

**NATIONAL GRID UK LIMITED**  
**ANNUAL REPORT**  
**AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2008**

MONDAY



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**ENGLAND AND WALES REGISTERED NUMBER: 4508773**

## **NATIONAL GRID UK LIMITED**

### **DIRECTORS' REPORT**

#### **FOR THE YEAR ENDED 31 MARCH 2008**

The Directors present their report and the audited financial statements of National Grid UK Limited (the Company) for the year ended 31 March 2008.

#### **PRINCIPAL ACTIVITY**

The Company acts as a 'contracting agent' for certain types of licensing, and related, agreements which would be of general application across the National Grid plc group's operations, particularly in the United Kingdom. In entering into these agreements, the sponsoring group entity accepts full financial and other responsibility. The company has not accordingly accounted for any of these activities through its own books and has thus remained technically dormant for previous financial years including 2006/7.

During 2007/8 the Company began to act as an agent for the transfer of staff and other costs between UK and US companies within the National Grid group.

#### **DEVELOPMENT AND PERFORMANCE DURING THE YEAR**

Whilst the agency arrangement has been operating successfully thus far, it would normally be expected for such a company to have the flexibility of contracting for some services in its own right; ie as 'principal'/full services company, assuming some or all responsibility for certain commitments and then offering/charging other group entities for the services it has available. With this in mind, the company now offers its services outside the UK, to US members of the group, acting as contractor in its own right. For instance, for a UK company to pass charges to a US service company.

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 and the principal risks and uncertainties are integrated with the principal risks of National Grid plc. For information on the development, performance, risks, uncertainties and position of National Grid plc and its subsidiaries ('National Grid'), and of the key performance indicators used, refer to the Operating and Financial Review included in National Grid plc's Annual Report and Accounts 2007/08, which does not form part of this report.

#### **FINANCIAL RISK MANAGEMENT**

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 liquidity, interest rate, credit and foreign exchange risks. These risks are monitored through a National Grid Treasury management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for National Grid plc and its subsidiaries.

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.

# **NATIONAL GRID UK LIMITED**

## **DIRECTORS' REPORT (continued)**

**FOR THE YEAR ENDED 31 MARCH 2008**

### **LIQUIDITY RISK**

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

### **CREDIT RISK**

No material exposure is considered to exist in respect of 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 upon UK Libor. The Company does not participate in interest rate hedging.

### **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.

### **RESULTS AND DIVIDENDS**

The loss for the year after taxation of the Company was £92,000 (2007: £Nil). The loss for the year has been transferred to reserves.

### **FINANCIAL POSITION**

The financial position of the Company is presented in the balance sheet. Total shareholders' deficit at 31 March 2008 were £92,000 (2007: £Nil) representing net current liabilities.

### **POST BALANCE SHEET EVENT**

On 1<sup>st</sup> April 2008, the Company acquired Eastlands (Benefits Administration) Limited from a fellow Group undertaking for a consideration of equal to the net asset value based on the audited accounts at 31 March 2008.

### **DIRECTORS**

The Directors of the Company during the year and up to the date of signing the financial statements were:

E M Astle  
M R Fairbairn  
N P Winser

(Resigned 30 April 2008)

## **NATIONAL GRID UK LIMITED**

### **DIRECTORS' REPORT (continued)**

**FOR THE YEAR ENDED 31 MARCH 2008**

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **DIRECTORS' INDEMNITIES AND INSURANCE**

National Grid plc indemnifies officers of subsidiary companies against liabilities arising from the conduct of National Grid'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 the business of National Grid plc and its subsidiaries.

**NATIONAL GRID UK LIMITED**

**DIRECTORS' REPORT (continued)**

**FOR THE YEAR ENDED 31 MARCH 2008**

**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.

**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, taking into account their periods of office, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware, and the Directors have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

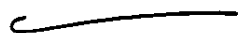
**INDEPENDENT AUDITORS**

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.

**ON BEHALF OF THE BOARD**



**DC Forward**  
Company Secretary  
29 September 2008



**REGISTERED OFFICE**

1-3 STRAND  
LONDON  
WC2N 5EH

**INDEPENDENT AUDITORS' REPORT**  
**TO THE MEMBERS OF NATIONAL GRID UK LTD**

We have audited the financial statements of National Grid UK Limited for the year ended 31 March 2008 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**

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements 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 Directors' Report is consistent with the financial statements.

In addition we report to you, if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

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

**Basis of audit opinion**

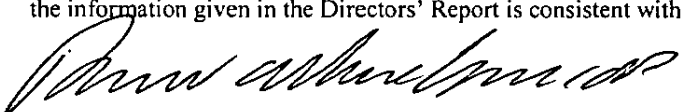
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2008 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 Directors' Report is consistent with the financial statements.



**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
Birmingham  
26 September 2008

**NATIONAL GRID UK LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 MARCH 2008**

	Notes	2008 £'000	2007 £'000
Operating charges	4	<u>(132)</u>	<u>-</u>
<b>Operating loss on ordinary activities</b>		<u>(132)</u>	<u>-</u>
<b>Loss on ordinary activities before taxation</b>		(132)	-
Taxation	5	<u>40</u>	<u>-</u>
Loss on ordinary activities after taxation		<u>(92)</u>	<u>-</u>
<b>Loss for the year transferred from reserves</b>	9	<u>(92)</u>	<u>-</u>

The results reported above relate to continuing activities.

There are no material differences between the loss on ordinary activities before and after taxation for the years stated above and their historical cost equivalents.

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

# NATIONAL GRID UK LIMITED

## BALANCE SHEET

AS AT 31 MARCH 2008

	Notes	2008 £'000	2007 £'000
<b>Current assets</b>			
Debtors: amounts falling due within one year	6	<u>6,412</u>	<u>-</u>
		6,412	-
<b>Creditors: amounts falling due within one year</b>	7	<u>(6,504)</u>	<u>-</u>
<b>Net current liabilities</b>		(92)	-
<b>Net liabilities</b>		<u>(92)</u>	<u>-</u>
<b>Capital and reserves</b>			
Called up share capital	8	-	-
Profit and loss account	9	(92)	-
<b>Shareholders' deficit</b>	10	<u>(92)</u>	<u>-</u>

The financial statements on pages 6 to 12 were approved by the Board of Directors on 29 September 2008 and signed on its behalf by:



Director



# **NATIONAL GRID UK LIMITED**

## **NOTES TO THE ACCOUNTS**

### **FOR THE YEAR ENDED 31 MARCH 2008**

#### **1 Accounting policies**

##### **(a) Basis of preparation**

These 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. These financial statements have been prepared using the historical cost convention and in accordance with the accounting policies set out below.

These 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'. 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 that comply with the standard are included in the consolidated financial statements of National Grid plc.

##### **(b) 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 substantially enacted by the balance sheet date.

##### **(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 where there is objective evidence that the Company will not be able to collect all the amounts due under the original terms of the loan. Interest income, together with the losses when the loans are impaired are recognised in the profit and loss account.

# **NATIONAL GRID UK LIMITED**

## **NOTES TO THE ACCOUNTS (continued)**

### **FOR THE YEAR ENDED 31 MARCH 2008**

#### **1 Accounting policies (continued)**

##### **(c) Financial instruments (continued)**

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 method.

##### **(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 exchange 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.

#### **2 Adoption of new accounting standards**

##### **New financial reporting standards (FRS) and abstracts adopted in 2007/08**

During the year the Company has adopted the following FRSs and abstracts. None of these had a material impact on the Company's results or assets and liabilities.

Amendment to FRS3 on reporting financial performance removes inconsistencies between FRS3 and both FRS26 'Financial Instruments: Recognition and measurement' and FRS23 'The effects of changes in foreign exchange rates', in particular as regards recycling to the profit and loss account of gains and losses and exchange differences previously recognised in the statement of recognised gains and losses.

Amendment to FRS26 on financial instruments: measurement – recognition and derecognition implements the recognition and derecognition material in IAS39. The requirements of FRS5, 'Reporting the substance of transactions', are superseded for transactions that fall within FRS26's scope, but FRS5 continues to apply to transactions in non-financial assets and liabilities.

UITF Abstract 42 on reassessment of embedded derivatives prohibits reassessment of the treatment of embedded derivatives subsequent to initial recognition unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

UITF Abstract 44 on group and treasury share transactions provides guidance on whether share-based transactions involving treasury shares or involving group entities (for instance, options over a parent's shares) should be accounted for as equity-settled or cash-settled.

# NATIONAL GRID UK LIMITED

## NOTES TO THE ACCOUNTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2008

#### 2 Adoption of new accounting standards (continued)

##### New FRS not yet adopted

The Company has yet to adopt the following FRS, however, it is not expected to have a material impact on the Company's results or assets and liabilities.

Amendment to FRS20 on share-based payment 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. It is expected that the amendment to FRS20 will be adopted on 1 April 2009.

#### 3 Directors emoluments and employees

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements. During the year there were two Directors (2007: 2) who exercised share options in the ordinary shares of the ultimate parent company, National Grid plc.

There were no employees of the Company during the year (2007: none).

#### 4 Operating charges

	2008 £'000	2007 £'000
Exchange losses	(132)	-
	<u>(132)</u>	<u>-</u>

Auditor's remuneration has been borne by other group companies, these included no non-audit fees.

#### 5 Taxation

	2008 £'000	2007 £'000
<b>Current tax:</b>		
UK corporation tax	(40)	-
Total current tax credit	<u>(40)</u>	<u>-</u>

The tax assessed for the period is at the standard rate of corporation tax in the UK (30%).

##### Factors that may affect future tax charges

The changes enacted in Finance Act 2007 included a reduction in the corporation tax rate from 30% to 28% with effect from 1 April 2008.



**NATIONAL GRID UK LIMITED**

**NOTES TO THE ACCOUNTS (continued)**

**FOR THE YEAR ENDED 31 MARCH 2008**

**5 Taxation (continued)**

**Factors that may affect future tax charges (continued)**

A number of changes to the UK corporation tax system were announced in the March 2008 Budget Statement and are expected to be enacted in the 2008 Finance Act. The changes have not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

**6 Debtors: amounts falling due within one year**

	2008	2007
	£'000	£'000
Amounts due from fellow subsidiary undertakings	6,412	-
	<u>6,412</u>	<u>-</u>

**7 Creditors: amounts falling due within one year**

	2008	2007
	£'000	£'000
Amounts owed to fellow subsidiary undertakings	(6,504)	-
	<u>(6,504)</u>	<u>-</u>

**8 Called up share capital**

	2008	2007
	£'000	£'000
<b>Authorised</b>		
100 ordinary shares of £1 each	<u>-</u>	<u>-</u>
<b>Allotted, called up and fully paid</b>		
1 ordinary share of £1 each	<u>-</u>	<u>-</u>

**9 Reserves**

	<b>Profit and loss Account</b>
	<b>£'000</b>
Loss for the year	<u>(92)</u>
<b>At 31 March 2008</b>	<u><b>(92)</b></u>

# NATIONAL GRID UK LIMITED

## NOTES TO THE ACCOUNTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2008

#### 10 Reconciliation of movements in shareholders' funds

	2008	2007
	£'000	£'000
Loss for the year after taxation	(92)	-
Net decrease in shareholders' funds	(92)	-
Closing shareholders' deficit	(92)	-

#### 11 Related party transactions and ultimate parent company

The company is exempt from disclosing transactions with National Grid plc and its subsidiary undertakings 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 Company's 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. All of these companies are registered in England and Wales.

An intermediate holding company, National Grid Holdings One plc, has confirmed its intention to ensure that the company will be in a position to meet its liabilities for a period of not less than one year from the date of these financial statements.

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