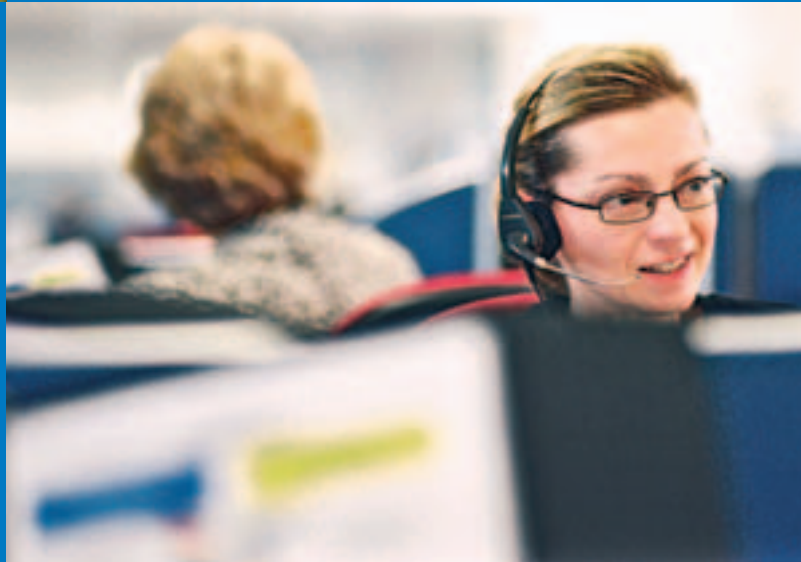


# Annual Report and Accounts 2006/07



nationalgrid

## What's inside

### 01 Business Overview

- 01 Highlights
- 02 Chairman's Statement
- 04 Chief Executive's Review
- 06 What we do
- 08 How we do business
- 10 What we have achieved
- 10 Transmission
- 12 Gas Distribution
- 14 Electricity Distribution
- 16 Non-regulated Businesses
- 18 Board of Directors

### 20 Operating and Financial Review

- 20 About National Grid
- 24 Current and future developments
- 26 Objectives and strategy
- 30 Key performance indicators
- 32 Performance during the year
- 44 Transmission
- 50 Gas Distribution
- 56 Electricity Distribution
- 60 Non-regulated Businesses and other
- 63 Discontinued operations
- 64 Financial position and financial management
- 71 Accounting policies
- 76 Independent verifier's report on corporate responsibility

### 77 Corporate Governance

#### 86 Directors' Reports

- 86 Directors' report
- 88 Directors' remuneration report

### 99 Financial Statements

- 99 Contents to financial statements
- 100 Statement of Directors' responsibilities
- 101 Independent auditors' report
- 102 Accounting policies
- 108 Consolidated income statement
- 109 Consolidated balance sheet
- 110 Consolidated statement of recognised income and expense
- 111 Consolidated cash flow statement
- 112 Notes to the accounts
- 173 Company accounting policies
- 175 Company balance sheet
- 176 Notes to the Company accounts
- 180 Glossary of terms
- 181 Definitions
- 182 Summary consolidated financial information

### 183 Shareholder Information

## Dear shareholder

We are pleased to report a good financial performance for the year ended 31 March 2007. Adjusted operating profit\*<sup>†</sup> was £2,454 million and adjusted earnings per share\*<sup>†</sup> was 47.7p, up 5%. Operating profit\* was £2,513 million and basic earnings per share\* was 48.1p, up 16%. These results reflect the Company's sound platform of operational performance and we are confident they provide a solid basis for our future investment.

As part of our aim to be world-class in all we do, we have undertaken a fresh strategic review. At the core of this review was the need to ensure we are maximising value for shareholders and continuing our focus on providing a safe, efficient and reliable service while acting responsibly.

As a result of the review, we are now focusing on our core skills of operating in the gas and electricity sector in the US and UK. We are committed to ensuring a disciplined approach to running our business, reducing inefficiencies and developing more effective ways of working. To support this, the Company has been reorganised under lines of business to allow further integration and knowledge transfer between our US and UK businesses.

We continue to invest in the development of our workforce with the aim of employing and retaining the highest calibre people both now and in the future. We are proud of the commitment and professionalism demonstrated by our talented and diverse employees.

The Company's goal of world-class performance remains unchanged. We believe this will be achieved through our investment programmes and our determination to continue to create value in our existing businesses. We are both confident of the Company's ability to continue to provide good financial performance and value for our shareholders.

**Sir John Parker,**  
Chairman

**Steve Holliday,**  
Chief Executive

#### Important Notice

This document 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. For a description of factors that could affect future results, reference should be made to the full 'Cautionary Statement' on the inside back cover.

# Highlights

For more information see [www.nationalgrid.com](http://www.nationalgrid.com)

Revenue* <b>£8,695m</b> 2005/06: £8,868m, down 2%	Adjusted operating profit** <b>£2,454m</b> 2005/06: £2,457m	Adjusted earnings per share** <b>47.7p</b> 2005/06: 45.5p, up 5%
Cash generated from operations* <b>£3,090m</b> 2005/06: £2,973m, up 4%	Operating profit* <b>£2,513m</b> 2005/06: £2,374m, up 6%	Earnings per share* <b>48.1p</b> 2005/06: 41.6p, up 16%
Capital expenditure* <b>£2,345m</b> 2005/06: £1,907m, up 23%	Return on equity <b>12.4%</b> Three year average	Ordinary dividends <b>28.7p</b> 2005/06: 26.1p, up 10%
Lost time injuries <b>142</b> 2005/06: 117, up 21%	Percentage of females in workforce <b>23.7%</b> 2005/06: 23.4%	Reduction in greenhouse gas emissions <b>35%</b> 2005/06: 26%

## ■ New operating structure

New lines of business are now in place as part of the strategic review. [page 26](#)

## ■ Disposal of wireless business

Sale of the UK wireless business on 3 April 2007 for £2.5 billion and announced intended £1.8 billion share buy-back with the proceeds. [pages 34 and 43](#)

## ■ £169 million share buy-back

We have commenced a share buy-back programme, in 2006/07 this amounted to £169 million. [page 43](#)

## ■ Responsible business approach

We have been recognised as a 'Platinum' company in the Business in the Community 2006 Corporate Responsibility Index. [page 36](#)

\* for continuing operations

† excludes the impact of exceptional items and remeasurements

### Cautionary Statement

This document comprises the Annual Report and Accounts for the year ending 31 March 2007 for National Grid and its subsidiaries. It contains the Directors' Report and Financial Statements, together with the Independent Auditors' Report thereon, as required by the UK Companies Act 1985. The Annual Review of National Grid for the same period is published as a separate document. The Directors' Report on pages 86 and 87 and the Directors' Remuneration Report on pages 88 to 98 have each been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to National Grid.

This document also 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', 'may', 'will', '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 our ability to control or estimate precisely, such as delays in obtaining, or adverse conditions contained in, regulatory approvals and contractual consents, including those required to complete the proposed acquisition of KeySpan when or as planned, unseasonable weather affecting the 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 document include the ability to integrate the businesses relating to announced acquisitions with our 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 our 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 some of these assumptions, risks and uncertainties, together with any other risk factors, please see our filings with and submissions to the US Securities and Exchange Commission (the 'SEC') (and in particular the 'Risk factors' and 'Operating and Financial Review' sections in our most recent Annual Report on Form 20-F). Except as may be required by law or regulation, National Grid undertakes no obligation to update any of its forward-looking statements. 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.

### National Grid plc

1-3 Strand, London WC2N 5EH, United Kingdom  
Registered in England and Wales No. 4031152

UK Shareholder enquiries: 0870 242 2379  
US Shareholder enquiries: 1-800-466-7215  
[www.nationalgrid.com](http://www.nationalgrid.com)

## For queries about ORDINARY SHARES or B SHARES contact:

### Capita Registrars

 Telephone: 0870 242 2379  
(from outside the UK: +44 20 7098 1198)  
(textphone: 18001 0870 242 2379)

 Email: [nationalgrid@capitaregistrars.com](mailto:nationalgrid@capitaregistrars.com)  
Website: [www.nationalgrid.com/shareholders](http://www.nationalgrid.com/shareholders)


 Postal address:  
National Grid Share Register  
Capita Registrars  
Northern House  
Woodsome Park  
Fenny Bridge  
Huddersfield HD8 0LA

## For queries about AMERICAN DEPOSITARY SHARES (ADSs or ADRs) contact:

### The Bank of New York

 Telephone: 1-800-466-7215  
(from outside the US: +1-212-815-3700)

 Email: [shareowners@bankofny.com](mailto:shareowners@bankofny.com)  
Website: [www.adrbny.com](http://www.adrbny.com)

 Postal address:  
The Bank of New York  
Shareholders Correspondence  
PO Box 11258  
Church Street Station  
New York NY 10286-1258



The paper in this document contains a mixture of fibre from FSC certified forests and recycled pulps. Both the paper mill and the printer involved in its production are certified with ISO 14001.

Designed and produced by Corporate Edge  
Printed by St Ives Westerham Press