

# Independent Verifier's Report on Corporate Responsibility

## Assurance Statement

URS Verification Ltd (URSVL) was commissioned by National Grid to provide independent assurance of the corporate responsibility elements of its Annual Report and Accounts 2005/06 and the website ([www.nationalgrid.com/corporate/our+responsibility](http://www.nationalgrid.com/corporate/our+responsibility)). This statement relates to the corporate responsibility elements of the Annual Report and Accounts 2005/06. For our full opinion and scope, see our statement at: [www.nationalgrid.com/corporate/our+responsibility/assurance](http://www.nationalgrid.com/corporate/our+responsibility/assurance)

## Responsibilities of Directors and Assurors

The information contained in National Grid's Annual Report and Accounts is the sole responsibility of the Directors of the Company. The independence of our assurance team is important and URSVL project team members have not been involved in the development of the report or associated systems. This assurance statement is not intended to be used as advice or as the basis for any decisions, including, without limitation, financial or investment decisions.

## Method

URSVL has performed this assurance process following the principles of the AA1000 assurance standard. URSVL auditors also apply the general principles of auditing and audit procedures as contained within international standard ISO 19011.

## Opinion

National Grid has continued to develop and implement new and existing programmes in support of its Framework for Responsible Business. We continue to be impressed by the Group's management focus on and commitment to addressing non-financial issues and improving its impact on environment and society. In relation to recommendations made by URSVL last year, the Group has:

- explained more clearly on its website how the Group's activities translate into impacts on the environment and society;
- communicated objectives, targets and future challenges in this report, to increase transparency of the Group's performance expectations and achievements;
- finalised strategies and policies for health and community investment and implemented initiatives supporting these. While there has been continued work in developing tools to assess potential human rights risks in its supply chain, this initiative has yet to be fully implemented;
- allocated additional resources to the implementation of its inclusion and diversity programme with a focus on establishing networks and training to increase awareness; and
- improved the sharing of information between different parts of the business on a wide range of issues.

During the year, National Grid agreed an impressive climate change strategy for the Group. Achieving this should reduce the climate change impact of its activities.

National Grid has achieved a continued reduction in lost time incidents. Despite this, the Group recorded an employee fatality directly associated with its operations in 2005. From our engagement with personnel, including field force, as part of our assurance process, it is clear that safety is recognised as the number one priority across the organisation. Although, based on a limited sample, we believe further cultural changes are required in order to drive forward continuing improvements in safety performance. Alternative safety metrics may also assist in the measurement of associated improvements.

## Materiality

National Grid has well established and robust processes to identify, assess and manage both financial and non-financial risks. Management processes to assess and monitor compliance with internal and external requirements have matured and this has strengthened the control of non-financial risk and issues.

## Completeness

In developing the non-financial elements of this report, National Grid has considered those risks and issues that would be of interest to shareholders, the key stakeholder group to which this report is directed. It is our opinion that the appropriate issues are contained within this report in a fair and balanced manner, however, the completeness of the presentation of some issues or projects, such as the Milford Haven pipeline, may not reflect challenges experienced during the year. National Grid plans to include information on additional issues that may be material to other stakeholder groups such as bribery and corruption within their website disclosure.

National Grid has further developed its online internet-based reporting tool to now include environmental as well as health and safety data. This initiative should help improve the robustness of reported environmental data.

## Responsiveness

Stakeholder engagement occurs at many levels across the organisation and there is encouraging evidence that National Grid seeks the views of external parties as an integral part of its decision-making processes. Recent changes to internal processes have helped to focus attention on key issues for the Group, identify stakeholders and track stakeholder engagement activity.

## Recommendations

To build further on the progress made in developing and integrating its strategy, systems and reporting, National Grid should consider:

- refining safety performance metrics and reporting to drive forward continuing improvements in safety performance;
- ensuring that the commitments made to assess the risks posed by human rights in the supply chain are implemented; and
- monitoring implementation of the new strategies and programmes, in particular climate change, to enable performance against targets to be measured and reported.

## Belinda Howell, Director

For and on behalf of URS Verification Ltd, London, May 2006

## Contents to Financial Statements

<b>91</b>	Statement of Directors' Responsibilities for Preparing the Accounts	<b>129</b>	Note 23 – Financial instruments
<b>92</b>	Independent Auditors' Report to the Members of National Grid plc	<b>136</b>	Note 24 – Inventories
<b>93</b>	Group Accounting Policies	<b>136</b>	Note 25 – Trade and other receivables
<b>100</b>	Group Income Statement	<b>137</b>	Note 26 – Cash and cash equivalents
<b>101</b>	Group Balance Sheet	<b>137</b>	Note 27 – Borrowings
<b>102</b>	Group Statement of Recognised Income and Expense	<b>139</b>	Note 28 – Trade and other payables
<b>103</b>	Group Cash Flow Statement	<b>139</b>	Note 29 – Other non-current liabilities
<b>104</b>	Notes to the Accounts	<b>140</b>	Note 30 – Provisions
<b>104</b>	Note 1 – Adoption of International Financial Reporting Standards (IFRS)	<b>141</b>	Note 31 – Share capital
<b>109</b>	Note 2 – Adoption of IAS 39 and IAS 32 and presentation of net debt at 1 April 2005	<b>145</b>	Note 32 – Reconciliation of movements in total equity
<b>109</b>	Note 3 – Segmental analysis	<b>146</b>	Note 33 – Group cash flow statement
<b>112</b>	Note 4 – Other operating income	<b>147</b>	Note 34 – Related party transactions
<b>112</b>	Note 5 – Operating costs	<b>147</b>	Note 35 – Commitments and contingencies
<b>113</b>	Note 6 – Exceptional items and remeasurements	<b>148</b>	Note 36 – Group undertakings and joint ventures
<b>113</b>	Note 7 – Payroll costs and employees	<b>149</b>	Note 37 – Differences between IFRS and US generally accepted accounting principles
<b>114</b>	Note 8 – Directors' emoluments	<b>157</b>	Note 38 – Condensed US GAAP financial information
<b>114</b>	Note 9 – Pensions and other post-retirement benefits	<b>161</b>	Note 39 – National Grid Gas plc additional US GAAP disclosures
<b>119</b>	Note 10 – Finance income and costs	<b>166</b>	Company Accounting Policies
<b>120</b>	Note 11 – Taxation	<b>168</b>	Company Balance Sheet
<b>121</b>	Note 12 – Discontinued operations	<b>169</b>	Notes to the Company Accounts
<b>121</b>	Note 13 – Dividends	<b>169</b>	Note 1 – Changes in accounting policies
<b>122</b>	Note 14 – Earnings per share	<b>169</b>	Note 2 – Fixed asset investments
<b>123</b>	Note 15 – Goodwill	<b>170</b>	Note 3 – Debtors
<b>124</b>	Note 16 – Acquisitions	<b>170</b>	Note 4 – Creditors (amounts falling due within one year)
<b>125</b>	Note 17 – Other intangible assets	<b>170</b>	Note 5 – Creditors (amounts falling due after more than one year)
<b>126</b>	Note 18 – Property, plant and equipment	<b>170</b>	Note 6 – Borrowings
<b>127</b>	Note 19 – Investments in joint ventures	<b>171</b>	Note 7 – Provisions for liabilities and charges
<b>127</b>	Note 20 – Deferred tax assets and liabilities	<b>171</b>	Note 8 – Share capital
<b>128</b>	Note 21 – Other non-current receivables	<b>171</b>	Note 9 – Reserves
<b>128</b>	Note 22 – Financial investments	<b>171</b>	Note 10 – Commitments and contingencies

## Statement of Directors' Responsibilities for Preparing the Accounts

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for the financial year.

The Directors consider that in preparing the Group Financial Statements and the Company Financial Statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and all applicable accounting standards have been followed.

The Directors have responsibility for preparing the accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business. Therefore, the accounts have been prepared on the going concern basis.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and of the Group and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and to detect fraud and other irregularities.

The Directors, having prepared the accounts, have requested the Auditors to take whatever steps and to undertake whatever inspections they consider to be appropriate for the purposes of enabling them to give their audit report.

The Directors confirm that the Audit Committee continues to review the adequacy of the system of internal financial controls adopted by the Group.

# Independent Auditors' Report to the Members of National Grid plc

We have audited the Group and Company financial statements (the 'Financial Statements') of National Grid plc for the year ended 31 March 2006 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group Statement of Recognised Income and Expense, the Group Cash Flow Statement, the Group and Company Accounting Policies, the Notes to the Accounts and the Notes to the Company Accounts. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as audited.

## Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited 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 whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross-referred from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the items listed in the contents section of the Annual Report, excluding the 2006 audited financial statements and the part of the Directors' Remuneration Report to be audited. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- The Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2006 and of its profit and cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- The Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006;
- The Company financial statements and the part of the Directors' Remuneration Report to be audited 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  
17 May 2006