdings Inc..

On 20 January 2006 the National Grid General Partnership was merged into National Grid Holdings Inc., and hence ceased to exist.

On 24 January 2006, the Company disposed of its 1% shareholding in National Grid Holdings Inc to a fellow Group undertaking and acquired 1% of the ordinary share capital of National Grid (US) Partner 1 Limited.

The fixed asset investment at 31 March 2006 represents 1% of the ordinary share capital of National Grid (US) Partner 1 Limited, a company registered in England and Wales which is an investment company.

NATIONAL GRID (US) PARTNER 2 LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2006

6 Creditors: amounts falling due within one year

	2006 US\$'000	2005 US\$'000
Amounts owed to Group undertaking	25	11
Accruals	15	16
	<u>40</u>	<u>27</u>

7 Share capital

	2006 US\$'000	2005 US\$'000
Authorised		
4,000,000 ordinary shares of US\$1 each	<u>4,000</u>	<u>4,000</u>
Allotted, called up and fully paid		
20,002 ordinary shares of US\$1 each	<u>20</u>	<u>20</u>

8 Reserves

	Share Premium Account US\$'000	Profit and Loss Account US\$'000
At 1 April 2005	45,759	(19)
Loss for the year	-	(10)
At 31 March 2006	<u>45,759</u>	<u>(29)</u>

NATIONAL GRID (US) PARTNER 2 LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2006

9 Reconciliation of movement in equity shareholders' funds

	2006 US\$'000	2005 US\$'000
Loss for the year	(10)	(18)
Net decrease in equity shareholders' funds	(10)	(18)
Opening equity shareholders' funds	45,760	45,778
Closing equity shareholders' funds	45,750	45,760

10 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 (US) Investments 4. The largest and smallest group which includes the Company and for which consolidated financial statements are prepared is headed by National Grid plc. 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.