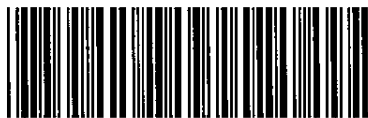


NGT THREE
DIRECTORS' REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2008

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ENGLAND AND WALES REGISTERED NUMBER: 5234267

NGT THREE

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2008

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2008.

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 2007/08, which does not form part of this report.

RESULTS AND DIVIDENDS

The profit for the year after taxation was £4,029,000 (2007: £92,000 loss).

The Directors do not recommend payment of a dividend (2007: £Nil).

FINANCIAL POSITION

The financial position of the Company is presented in the balance sheet. Total shareholders' funds at 31 March 2008 were £14,993,000 (2007: £10,964,000) comprising current assets of £24,749,000 (2007: £23,467,000) less current liabilities of £9,956,000 (2007: £12,503,000).

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 2008

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 up to the date of signing the financial statements were

MAD Flawn

G Holroyd

(Appointed alternate to AM Lewis - 28 November 2007)

AM Lewis

SF Noonan

RF Pettifer

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 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.

NGT THREE

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.

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, there is no relevant audit information of which the auditors are unaware and each 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

NGT THREE

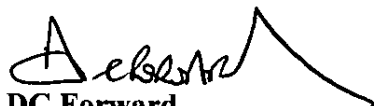
DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 MARCH 2008

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
22 September 2008



REGISTERED OFFICE

1-3 STRAND
LONDON
WC2N 5EH

NGT THREE
INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF NGT THREE

We have audited the financial statements of NGT Three 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 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 2008 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 Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
22 September 2008

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

	Notes	2008 £'000	2007 £'000
Operating charges	3	(8)	(7)
Operating loss		<u>(8)</u>	<u>(7)</u>
Interest receivable from fellow subsidiary undertakings		1,482	1,160
Profit on ordinary activities before taxation		<u>1,474</u>	<u>1,153</u>
Taxation	4	2,555	(1,245)
Profit/(loss) for the year transferred to/(from) reserves	7	<u>4,029</u>	<u>(92)</u>

The results reported above relate to continuing activities

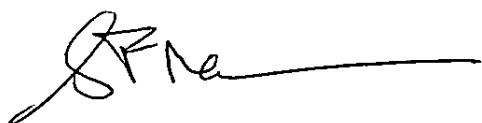
There are no material differences between the profit/(loss) on ordinary activities before and after taxation for the years stated above and their historical cost equivalents.

The Company has no recognised gain and losses other than the profit/(loss) 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	2008 £'000	2007 £'000
Current assets			
Amounts due from fellow subsidiary undertakings		24,749	23,267
Cash at bank		<u>200</u>	<u>200</u>
		24,949	23,467
Creditors: amounts falling due within one year	5	(9,956)	(12,503)
Net current assets		<u>14,993</u>	<u>10,964</u>
Net assets employed		<u>14,993</u>	<u>10,964</u>
Capital and reserves			
Called up share capital	6	6,906	6,906
Profit and loss account	7	<u>8,087</u>	<u>4,058</u>
Total shareholders' funds	8	<u>14,993</u>	<u>10,964</u>

The financial statements on pages 6 to 11 were approved by the Board of Directors on 22 September 2008 and signed on its behalf by



SF Noonan
Director

NGT THREE

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2008

2 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 three Directors (2007: 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 (2007: Nil).

3 Operating charges

	2008 £'000	2007 £'000
Operating charges include		
Audit fees	<u>4</u>	<u>4</u>

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

4 Taxation

	2008 £'000	2007 £'000
Current tax:		
UK corporation tax	442	346
Adjustments in respect of prior periods	<u>(2,997)</u>	<u>899</u>
Total current tax	<u>(2,555)</u>	<u>1,245</u>

The tax assessed for the period is lower (2007: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	<u>1,474</u>	<u>1,153</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2007: 30%)	442	346
Effect of		
Adjustments in respect of prior periods	<u>(2,997)</u>	<u>899</u>
Total current tax (credit)/charge for the period	<u>(2,555)</u>	<u>1,245</u>

NGT THREE

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2008

4 Taxation (continued)

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

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

5 Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Amounts owed to fellow subsidiary undertakings	9,948	9,497
Corporation tax payable	-	2,998
Accruals	8	8
	<u>9,956</u>	<u>12,503</u>

6 Called up share capital

	2008 £'000	2007 £'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.

7 Reserves

	Profit and loss Account £'000
At 1 April 2007	4,058
Profit for the year	4,029
At 31 March 2008	<u>8,087</u>

NGT THREE

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2008

8 Reconciliation of movements in shareholders' funds

	2008 £'000	2007 £'000
Profit/(loss) for the year after taxation	4,029	(92)
Net increase/(decrease) in shareholders' funds	4,029	(92)
Opening shareholders' funds	10,964	11,056
Closing shareholders' funds	14,993	10,964

9 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.