

NGT THREE
DIRECTORS' REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007

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ENGLAND AND WALES REGISTERED NUMBER: 5234267

NGT THREE

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2007

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2007

PRINCIPAL ACTIVITY

The Company is an investment company and an unlimited company

DEVELOPMENT AND PERFORMANCE DURING THE YEAR

The Company obtains and provides finance to fellow National Grid plc subsidiary companies via inter company balances. Results, as detailed below, largely depend on investment income received offset by a taxation expense incurred. The Directors believe the current level of activity will continue in the foreseeable future.

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 2006/07, which does not form part of this report.

RESULTS AND DIVIDENDS

The loss for the year after taxation was £92,000 (2006 £16,717,000 profit)

No interim dividend was paid during the year (2006 £1,409,402,000) and the Directors do not recommend the payment of a final dividend (2006 £Nil)

FINANCIAL POSITION

The financial position of the Company is presented in the balance sheet. Total shareholders' funds at 31 March 2007 were £10,964,000 (2006 £11,056,000) comprising current assets of £23,467,000 (2006 £22,307,000) less current liabilities of £12,503,000 (2006 £11,251,000).

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 and credit 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.

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DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 MARCH 2007

FINANCIAL RISK MANAGEMENT (continued)

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 upon 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

DIRECTORS

The Directors of the Company during the year and subsequently were

MC Cooper	(Resigned 1 December 2006)
MAD Flawn	(Appointed 1 December 2006)
AM Lewis	(Appointed 1 December 2006)
SF Noonan	
RF Pettifer	
MA Smyth-Osbourne	(Resigned 31 October 2006)

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.

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

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DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 MARCH 2007

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.

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.

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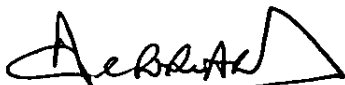
DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 MARCH 2007

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
Director
21 September 2007

REGISTERED OFFICE

1-3 STRAND
LONDON
WC2N 5EH

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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF NGT THREE

We have audited the financial statements of NGT Three for the year ended 31 March 2007 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 Directors' responsibilities section of the Directors' Report.

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 2007 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
London
21 September 2007

NGT THREE
PROFIT AND LOSS ACCOUNT
FOR THE YEARS ENDED 31 MARCH

	Notes	2007 £'000	2006 £'000
Operating charges	4	(7)	(3)
Operating loss		<u>(7)</u>	<u>(3)</u>
Interest receivable from fellow subsidiary undertakings		1,160	26,969
Profit on ordinary activities before taxation		<u>1,153</u>	<u>26,966</u>
Taxation	5	(1,245)	(10,249)
(Loss)/profit for the year transferred (from)/to reserves	9	<u>(92)</u>	<u>16,717</u>

The results reported above relate to continuing activities

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

The Company has no recognised gain and losses other than the (loss)/profit for the years stated above and therefore no separate statement of total recognised gains and losses has been presented

NGT THREE
BALANCE SHEET
AT 31 MARCH

	Notes	2007 £'000	2006 £'000
Current assets			
Amounts due from fellow subsidiary undertakings		23,267	22,107
Cash at bank and in hand		<u>200</u>	<u>200</u>
		23,467	22,307
Creditors: amounts falling due within one year	6	(12,503)	(11,251)
Net current assets		<u>10,964</u>	<u>11,056</u>
Net assets employed		<u>10,964</u>	<u>11,056</u>
Capital and reserves			
Called up share capital	7	6,906	6,906
Profit and loss account	8	<u>4,058</u>	<u>4,150</u>
Total shareholders' funds	9	<u>10,964</u>	<u>11,056</u>

The financial statements on pages 6 to 12 were approved by the Board of Directors on 21 September 2007 and signed on its behalf by



SF Noonan
Director

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007

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.

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 substantively 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 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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2007

1 Accounting policies (continued)

(d) Dividends

Interim dividends are recognised when they are paid to the Company's shareholders
Final dividends are recognised when they are approved by shareholders

2 Adoption of new accounting standards

New financial reporting standards (FRS) and abstracts adopted in 2006/07

Amendment to FRS 17 'Retirement benefits' replaces the disclosures required by FRS 17 with those of IAS 19, 'Employee benefits', its international equivalent and amends paragraph 16 of FRS 17, so that for quoted securities, the current bid price (rather than the mid-market value) is taken as fair value. Implementation of this standard has not had a material impact on the Company's results or assets and liabilities.

Amendment to FRS 23 'The Effects of Changes in Foreign Exchange Rates' clarifies the requirements of FRS 23 regarding an entity's investment in foreign operations and, in particular, the treatment of monetary items entered into as net investment hedges. Implementation of this amendment had no impact on the Company's results or assets and liabilities.

FRS 29 'Financial Instruments: Disclosures' Implementation of this standard has not had a material impact on the Company's results or assets and liabilities.

UITF Abstract 41, 'Scope of FRS 20 (IFRS2)' addresses the issue of whether FRS 20 'Share-based payment', applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. Implementation of this abstract has not had a material impact on the Company's results or assets and liabilities.

UITF Abstract 45 'Liabilities arising from participating in a specific market – Waste electrical and electronic equipment' relates to the European Union's Directive on waste electrical and electronic equipment and deals with the responsibility of producers for the backlog of waste for goods sold to private households. Implementation of this abstract has not had a material impact on the Company's results or assets and liabilities.

3 Directors 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 (2006: Two) 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 (2006: Nil).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2007

4 Operating charges

	2007 £'000	2006 £'000
Operating charges include		
Audit fees	<u>4</u>	<u>3</u>

Disclosure of non-audit fees is not required as these have been disclosed in the consolidated financial statements of National Grid plc

5 Taxation

	2007 £'000	2006 £'000
Current tax:		
UK corporation tax at 30% (2006 30%)	346	8,090
Adjustments in respect of prior periods	<u>899</u>	<u>2,159</u>
Total current tax	<u>1,245</u>	<u>10,249</u>

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%) The differences are explained below

	2007 £'000	2006 £'000
Profit on ordinary activities before tax	<u>1,153</u>	<u>26,966</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	346	8,090
Effect of		
Adjustments in respect of prior periods	<u>899</u>	<u>2,159</u>
Total current tax charge for the period	<u>1,245</u>	<u>10,249</u>

Factors that may affect future tax charges

A number of changes to the UK Corporation tax system were announced in the March 2007 Budget Statement and are expected to be enacted in the 2007 and 2008 Finance Acts The changes have not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

The changes enacted in Finance Act 2007 include a reduction in the corporation tax rate from 30% to 28% with effect from 1 April 2008 We are in the process of evaluating the effect these changes will have on future deferred tax charges

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2007

6 Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Amounts owed to fellow subsidiary undertakings	9,497	9,149
Corporation tax payable	2,998	2,099
Accruals and deferred income	8	3
	<u>12,503</u>	<u>11,251</u>

7 Called up share capital

	2007 £'000	2006 £'000
Authorised		
2,000,000,000 ordinary shares of £0.005 each	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid		
1,381,245,000 ordinary shares of £0.005 each	<u>6,906</u>	<u>6,906</u>

The Company is an unlimited company

8 Reserves

	Profit and loss Account £'000
At 1 April 2006	4,150
Loss for the year	(92)
At 31 March 2007	<u>4,058</u>

9 Reconciliation of movements in shareholders' funds

	2007 £'000	2006 £'000
(Loss)/profit for the year after taxation	(92)	16,717
Dividend distribution	-	(1,409,402)
Net decrease in shareholders' funds	(92)	(1,392,685)
Opening shareholders' funds	11,056	1,403,741
Closing shareholders' funds	<u>10,964</u>	<u>11,056</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2007

10 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 ultimate parent and controlling company is National Grid plc and the immediate parent company is National Grid (US) Partner 1 Limited. The largest and smallest group which includes the Company and for which consolidated financial statements are prepared is headed by National Grid plc. All 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.