

NATIONAL GRID PLC  
Form 20-F  
June 19, 2007

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**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 20-F**

(Mark One)

- o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**
- b ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended March 31, 2007**  
**OR**
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**
- o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**Date of event requiring this shell company report \_\_\_\_**  
**For the transition period from \_\_\_\_ to \_\_\_\_**

**Commission file number: 001-14958**

**NATIONAL GRID PLC**

*(Exact name of Registrant as specified in its charter)*

*England and Wales*

*(Jurisdiction of incorporation or organization)*

*1-3 Strand, London WC2N 5EH, England*

*(Address of principal executive offices)*

**Securities registered or to be registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Ordinary Shares of 1117/43 pence each	The New York Stock Exchange*
American Depositary Shares, each representing five Ordinary Shares of 1117/43 pence each	The New York Stock Exchange
6.625% Guaranteed Notes due 2018	The New York Stock Exchange
6.30% Guaranteed Notes due 2016	The New York Stock Exchange

\* Not for trading, but only in connection with the registration of American Depositary Shares representing Ordinary Shares pursuant to the requirements of the Securities and Exchange Commission.

**Securities registered or to be registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:** None.

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Securities Exchange Act of 1934:** None.

The number of outstanding shares of each of the issuer's classes of capital or common stock as of March 31, 2007 was  
Ordinary Shares of 1117/43 pence each 2,701,058,872

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.  
Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow: Item 17  Item 18

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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As used in this Annual Report, unless the context requires otherwise,

National Grid, the Company, we, us or our refers to National Grid plc and its subsidiaries.

**Cautionary Statement**

This Annual Report on Form 20-F contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, continue, project and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond National Grid's ability to control or estimate precisely, such as delays in obtaining or adverse conditions contained in regulatory and shareholder approvals and contractual consents, including those required to complete the proposed acquisition of KeySpan when or as planned; unseasonable weather affecting demand for electricity and gas; competition and industry restructuring; changes in economic conditions; currency fluctuations; changes in interest and tax rates; changes in energy market prices; changes in historical weather patterns; changes in laws, regulations or regulatory policies; developments in legal or public policy doctrines; the impact of changes to accounting standards; and technological developments. Other factors that could cause actual results to differ materially from those described in this report include the ability to integrate the businesses relating to announced acquisitions with National Grid's existing business to realise the expected synergies from such integration; the availability of new acquisition opportunities and the timing and success of future acquisition opportunities; the timing and success or other impact of the sales of National Grid's non-core businesses, the failure for any reason to achieve reductions in costs or to achieve operational efficiencies; the failure to retain key management; the behaviour of UK electricity market participants on system balancing; the timing of amendments in prices to shippers in the UK gas market; the performance of our pension schemes and the regulatory treatment of pension costs; and any adverse consequences arising from outages on or otherwise affecting energy networks, including gas pipelines, which we own or operate. For a more detailed description of these assumptions, risks and uncertainties, together with any other risk factors, please see Items 3 and 5 of this report (and in particular Risk factors under Item 3). Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Except as required by law, National Grid does not undertake any obligation to revise these forward-looking statements to reflect events or circumstances after the date of this report. The effects of these factors are difficult to predict. New factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

The inclusion of our website address in this annual report does not, and is not intended to, incorporate the contents of our website into this report and such information does not constitute part of this annual report.

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Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

The selected financial data set out below are derived, in part, from the Company's consolidated financial statements. The selected data should be read in conjunction with the financial statements and with the Operating and Financial Review and Prospects in Item 5. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, which differ in certain respects from US GAAP. For a summary of the material differences between IFRS and US GAAP, please see Note 38 Differences between IFRS and US generally accepted accounting principles on pages 153 to 162 and Note 39 Condensed US GAAP financial information on pages 163 to 167 of the Company's Annual Report and Accounts 2006/07 contained in Exhibit 15.1 that is incorporated herein by reference.

**Selected financial data**

IFRS:

		Year Ended 31 March		
		2007	2006 <sup>1</sup>	2005 <sup>1</sup>
Revenue	£m	8,695	8,868	7,174
Total operating profit	£m	2,513	2,374	2,113
Profit for the year from continuing operations	£m	1,310	1,183	1,106
Profit for the year	£m	1,396	3,850	1,424
Basic earnings per share from continuing operations	pence	48.1	41.6	35.9
Diluted earnings per share from continuing operations	pence	47.8	41.4	35.7
Basic earnings per share	pence	51.3	135.6	46.2
Diluted earnings per share	pence	50.9	135.0	46.0
Number of shares – basic	millions	2,719	2,837	3,082
Number of shares – diluted	millions	2,737	2,851	3,096
Total assets	£m	28,389	25,924	27,560
Net assets	£m	4,136	3,493	2,121
Total parent company shareholders' equity	£m	4,125	3,482	2,111
Dividends per ordinary share: paid during the year	pence	26.8	25.4	20.4
Dividends per ordinary share: approved or proposed during the year	pence	28.7	26.1	23.7
Dividends per ordinary share: paid during the year	US\$	0.513	0.455	0.381
	US\$	0.549	0.467	0.443

Dividends per ordinary share: approved or proposed during the  
year

1

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US GAAP:

		<b>Year Ended 31 March</b>				
		<b>2007</b>	<b>2006<sup>1</sup></b>	<b>2005<sup>12</sup></b>	<b>2004<sup>2</sup></b>	<b>2003<sup>2</sup></b>
Revenue	£m	8,686	8,891	7,208	7,747	6,730
Operating profit	£m	1,862	1,749	1,803	1,470	1,367
Net income from continuing operations attributable to equity shareholders	£m	1,092	703	1,042	669	566
Net income for the year attributable to equity shareholders	£m	1,146	1,307	1,288	961	738
Basic earnings per share from continuing operations	pence	40.2	25.9	38.5	24.8	27.5
Diluted earnings per share from continuing operations	pence	39.9	25.8	38.3	24.8	26.0
Basic earnings per share	pence	42.2	48.2	47.6	35.7	35.8
Diluted earnings per share	pence	41.9	48.0	47.3	35.6	33.9
Number of shares basic	millions	2,719	2,710	2,705	2,694	2,060
Number of shares diluted	millions	2,737	2,724	2,719	2,701	2,180
Total assets	£m	35,126	32,952	37,274	35,347	36,947
Net assets employed/total shareholders funds	£m	9,367	9,788	10,629	9,875	9,515
Shareholders equity	£m	9,330	9,747	10,591	9,821	9,426
Common stock	£m	308	310	309	309	308
Dividends per ordinary share: paid during the year	pence	26.8	25.4	20.4	18.25	16.44
Dividends per ordinary share: approved or proposed during the year	pence	28.7	26.1	23.7	19.78	17.20
Dividends per ordinary share: paid during the year	US\$	0.513	0.455	0.381	0.307	0.261
Dividends per ordinary share: approved or proposed during the year	US\$	0.549	0.467	0.443	0.332	0.273

<sup>1</sup> Comparatives have been adjusted to reclassify amounts relating to discontinued operations.

<sup>2</sup> Comparisons have been restated due to the change in methodology for calculating net periodic pension charge more fully described in Note 38 (c) Pensions and other post-retirement benefits on page 155 of the Company's Annual Report and Accounts 2006/07 contained in Exhibit 15.1 incorporated herein by reference.



**Table of Contents****Exchange rates**

The following table sets forth the history of the exchange rates of one pound sterling to US dollars for the periods indicated and as at 15 June 2007.

as at 15 June 2007 1.9765:

	<b>High</b>	<b>Low</b>
June 2007*	1.9941*	1.9657*
May 2007	1.9993	1.9695
April 2007	2.0061	1.9608
March 2007	1.9694	1.9235
February 2007	1.9699	1.9443
January 2007	1.9847	1.9305
December 2006	1.9794	1.9458
		<b>Average**</b>
2006/07		1.91
2005/06		1.78
2004/05		1.85
2003/04		1.70
2002/03		1.55

\* For the period to 15 June 2007.

\*\* The average for each period is calculated by using the average of the exchange rates on the last day of each month during the period.

**Risk factors**

The information set forth under the heading Risk factors on pages 84 to 85 of the Company's Annual Report and Accounts 2006/07 contained in Exhibit 15.1 is incorporated herein by reference.

**Item 4. Information on the Company**

National Grid plc was incorporated on 11 July 2000. The Company is registered in England and Wales, with its registered office at 1-3 Strand, London WC2N 5EH (telephone +44 20 7004 3000). The Company's agent in the United States is Lawrence J. Reilly, Executive Vice President and General Counsel, National Grid USA, 25 Research Drive, Westborough, MA 01582.

The information set forth under the headings Operating and Financial Review on pages 20 to 63, Note 36 Subsidiary undertakings and joint ventures on page 152, Glossary of Terms on page 180 and Definitions on page 181 of the Company's Annual Report and Accounts 2006/07 contained in Exhibit 15.1 is incorporated herein by reference.

**Property, plant and equipment**

*United Kingdom*

National Grid's Corporate Centre operates principally from offices at 1-3 Strand, London. These offices, of approximately 25,080 square feet, are held on a 15-year lease from 24 June 2002. At present, environmental issues are not preventing the businesses from utilising any material operating assets in the course of their business.

*UK electricity and gas transmission.* We own the freehold of the majority of all sites associated with our UK electricity and gas transmission business in England and Wales. The remainder are held on long-term leaseholds, including all the transmission offtake sites in the service areas of the UK gas distribution networks sold on 1 June

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2005. In Scotland, we own the majority of our gas transmission sites outright through a disposition purchase. The remainder are owned through a feudal disposition where purchase was subject to various rights retained by the previous owner, for example mineral or forestry rights. In addition, we have three principal commercial lettings, at St Fergus to Shell and Mobil, and at Theddlethorpe (in England) to ConocoPhillips. The electricity transmission business does not own any sites in Scotland.

Our gas transmission network comprises approximately 4,300 miles of high pressure transmission pipelines. Agreements with landowners or occupiers are only required for those pipes that cross private land. These agreements largely comprise perpetual easements in England and Wales and deeds of servitude in Scotland. Any land issues impacting on normal agricultural activity local to pipelines and their associated easement or servitude are covered by national agreements with the National Farmers Union, the Country Land and Business Association of England and Wales and the Scottish Landowners Association.

Agreements with landowners or occupiers are required for the overhead lines and underground cables, which make up our electricity network in England and Wales. The majority of agreements are in the form of terminable wayleaves. The remainder are in the form of perpetual easements under which rights have been granted in perpetuity in return for a lump sum payment. The sites at which we have electricity substations are split between freehold and leasehold. Of the leasehold sites, the large majority are substations located on the premises of generators and are held on long-term leases for nominal rental payments. Of the remaining sites, most are held as ground rents (market price payable for land only) from the respective landlords, who include electricity distribution companies.

We also own the freehold of our control centre in Berkshire and we have major offices in Leeds (freehold) and Warwick, which the Company sold and leased back during the year. The Warwick offices, of approximately 235,884 square feet, are now held on a 20-year lease from 2 February 2007 with a one-time tenant only break option (i.e. Company lease termination right) exercisable during the 15<sup>th</sup> anniversary of the lease.

*UK gas distribution.* Following the sales of four of our regional gas networks (Scotland, South of England, Wales and West and North of England), which were completed on 1 June 2005, our retained UK gas distribution system consists of approximately 82,000 miles of distribution pipelines. Agreements with landowners or occupiers are only required for those pipes that cross private land. These agreements largely comprise perpetual easements. Any land issues impacting on normal agricultural activity local to pipelines and their associated easement are covered by national agreements with the National Farmers Union and the Country Land and Business Association of England and Wales.

We own the freeholds of the substantial majority of the operational sites where there are larger operational plant and gas storage facilities used in our UK gas distribution business. The vast majority of office buildings, depots and stores used by UK gas distribution are leased from another company within National Grid.

*National Grid Wireless.* The Company sold its UK wireless infrastructure operations on 3 April 2007. The information set forth under the heading Discontinued operations on page 63, of the Company's Annual Report and Accounts 2006/07 contained in Exhibit 15.1 is incorporated herein by reference.

***United States***

We own in fee the office buildings that comprise our principal US business premises in Westborough and Northborough, Massachusetts and in Syracuse, Albany and Buffalo, New York. Substantially all of National Grid's US properties and franchises are subject to the liens of mortgage indentures and deeds of trust under which mortgage bonds have been issued. At present, environmental issues are not preventing the companies from utilising any material operating assets in the course of their business.

*US electricity transmission.* Our US electricity transmission systems consist of approximately 8,600 miles of transmission and sub-transmission lines located within right-of-way corridors that traverse both public and private property. Statutory authority, legislative charters and municipal franchise grants generally provide the National Grid USA companies with the rights required to locate transmission and sub-transmission facilities within and across public ways. Right-of-way corridors that cross privately owned land have generally been acquired in fee ownership (freehold) or pursuant to grants of perpetual easements. Transmission and sub-transmission substation facilities are principally located on properties that are owned in fee.

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*US electricity and gas distribution.* Our US electricity and gas distribution systems consist of approximately 71,000 circuit miles of electric distribution lines located on rights-of-way in New England and New York, and approximately 11,800 miles of gas distribution pipelines located on rights-of-way in New York and Rhode Island. Statutory authority, legislative charters and municipal franchise grants generally provide the National Grid USA companies with the rights required to locate distribution facilities within and across public ways. Right-of-way corridors that cross privately owned land have principally been acquired in fee ownership or pursuant to grants of perpetual easements. Electric distribution substations and gas distribution regulator stations are principally located on properties owned in fee pursuant to grants of perpetual easements or pursuant to legislative charters and municipal franchise grants.

**Item 4A. Unresolved Staff Comments**

There are no unresolved staff comments required to be reported under this Item 4A.

**Item 5. Operating and Financial Review and Prospects**

The information set forth under the headings Operating and Financial Review on pages 20 to 75 and Research and development on page 86 of the Company's Annual Report and Accounts 2006/07 contained in Exhibit 15.1 is incorporated herein by reference.

**Item 6. Directors, Senior Management and Employees**

The information set forth under the headings Board of Directors on pages 18 and 19, Directors Remuneration Report on pages 88 to 98, Note 8 Pensions and other post-retirement benefits on pages 119 to 123, Corporate Governance on pages 77 to 83, Employees on page 87 and Note 31 Share capital on pages 145 to 148 of the Company's Annual Report and Accounts 2006/07 contained in Exhibit 15.1 is incorporated herein by reference.

The actual number of employees at 31 March 2007, and the average numbers during the years ended 31 March 2007, 2006, 2005 and 2004, are as follows:

	<b>31 March 2007</b>	<b>Average Fiscal 2007</b>	<b>Average Fiscal 2006</b>	<b>Average Fiscal 2005</b>	<b>Average Fiscal 2004</b>
United Kingdom	10,015	10,356	11,421	11,784	11,943
United States	8,753	8,618	8,414	8,663	9,402
Rest of the World	8	8	8	13	10
Continuing operations	18,776	18,982	19,843	20,460	21,355
Discontinued operations	735	730	686	4,147	4,303
Total	19,511	19,712	20,529	24,607	25,658

**Item 7. Major Shareholders and Related Party Transactions****Major shareholders**

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As at 15 June 2007, we had been notified of the following beneficial owners of 3% or more of our issued share capital:

	<b>Number of Ordinary Shares</b>	<b>% of Outstanding Share Capital*</b>
Legal and General Investment Management Ltd	111,803,477	4.12
Fidelity International Limited	82,805,863	3.06

\* This number is calculated in relation to the issued share capital at the time the holding was disclosed.

No further notifications had been received. No shares were held in treasury.

All ordinary shares have the same voting rights.

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Approximately 14.8% of National Grid's ordinary shares are held beneficially by persons in the US, and there are 3,283 US holders on the ordinary share register and approximately 20,315 registered holders of ADSs.

The information set forth under the heading Note 34 Related party transactions on page 151 of the Company's Annual Report and Accounts 2006/07 contained in Exhibit 15.1 is incorporated herein by reference.

**Item 8. Financial Information**

The information set forth under the headings Consolidated balance sheet on page 109, Consolidated income statement on page 108, Consolidated statement of recognised income and expense on page 110, Consolidated cash flow statement on page 111, Notes to the accounts on pages 112 to 172, Legal and related matters on page 25 and Returns to shareholders on page 43 of the Company's Annual Report and Accounts 2006/07 contained in Exhibit 15.1 is incorporated herein by reference.

**Item 9. The Offer and Listing****Price history**

The following table sets forth the highest and lowest market prices for National Grid ordinary shares and ADSs for the periods indicated. As described in Item 18 under note 31 to the consolidated financial statements, on 29 July 2005, the Company's ordinary shares were consolidated to reflect the £2 billion return of cash to shareholders by way of a B share scheme. Shareholders received 43 new ordinary shares for every 49 existing ordinary shares, which resulted in the existing 3,091,247,761 issued ordinary shares of 10 pence each being replaced by a total of 2,712,727,627 new ordinary shares of 1117/43 pence each.

	Ordinary Share (Pence)		ADS (\$)	
	High	Low	High	Low
2006/07	797.50	552.00	78.81	48.83
2005/06	613.50	489.25	53.45	44.48
2004/05	549.50	421.25	52.06	37.59
2003/04	438.00	374.75	41.45	30.19
2002/03	511.50	365.75	37.40	26.69
2006/07 Q4	797.50	717.00	78.81	69.55
Q3	749.50	664.50	74.00	63.10
Q2	672.00	587.00	63.24	53.32
Q1	615.00	552.00	57.34	48.83
2005/06 Q4	613.50	551.00	53.45	48.69
Q3	573.50	503.50	49.85	44.48
Q2	561.00	511.00	51.64	45.20
Q1	550.75	489.25	50.72	46.37
June 2007*	788.50	720.00	78.26	71.46
May 2007	786.00	759.00	78.86	75.10
April 2007	816.50	780.00	80.75	78.20
March 2007	797.50	748.50	78.81	71.82
February 2007	797.00	763.00	78.26	75.08
January 2007	770.50	717.00	75.61	69.55

December 2006	749.50	701.50	74.00	69.56
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\* For the period to 15 June 2007.

**Markets**

National Grid's equity securities are listed on the Official List of the London Stock Exchange (ordinary shares) and on the New York Stock Exchange (ADSs).



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**Item 10. *Additional Information***

**Memorandum and Articles of Association**

The following description is a summary of the material terms of National Grid's Memorandum and Articles of Association (the "Articles"). The following description is a summary only and is qualified in its entirety by reference to the Articles, which are provided as an exhibit to this report.

The Company adopted new Plain English articles at its Annual General Meeting on 25 July 2005.

***General***

National Grid is incorporated under the name National Grid plc and is registered in England and Wales with registered number 4031152. The Company's objects are set forth in the fourth clause of its Memorandum of Association and cover a wide range of activities, including the following:

carrying on the business of a holding company;

employing the funds of the Company to develop and expand its business; and

carrying on any other activity supplemental to the foregoing or capable of enhancing the Company's profitability.

The Memorandum of Association grants National Grid a broad range of corporate powers to effect these objectives.

***Directors***

Under the Articles, a Director must disclose any personal interest in a contract and may not vote in respect of that contract, subject to certain limited exceptions.

The compensation awarded to the Executive Directors is decided by the Remuneration Committee, which consists entirely of Non-executive Directors. The fees of the Non-executive Directors are determined by the Executive Directors with the guidance of the Chairman and after taking appropriate external advice.

The Directors are empowered to exercise all the powers of National Grid to borrow money, subject to the limitation that the aggregate principal amount outstanding of all borrowings shall not exceed an amount equal to four times National Grid's share capital and aggregate reserves, calculated in the manner described in the Articles, unless sanctioned by an ordinary resolution of the Company's shareholders. At the Annual General Meeting of the Company held on 31 July 2006 a resolution proposing a change in respect of borrowing powers was passed which replaced the current limit with a fixed borrowing limit of £30 billion.

There is no specific requirement for a director to retire when he/she reaches the age of 70. However, upon appointment or reappointment, the age of a person aged 70 or over must be declared in the notice convening the relevant shareholder meeting.

A Director is not required to hold shares of National Grid in order to qualify as a Director.

***Rights, preferences and restrictions***

National Grid may not pay any dividend otherwise than out of profits available for distribution under the Companies Act and the other applicable provisions of English law. In addition, as a public company, National Grid may make a distribution only if and to the extent that, at the time of the distribution, the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves (as defined in the Companies Act). Subject to the foregoing, National Grid may, by ordinary resolution, declare dividends in accordance with the respective rights of the shareholders but not exceeding the amount recommended by the Board of Directors. The Board of Directors may pay interim dividends if the Board of Directors considers that National Grid's financial position justifies the payment.

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Except insofar as the rights attaching to any share otherwise provide, all dividends will be apportioned and paid proportionately to the amounts paid up (otherwise than in advance of calls) on the shares.

All dividends or other sums payable unclaimed for one year after having been declared may be invested or otherwise made use of by the Board of Directors for the benefit of National Grid until claimed. Any dividend or interest unclaimed for 12 years from the date when it was declared or became due for payment will be forfeited and revert to National Grid.

Subject to any rights or restrictions attached to any shares and to any other provisions of the Articles, at any general meeting on a show of hands every shareholder who is present in person will have one vote and on a poll every shareholder will have one vote for every share which he holds. On a poll, shareholders may cast votes either personally or by proxy and a proxy need not be a shareholder. Under the Articles all must be decided on a poll, other than those of a procedural nature.

Directors must stand for reappointment at the first Annual General Meeting following their appointment to the Board. Each Director must retire at least every three years but will be eligible for re-election.

In a winding-up, a liquidator may, with the sanction of a special resolution of National Grid and any other sanction required by applicable provisions of English law, (a) divide among the shareholders the whole or any part of National Grid's assets (whether the assets are of the same kind or not) and may for this purpose value any assets and determine how the division should be carried out as between different shareholders or different classes of shareholders or otherwise as the resolution may provide, or (b) vest the whole or any part of the assets in trustees upon such trusts for the benefit of the shareholders as the liquidator, with the sanction of a special resolution, determines, but in neither case will a shareholder be compelled to accept assets upon which there is a liability.

### ***Variation of Rights***

Subject to applicable provisions of English law and the rights attached to any specific class of shares, the rights attached to any class of shares of National Grid may be varied with the written consent of the holders of three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class.

### ***General Meetings***

Annual General Meetings must be convened upon advance written notice of 21 clear days. An Extraordinary General Meeting must be convened upon advance written notice of 21 clear days for the passing of a special resolution and 14 clear days for any other resolution. The notice must specify the nature of the business to be transacted. The notice must also specify the place, the day and the time of the meeting.

### ***Rights of Non-Residents***

There are no restrictions under National Grid's Memorandum and Articles of Association that would limit the rights of persons not resident in the UK, as such, to vote ordinary shares.

### ***Disclosure of interests***

A shareholder may lose the right to vote his shares if he or any other person appearing to be interested in those shares fails to comply within a prescribed period of time with a request by National Grid under the Companies Act to give the required information with respect to past or present ownership or interests in those shares. In the case of holders of

more than 0.25% in nominal amount of any class of the share capital of National Grid, in addition to disenfranchisement, the sanctions that may be applied by National Grid include withholding of the right to receive payment of dividends and other monies payable on shares, and restrictions on transfers of the shares.

For purposes of the notification obligation, the interest of a person in shares means any kind of interest in shares including interests in any shares (a) in which a spouse, or child or stepchild under the age of 18 is interested, (b) in which a corporate body is interested and either (i) that corporate body or its directors generally act in accordance with that person's directions or instructions or (ii) that person controls one-third or more of the voting

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power of that corporate body or (c) in which another party is interested and the person and that other party are parties to a concert party agreement. A concert party agreement is one which provides for one or more parties to acquire interests in shares of a particular company and imposes obligations or restrictions on any one of the parties as to the use, retention or disposal of such interests acquired under the agreement, and any interest in the company's shares is in fact acquired by any of the parties under the agreement. Some of the interests (eg those held by certain investment fund managers) may be disregarded for the purposes of calculating the 3% threshold, but the obligations of disclosure will still apply where those interests exceed 10% or more of any class of the company's relevant share capital and to increases or decreases of 1% or more thereafter.

In addition, the Companies Act provides that a public company may send a written notice to a person whom the company knows or has reasonable cause to believe to be, or to have been at any time during the three years immediately preceding the date on which the notice is issued, interested in shares constituting the company's relevant share capital. The notice may require that person to state whether he has an interest in the shares, and in case that person holds or had held an interest in those shares, to give additional information relating to that interest and any other interest in the shares of which that person is aware.

Where a company serves notice under the provisions described above on a person who is or was interested in shares of the company and that person fails to give the company any information required by the notice within the time specified in the notice, the company may apply to an English court for an order directing that the shares in question be subject to restrictions prohibiting, among other things, any transfer of those shares, the taking up of rights in respect of those shares and, other than in a liquidation, payments in respect of those shares.

A person who fails to fulfil the obligations imposed by those provisions of the Companies Act described above is subject to criminal penalties.

***B Shares***

Out of the profits available for distribution in respect of each financial year or other accounting period of National Grid, the holders of B shares are entitled, in priority to any payment of dividend or other distribution to the holders of any new ordinary shares and before profits are carried to reserves, to be paid a non-cumulative preferential dividend. All B share continuing dividends payable on B shares which are unclaimed for a period of 12 years from the date of due payment will be forfeited and will revert to National Grid.

The aggregate entitlement of each holder of B shares on a winding-up in respect of all of the B shares held by him will be rounded up to the nearest whole penny. The holders of the B shares are not entitled to any further right of participation in the profits or assets of National Grid.

The holders of the B shares are not entitled, in their capacity as holders of such shares, to receive notice of any general meeting of National Grid nor to attend, speak or vote at any such general meeting unless: (i) the business of the meeting includes the consideration of a resolution for the winding-up of National Grid; or (ii) at the date of the notice convening the meeting, the B share continuing dividend has remained unpaid for six months or more. National Grid may at any time and at its sole discretion purchase B shares: (i) in the market, (ii) by tender available alike to all holders of B shares, or (iii) by private treaty, in each case at a price and upon such terms and conditions as the Directors may think fit.

National Grid may, at any time after 8 August 2007, without obtaining the sanction of the holders of the B shares: (i) appoint any person to execute on behalf of all the holders of the B shares a transfer of all of the B shares to National Grid; and (ii) cancel all or any B shares so purchased. National Grid may at any time after 8 August 2007, and will in any event before 31 December 2009, convert all of the outstanding B shares into new ordinary shares.

**Material contracts**

The Company agreed to acquire KeySpan Corporation pursuant to an Agreement and Plan of Merger dated as of 25 February 2006 between National Grid plc, National Grid US8 Inc. and KeySpan. Upon the merger, each outstanding share of KeySpan capital stock will be converted into the right to receive \$42.00 in cash and KeySpan will become a wholly owned subsidiary of National Grid USA upon completion of the of the transaction. The

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information set forth under the heading Acquisitions and disposals on pages 33 to 34, of the Company's Annual Report and Accounts 2006/07 contained in Exhibit 15.1 is incorporated herein by reference. As contemplated in the Merger Agreement, National Grid plc has provided notice extending the termination date of the Merger Agreement through to 25 August 2007.

As described in Item 6, each of our Executive Directors has a Service Agreement and each Non-executive Director has a Letter of Appointment.

Apart from these, no contract (other than contracts entered into in the ordinary course of business) has been entered into by National Grid within the two years immediately preceding the date of this report which is, or may be, material; or which contains any provision under which any member of National Grid has any obligation or entitlement which is material to National Grid at the date of this report.

## **Exchange controls**

There are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange control restrictions, or that affect the remittance of dividends, interest or other payments to non-UK resident holders of ordinary shares except as otherwise set out in Taxation below and except in respect of the governments of and/or certain citizens, residents or bodies of certain countries (described in applicable Bank of England Notices or European Union Council Regulations in force as at the date of this document).

## **Taxation**

The following summary describes the principal US Federal income and UK tax consequences for a beneficial owner of ADSs or ordinary shares who is:

a citizen or resident of the United States,

a corporation or other entity taxable as a corporation, created or organised under the laws of the United States or any state thereof, or

a trust or an estate the income of which is subject to US federal income tax without regard to its source and that holds such shares or ADSs as capital assets.

The summary is not a complete analysis or listing of all the possible tax consequences of ownership, in particular those pertaining to the August 2005 return of £2 billion to shareholders as discussed below under Taxation of dividends. It does not discuss special tax rules that may be applicable to certain classes of investors including traders, collective investment schemes, banks, insurance companies, securities dealers, investors with a functional currency other than the US dollar and any corporation which directly or indirectly controls 10% or more of the voting share capital of National Grid.

Each investor is urged to consult his or her own tax advisor regarding the tax consequences of the purchase, ownership and disposition of ADSs or ordinary shares under the laws of the US, the UK and their constituent jurisdictions.

The US and UK signed a convention (the Income Tax Convention) for the avoidance of double taxation with respect to income and capital gains on 24 July 2001. The Income Tax Convention entered into force following the exchange of instruments of ratification on 31 March 2003 and was effective for withholding taxes beginning 1 May 2003. This summary describes the rules of taxation under the new convention.

The statements regarding US Federal tax laws set out below are based on:

the US Internal Revenue Code of 1986, as amended (the Code ) and regulations issued thereunder, all of which are subject to change, possibly with retroactive effect, and in part on

the representation of The Bank of New York as depositary (the Depositary ).

These statements assume that each obligation provided for in or otherwise contemplated by the deposit agreement entered into by and among National Grid Transco plc (now National Grid plc), the Depositary and the



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registered holders of ADRs pursuant to which ADRs have been issued dated as of 21 November 1995 and amended and restated as of 31 January 2002 and any related agreement will be performed in accordance with its terms. Beneficial owners of ADSs who are residents or citizens of the United States will be treated as the owners of the underlying ordinary shares for the purposes of the Code.

For the purposes of this discussion, the term "US Holder" refers to a beneficial owner of ADSs or ordinary shares who is a resident of the United States for US Federal income tax purposes and, as to the description under "Taxation of dividends" and "Taxation of capital gains" below, is also a resident of the United States for the purposes of the Income Tax Convention.

The statements regarding UK tax set out below are based on UK law and what is understood to be the practice of HM Revenue and Customs in the United Kingdom as at the date of this document and are subject to any change therein (including any change having retroactive effect).

***Taxation of dividends***

Under the Income Tax Convention the United Kingdom is allowed to impose a 15% withholding tax on dividends paid to US shareholders controlling less than 10% of the voting capital of National Grid. The United Kingdom does not, however, currently impose a withholding tax on such dividends. If it were to impose such a tax, the treaty provides for an exemption from withholding taxes for dividends paid on shares held through a tax exempt pension fund, 401(k) plan or similar pension scheme as defined in the Income Tax Convention. The Income Tax Convention does not provide for refunds to be paid in respect of tax credits arising on dividends paid by UK resident companies. To obtain benefits under the Income Tax Convention, a US holder must otherwise satisfy the requirements of the limitations on benefits article of the Income Tax Convention.

Dividends paid by National Grid to US shareholders are subject to tax in the United States. Such dividends may qualify for the reduced tax rate of 15% if the US shareholder has held the National Grid ADSs or ordinary shares for the requisite holding period, to the extent paid out of earnings and profits. Any dividends paid that do not qualify for the special reduced rate will be taxable to a US Holder at the higher rate normally applicable to ordinary income. Dividends paid by National Grid to corporate shareholders will not be eligible for the dividends received deduction allowed to corporation. This discussion is based on current law and previous guidance issued by the IRS which could be changed.

The Company returned £2 billion to shareholders in August 2005 following the sales of four of the UK gas distribution networks in June 2005 by way of a B share scheme, followed by a share consolidation. The distribution, to the extent paid out of earnings and profits, was generally taxable to a US Holder as foreign source dividend income. A distribution in excess of earnings and profits would have been treated as a non-taxable return of cash to the extent of the US Holder's basis in the existing ordinary shares or ADSs, and thereafter as capital gain. In its information reporting to shareholders, National Grid relied on IRS guidance which provides that if the payor of a distribution is unable to determine whether the distribution is paid out of earnings and profits, the entire distribution must be treated and reported as dividend income.

***Taxation of capital gains***

Subject to the provisions set out in the next paragraph in relation to temporary non-residents, a US Holder who is not resident in the UK for UK tax purposes is not liable for UK taxation on capital gains realized or accrued on the sale or other disposal of ADSs or ordinary shares. A US Holder is, however, liable for US Federal income tax on such gains to the same extent as on any other gains from sales of stock. The gain, if any, is generally US source.

The following taxpayers may be subject to tax in both jurisdictions for any capital gain realized on the sale or other disposition of ADSs or ordinary shares:

a US citizen who is resident or ordinarily resident in the UK

a US corporation which is resident in the UK by reason of its business being managed and controlled in the UK

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a US citizen who is trading or carrying on a profession or vocation in the UK and used, held or acquired ADSs or ordinary shares for the purpose of such trade, profession or vocation

a US corporation which is otherwise carrying on business through a permanent establishment in the U.K. and used, held or acquired ADSs or ordinary shares for the purpose of such permanent establishment.

Such holder, however, is generally entitled to foreign tax credit, subject to certain limitations, against any US Federal tax liability for the amount of any UK tax (namely capital gains tax in the case of an individual and corporation tax on chargeable gains in the case of a corporation) which has been paid in respect of such gain.

A US Holder who becomes resident in the UK after a period of temporary non-residence (of up to five years) following an earlier period of residence in the UK is also potentially liable to UK capital gains tax on gains made in the period of temporary non-residence.

A US Holder must also comply with the limitation on benefits article in the Income Tax Convention in order to obtain treaty benefits.

In addition, a tax loss on future sales of shares may be characterised as long-term capital loss if some or all of a US Holder's dividends are characterised as an extraordinary dividend. This characterisation may result depending on the proportionate amount of the dividend compared with the cost basis in the shares.

***UK stamp duty and stamp duty reserve tax ( SDRT )***

**Transfers of ordinary shares** Generally speaking SDRT at the rate of 0.5% of the amount or value of the consideration paid is payable where an agreement to transfer ordinary shares is not completed by a duly stamped transfer to the transferee. Where an instrument of transfer is executed and duly stamped before the expiry of the period of six years beginning with such date, the SDRT liability will be cancelled, and any SDRT which has been paid will be refunded. SDRT is due whether or not the agreement or transfer of such chargeable securities is made or carried out in the UK and whether or not any party to that agreement or transfer is a UK resident. Purchases of ordinary shares completed by execution of a stock transfer form will generally give rise to a liability to UK stamp duty at the rate of 0.5% (rounded up to the nearest £5) of the actual consideration paid. Paperless transfers under the CREST paperless settlement system will generally be liable to SDRT at the rate of 0.5%, and not stamp duty. The transfer of ordinary shares where there is no change of beneficial ownership will generally attract fixed rate stamp duty of £5 per transfer. SDRT is generally the liability of the purchaser and UK stamp duty is usually paid by the purchaser or transferee.

**Transfers of ADSs** No UK stamp duty will be payable on the acquisition or transfer of existing ADSs or beneficial ownership of ADSs, provided that any instrument of transfer or written agreement to transfer is executed outside the UK and remains at all times outside the UK. An agreement for the transfer of ADSs in the form of ADRs will not give rise to a liability for SDRT. On a transfer of ordinary shares from the London, England office of The Bank of New York as agent of the Depository (the Custodian) to a holder of ADSs upon cancellation of the ADSs, only a fixed stamp duty fee of £5 per instrument of transfer will be payable. Any transfer for value of the underlying ordinary shares represented by ADSs may give rise to a liability on the transferee to UK stamp duty or SDRT. A charge to stamp duty or SDRT may arise on the issue or transfer of ordinary shares to the Depository or the Custodian. The rate of stamp duty or SDRT will generally be 1.5% of either (i) in the case of an issue of ordinary shares, the issue price of the ordinary shares concerned, or (ii) in the case of a transfer of ordinary shares, the value of the consideration or, in some circumstances, the value of the ordinary shares concerned. The Depository will generally be liable for the stamp duty or SDRT. In accordance with the terms of the Depository Agreement, the Depository will charge any tax payable by the Depository or the Custodian (or their nominees) on the deposit of ordinary shares to the party to whom the

ADSs are delivered against such deposits. If the stamp duty is not a multiple of £5, the duty will be rounded up to the nearest multiple of £5.

***US information reporting and backup withholding***

A US Holder who holds ADSs may in certain circumstances be subject to information reporting to the IRS and possible US backup withholding at a rate of 28% with respect to dividends on ADSs and proceeds from the sale or

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other disposition of ADSs unless such holder furnishes a correct taxpayer identification number or is otherwise exempt.

***UK inheritance tax***

An individual who is domiciled in the US for the purposes of the convention between the US and the UK for the avoidance of double taxation with respect to estate and gift taxes (the Estate Tax Convention ) and who is not a national of the UK for the purposes of the Estate Tax Convention will generally not be subject to UK inheritance tax in respect of the ADSs or ordinary shares on the individual's death or on a gift of the ADSs or ordinary shares during the individual's lifetime, unless the ADSs or ordinary shares are part of the business property of a permanent establishment of the individual in the UK or pertain to a fixed base in the UK of an individual who performs independent personal services. Special rules apply to ADSs or ordinary shares held in trust. In the exceptional case where the ADSs or shares are subject both to UK inheritance tax and to US Federal gift or estate tax, the Estate Tax Convention generally provides for the tax paid in the UK to be credited against tax paid in the US.

**Documents on display**

National Grid is subject to the filing requirements of the Securities Exchange Act of 1934. In accordance with these requirements, we file reports and other information with the Securities and Exchange Commission. These materials, including this document, may be inspected during normal business hours at our registered office 1-3 Strand, London WC2N 5EH or at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. For further information about the Public Reference Room, please call the SEC on 1-800-SEC-0330. Some of our filings are also available on the SEC's website at [www.sec.gov](http://www.sec.gov).

**Item 11. *Quantitative and Qualitative Disclosures about Market Risk***

The information set forth under the headings Treasury policy on pages 65 to 66 and Commodity contracts on pages 67 to 68 of the Company's Annual Report and Accounts 2006/07 contained in Exhibit 15.1 is incorporated herein by reference.

**Item 12. *Description of Securities Other than Equity Securities***

Not applicable.

**PART II**

**Item 13. *Defaults, Dividend Arrearages and Delinquencies***

There has been no material default in the payment of principal, interest, a sinking or purchase fund instalment or any other material default with respect to the indebtedness for or in respect of monies borrowed or raised by whatever means of the Company or any of its significant subsidiaries. There have been no arrears in the payment of dividends on, and no material delinquency with respect to, any class of preferred stock of any significant subsidiary of the Company required to be reported under this Item 13.

**Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds***

None.

**Item 15. *Controls and Procedures***

**Disclosure controls and procedures**

The Company has carried out an evaluation under the supervision and with the participation of its management, including the Chief Executive and Finance Director, of the effectiveness of the design and operation of National Grid's disclosure controls and procedures as of the end of the period covered by this report. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the

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possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives. Based on and as of that evaluation, the Chief Executive and Finance Director concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that National Grid files and submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarised and reported as and when required and communicated to the Company's management, including the Chief Executive and Finance Director, as appropriate, to allow timely decisions regarding disclosure.

### **Managements' evaluation of the effectiveness of internal control over financial reporting**

The management of National Grid is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under Securities Exchange Act of 1934, as amended. National Grid's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as adopted by the European Union, including the reconciliations to US GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

National Grid's management conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that National Grid's internal control over financial reporting was effective as of 31 March 2007.

PricewaterhouseCoopers LLP, which has audited the consolidated financial statements of National Grid for the fiscal year ended 31 March 2007, has also audited management's assessment of the effectiveness of National Grid's internal control over financial reporting and the effectiveness of National Grid's internal controls over financial reporting; their report is included herein.

### **Change in internal control over financial reporting**

During the period covered by this report, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **Item 16. *[Reserved]***

##### **Item 16A. *Audit Committee Financial Expert***

The Board of Directors has determined that George Rose, chairman of the Company's Audit Committee, is an audit committee financial expert within the meaning of this Item 16A. A brief listing of Mr. Rose's relevant experience is included as part of Item 6. Mr. Rose is also independent within the meaning of the New York Stock Exchange listing rules.

##### **Item 16B. *Code of Ethics***

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. This code is available on our website at [www.nationalgrid.com](http://www.nationalgrid.com), where any amendments or waivers will also be posted. There were no amendments to, or waivers under, our Code of Ethics in the fiscal year ended 31 March 2007.

**Item 16C. *Principal Accountant Fees and Services***

PricewaterhouseCoopers LLP, independent registered public accounting firm, served as auditors of the Company for the fiscal year ended 31 March 2007.



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**Audit Fees**

The aggregate fees billed by PricewaterhouseCoopers LLP for the audit of the Company's financial statements and regulatory reporting for the fiscal year ended 31 March 2007 and the review of interim financial statements for the six months ended 30 September 2006 were £6.2 million. Fees billed by PricewaterhouseCoopers LLP for the audit of the Company's financial statements and regulatory reporting for the fiscal year ended 31 March 2006 and the review of interim financial statements for the six months ended 30 September 2005, were £4.5 million.

**Audit-Related Fees**

The aggregate fees billed by PricewaterhouseCoopers LLP for assurance and related services that were reasonably related to the performance of the audit or review of the Company's financial statements and are not disclosed under **Audit Fees** above were £1.8 million in fiscal 2006/07 and £0.5 million in fiscal 2005/06. Included within the fees in fiscal 2006/07 and 2005/06 is accounting advice on various transactions, both planned and completed, and the audit of pension schemes.

**Tax Fees**

Aggregate fees billed by PricewaterhouseCoopers LLP for tax compliance, tax advice and tax planning were £1.3 million in fiscal 2006/07 and £1.4 million in fiscal 2005/06.

**All Other Fees**

Aggregate fees billed by PricewaterhouseCoopers LLP for all other services in fiscal 2006/07 were £1.1 million. The most significant items were analysis of financial and other market related data. Aggregate fees billed by PricewaterhouseCoopers LLP for all other services in fiscal 2005/06 were £0.5 million. The most significant items were services provided as reporting accountant on the prospectus for the issue of B shares in connection with the £2 billion return of cash to shareholders and market analysis relating to National Grid's U.S. gas distribution business.

Subject to the Company's Articles of Association and the UK Companies Act, the Audit Committee is solely and directly responsible for the approval of the appointment, re-appointment, compensation and oversight of the Company's independent auditors. It is our policy that the Audit Committee must approve in advance all non-audit work to be performed by the independent auditors.

During fiscal 2006/07, all of the above services were pre-approved by the Audit Committee.

**Item 16D. *Exemptions from the Listing Standards for Audit Committees***

Not applicable.

**Table of Contents****Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table provides information on Ordinary Shares purchased by the Company during fiscal 2006/07

<b>Period</b>	<b>a. Total Number of Shares Purchased</b>	<b>b. Average Price Paid per Share</b>	<b>c. Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>d. Maximum Number of Shares (Rounded) that May Yet Be Purchased Under the Plans or Programs</b>
Month 1 1st November to 30 November 2006 (actual purchases from 20 to 30 November)	3,220,000	£7.10	3,220,000	269 million
Month 2 1 to 31 December 2006 (actual purchases from 18 to 21 December)	1,053,381	£7.42	4,273,381	268 million
Month 3 1 to 31 January 2007 (actual purchases from 3 to 26 January)	5,175,000	£7.32	9,448,381	263 million
Month 4 1 to 28 February 2007 (actual purchases from 5 to 28 February)	6,135,000	£7.82	15,583,381	257 million
Month 5 1 to 31 March 2007 (actual purchases from 1 to 22 March)	6,805,000	£7.65	22,388,381	250 million
Month 6 1 to 31 May 2007 (actual purchases from 18 to 31 May)	8,930,000	£7.71	31,318,381	241 million
Month 7 1 to 31 June 2007 (actual purchases from 1 to 15 June)	19,990,000	£7.37	51,308,381	221 million

Note: At the Company's 2006 Annual General Meeting (AGM), held in July 2006, shareholder approval was given to purchase up to 10% of the ordinary shares in issue (up to 272 million shares). As part of the interim results for the six months to 30 September 2006, a share buy-back programme was announced to return around \$1.9 billion (£1 billion) (based on cash flows from stranded assets under our US rate plans). On 3 April 2007 the Company announced the sale of its UK Wireless business and that it would return £1.8 billion to shareholders via an extension of the existing share buy-back programme, expected to be effected on the London Stock Exchange over the next 12 to 18 months and dependent on market and economic conditions. Shares will be repurchased in accordance with the Board's general authority to make market repurchases of ordinary shares, as previously approved by shareholders. The Board will seek

shareholder approval to renew this authority at the next AGM in July 2007.

The ordinary share buyback commenced on 20 November 2006 and continued until shortly before the normal close period from 31 March and recommenced on 18 May and is ongoing.

### **PART III**

#### **Item 17. *Financial Statements***

The Company has responded to Item 18 in lieu of this Item.

#### **Item 18. *Financial Statements***

The information set forth under the headings Statement of Directors responsibilities on page 100, Accounting policies on pages 102 to 107, Consolidated income statement on page 108, Consolidated balance sheet on page 109, Consolidated cash flow statement on page 111, Consolidated statement of

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recognised income and expense on page 110 and Notes to the accounts on pages 112 to 172 of the Company's Annual Report and Accounts 2006/07 contained in Exhibit 15.1 is incorporated herein by reference.

The report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm is presented below.

**Report of Independent Registered Public Accounting Firm  
to the Board of Directors and Shareholders of National Grid plc**

We have completed an integrated audit of National Grid plc's 31 March 2007 consolidated financial statements and of its internal control over financial reporting as of 31 March 2007 and the audits of its 31 March 2006 and 31 March 2005 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

**Consolidated financial statements**

In our opinion, the accompanying consolidated income statements and the related consolidated balance sheets, consolidated statements of cash flows, consolidated statements of recognised income and expense, accounting policies and the related notes present fairly, in all material respects, the financial position of National Grid plc and its subsidiaries (National Grid) at 31 March 2007 and 2006 and the results of their operations and cash flows for each of the three years in the period ended 31 March 2007 in conformity with International Financial Reporting Standards (IFRSs) as adopted by the European Union. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed under the heading "Basis of preparation of consolidated financial statements" in the Accounting policies, as a result of adopting IAS 32 and IAS 39 on 1 April 2005, National Grid changed its method of accounting for financial instruments. In line with the relevant transitional provisions, the prior period comparatives have not been restated.

IFRSs as adopted by the European Union vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Notes 38 and 39 to the consolidated financial statements.

**Internal control over financial reporting**

Also, in our opinion, management's assessment, included in the accompanying "Managements' evaluation of the effectiveness of internal control over financial reporting" as set out in Item 15, that National Grid maintained effective internal control over financial reporting as of 31 March 2007 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of 31 March 2007 based on criteria established in Internal Control Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's

assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform

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the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting standards and principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting standards and principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP  
PricewaterhouseCoopers LLP  
London, United Kingdom  
16 May 2007

**Item 19. Exhibits**

Pursuant to the rules and regulations of the US Securities and Exchange Commission, National Grid has filed certain agreements as exhibits to this Annual Report on Form 20-F. These agreements may contain representations and warranties by the parties to them. These representations and warranties have been made solely for the benefit of the other party or parties to such agreement and (i) may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to such agreements if those statements turn out to be inaccurate, (ii) may have been qualified by disclosures that were made to such other party or parties and that either have been reflected in the company's filings or are not required to be disclosed in those filings, (iii) may apply materiality standards different from what may be viewed as material to investors and (iv) were made only as of the date of such agreements or such other date or dates as may be specified in such agreements and are subject to more recent developments. Accordingly, these representations and warranties may not describe National Grid's actual state of affairs at the date hereof.

In accordance with the instructions to Item 2(b)(i) of the Instructions to Exhibits to the Form 20-F, National Grid agrees to furnish to the US Securities and Exchange Commission, upon request, a copy of any instrument relating to long-term debt that does not exceed 10 percent of the total assets of National Grid and its subsidiaries on a consolidated basis.

**Description**

1.1 Incorporated by reference

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Memorandum and Articles of Association of National Grid Transco plc  
(Exhibit 1 to National Grid Group Form 20-F dated 21 June 2002 File  
No. 1-14958).

- |     |   |                           |
|-----|---|---------------------------|
| 1.2 | Amendment to Memorandum and Articles of Association of National<br>Grid Transco plc (Exhibit 1 to National Grid Transco Form 20-F dated<br>11 June 2003 File No. 1-14958).                | Incorporated by reference |
| 1.3 | Articles of Association of National Grid plc adopted by Special<br>Resolution passed on 25 July 2005. (Exhibit 1.3 to National Grid plc<br>Form 20-F dated 20 June 2006 File No. 1-14958) | Incorporated By Reference |

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	<b>Description</b>	
2(a)	Amended and restated Deposit Agreement dated as of 31 January 2002 (Exhibit 2(a) to National Grid Group Form 20-F dated 21 June 2002 File No. 1-14958).	Incorporated by reference
2(b).1.1	Prospectus issued by National Grid plc and National Grid Electricity Transmission plc on 18 August 2005 relating to 12,000,000 (previously 6,000,000,000) issuable under the Euro Medium Term Note Programme. (Exhibit 2(b).1.1 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).1.2	Supplementary Prospectus dated 26 August 2006. (Exhibit 2(b).1.2 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).1.3	Supplementary Prospectus dated 17 November 2005. (Exhibit 2(b).1.3 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).1.4	Supplementary Prospectus dated 6 March 2006. (Exhibit 2(b).1.4 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).1.5	Supplementary Prospectus dated 12 May 2006. (Exhibit 2(b).1.5 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).1.6	Supplementary Prospectus dated 19 May 2006. (Exhibit 2(b).1.6 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).2.1	Prospectus issued by National Grid Gas Holdings plc and National Grid Gas plc on 24 February 2006 relating to 10,000,000,000 issuable under the Euro Medium Term Note Programme. (Exhibit 2(b).2.1 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).2.2	Supplementary Prospectus dated 6 March 2006. (Exhibit 2(b).2.2 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(b).2.3	Supplementary Prospectus dated 22 May 2006. (Exhibit 2(b).2.3 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
2(c).1.1	Prospectus issued by National Grid plc and National Grid Electricity Transmission plc on 11 August 2006 relating to 12,000,000 issuable under the Euro Medium Term Note Programme	Filed herewith
2(c).1.2	Supplementary Prospectus issued by National Grid plc and National Grid Electricity Transmission plc on 1 December 2006 relating to 12,000,000 issuable under the Euro Medium Term Note Programme	Filed herewith
2(d).1.1	Prospectus issued by National Grid Gas Holdings plc, National Grid Gas plc and National Grid Gas Finance (No 1) plc on 23 February 2007 relating to 10,000,000,000 issuable under the Euro Medium Term Note Programme	Filed herewith
4(a)	Agreement and Plan of Merger dated as of February 25, 2006 between National Grid plc, National Grid US8 Inc. and KeySpan Corporation. (Exhibit 4(a) to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
4(c).1	Service Agreement among The National Grid Group plc, National Grid Company plc and Edward Astle dated 27 July 2001 (Exhibit 4.3 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958).	Incorporated by reference
4(c).2	Service Agreement among National Grid plc, and Mark Fairbairn dated 23 January 2007	Filed herewith



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4(c).3	Service Agreement among National Grid plc and Steven Holliday dated 1 April 2006.	Filed herewith
4(c).4	Service Agreement among National Grid Transco plc, National Grid USA and Michael E. Jesanis dated 8 July 2004 (Exhibit 4.5 to National Grid Transco Form 20-F dated 15 June 2005 File No. 1-14958).	Incorporated by reference

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<b>Description</b>		
4(c).5	Service Agreement among National Grid Group plc, National Grid Company plc and Steve Lucas dated 13 June 2002 (Exhibit 4.5 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958).	Incorporated by reference
4(c).6	Service Agreement among The National Grid Group plc, National Grid Company plc and Roger J. Urwin dated as of 17 November 1995 (Exhibit 4.7 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958).	Incorporated by reference
4(c).7	Service Agreement among National Grid Transco plc, National Grid Company plc and Nicholas Winsor dated 28 April 2003 (Exhibit 4.8 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958).	Incorporated by reference
4(c).8	Changes to Directors remuneration (Exhibit 4(c).7 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958).	Incorporated by reference
4(c).9	Letter of Appointment Linda Adamany	Filed herewith
4(c).10.1	Letter of Appointment John Allan (Exhibit 4.10 to National Grid Transco Form 20-F dated 15 June 2005 File No. 1-14958).	Incorporated by reference
4(c).10.2	Letter dated 7 March 2006 to John Allan relating to appointment as chairman of Remuneration Committee. (Exhibit 4(c).8.2 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
4(c).11.1	Letter of Appointment John Grant (Exhibit 4.9 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958).	Incorporated by reference
4(c).11.2	Letter dated 7 March 2006 to John Grant relating to retirement as chairman of Remuneration Committee. (Exhibit 4(c).9.2 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
4(c).12	Letter of Appointment Ken Harvey (Exhibit 4.10 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958).	Incorporated by reference
4(c).13	Letter of Appointment Paul Joskow (Exhibit 4.11 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958).	Incorporated by reference
4(c).14	Letter of Appointment Sir John Parker (Exhibit 4.12 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958).	Incorporated by reference
4(c).15	Letter of Appointment Stephen Pettit (Exhibit 4.13 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958).	Incorporated by reference
4(c).16	Letter of Appointment Maria Richter (Exhibit 4.14 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958).	Incorporated by reference
4(c).17	Letter of Appointment George Rose (Exhibit 4.15 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958).	Incorporated by reference
4(c).18	National Grid plc Deferred Share Plan. (Exhibit 4(c).16 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
4(c).19	National Grid Executive Share Option Plan 2002 (Exhibit 4(c) to National Grid Group Form 20-F dated 21 June 2002 File No. 1-14958).	Incorporated by reference
4(c).20	National Grid Group Share Matching Plan 2002 (Exhibit 4(c) to National Grid Group Form 20-F dated 21 June 2002 File No. 1-14958).	Incorporated by reference
4(c).21	National Grid Transco Performance Share Plan 2002 (as approved 23 July 2002 by a resolution of the shareholders of National Grid Group plc, adopted 17 October 2002 by a resolution of the Board of National	Incorporated by reference

Grid Group plc, amended 26 June 2003 by the Share Schemes Sub-Committee of National Grid Transco plc, and amended 5 May 2004 by the Share Schemes Sub-Committee of National Grid Transco plc) (Exhibit 4.19 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958).

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	<b>Description</b>	
4(c).22	National Grid Executive Share Option Plan 2000 (Exhibit 4C to National Grid Group S-8 dated 26 July 2001 File No. 333-65968).	Incorporated by reference
4(c).23	National Grid Executive Share Option Scheme (Exhibit 4D to National Grid Group S-8 dated 26 July 2001 File No. 333-65968).	Incorporated by reference
4(c).24	Lattice Long Term Incentive Scheme (Exhibit 4(c)(vi) to National Grid Transco 20-F dated 11 June 2003 File No. 1-14958).	Incorporated by reference
4(c).24	Lattice Group Short Term Incentive Scheme (approved by a resolution of the shareholders of BG Group plc effective 23 October 2000; approved by a resolution of the Board of National Grid Transco plc on 30 April 2004; amended by resolutions of the Board of Lattice Group plc effective on 21 October 2002 and 13 May 2004) (Exhibit 4.23 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958).	Incorporated by reference
6	Earnings per share: The information set forth under the heading Note 13 Earnings per share on page 126 of the Company's Annual Report and Accounts 2006/07 contained in Exhibit 15.1 is incorporated herein by reference.	Incorporated by reference
8	List of subsidiaries.	Filed herewith
12.1	Certification of Steve Holliday	Filed herewith
12.2	Certification of Steve Lucas.	Filed herewith
13	Certifications of Steve Holiday and Steve Lucas furnished pursuant to 18 U.S.C. Section 1350.	Filed herewith
15.1	National Grid plc Annual Report and Accounts 2006/07, in extracted form.	Filed herewith
15.2	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm to National Grid plc.	Filed herewith

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**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorised the undersigned to sign this annual report on its behalf.

NATIONAL GRID PLC

By: /s/ Steve Lucas

Steve Lucas  
Finance Director

London, England  
19 June 2007

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