

**NATIONAL GRID (US) INVESTMENTS 2 LIMITED**

**DIRECTORS' REPORT**

**AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2009**

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23/12/2009  
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**ENGLAND AND WALES REGISTERED NUMBER: 3784528**

# **NATIONAL GRID (US) INVESTMENTS 2 LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 MARCH 2009**

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2009.

#### **PRINCIPAL ACTIVITY**

The Company is an investment holding company.

#### **DEVELOPMENT AND PERFORMANCE DURING THE YEAR**

The Company was formerly an unlimited company and re-registered as a company limited by shares on 2 March 2009.

The Company obtains and provides finance to fellow subsidiary companies via inter company balances. Results, as detailed below, largely depend on operating charges incurred. The Directors believe the current level of activity will continue in the foreseeable future.

As the Company is part of a larger group, the management of the Company does not involve the use of key performance indicators, other than the profit or loss for the year, in measuring the development, performance or the position of the Company and the principal risks and uncertainties are integrated with the principal risks of National Grid plc. For information on the development, performance, risks, uncertainties and position of National Grid plc and its subsidiaries ('National Grid'), and of the key performance indicators used, refer to the Operating and Financial Review included in National Grid plc's Annual Report and Accounts 2008/09, which does not form part of this report.

#### **RESULTS AND DIVIDENDS**

The loss for the year after taxation was £4,000 (2008: £nil). The Directors do not recommend payment of a dividend (2008: £nil).

#### **FINANCIAL POSITION**

The financial position of the Company is presented in the balance sheet. Total shareholders' funds at 31 March 2009 were £1,762,083,000 (2008: £100) comprising current assets of £1,762,088,000 (2008: £100) less current liabilities of £5,000 (2008: £nil).

#### **FINANCIAL RISK MANAGEMENT**

The management of the Company and the execution of the Company's strategy are subject to a number of risks. The Directors have identified the need to manage the Company's material financial risks, including liquidity, credit and interest rate risks. These risks are monitored through a National Grid Treasury management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for National Grid plc and its subsidiaries.

## **NATIONAL GRID (US) INVESTMENTS 2 LIMITED**

### **DIRECTORS' REPORT (continued)**

#### **FOR THE YEAR ENDED 31 MARCH 2009**

#### **FINANCIAL RISK MANAGEMENT (continued)**

Treasury also seeks to limit counter-party risk by conducting most of its banking and dealing activities with a limited number of major international banks, whose status is kept under review.

#### **LIQUIDITY RISK**

The Company finances its operations through a combination of retained profits, new share issues and inter company loans.

#### **CREDIT RISK**

No material exposure is considered to exist in respect of inter company loans.

#### **INTEREST RATE RISK**

To the extent that the Company enters into inter company loan agreements, the Company's exposure to interest rate risk arises on such loans on which interest is based on sterling LIBOR. The Company does not participate in interest rate hedging.

#### **DIRECTORS**

The Directors of the Company during the year and up to the date of signing the financial statements were:

AJ Agg	(Appointed 10 July 2009)
MAD Flawn	(Appointed 30 September 2008)
DC Forward	(Resigned 16 March 2009)
G Holroyd	(Appointed alternate to AM Lewis - 19 February 2009, Appointed full Director- 10 July 2009)
AM Lewis	(Appointed 19 February 2009)
SF Noonan	(Appointed 19 February 2009, Resigned 10 July 2009)
RF Pettifer	(Resigned 30 September 2008)
MJ Sellars	(Appointed 10 July 2009)
CJ Waters	(Appointed 19 February 2009)

#### **DIRECTORS' INDEMNITIES AND INSURANCE**

National Grid plc indemnifies officers of subsidiary companies against liabilities arising from the conduct of the National Grid's business, to the extent permitted by law, by the placing of Directors' and Officers' insurance. The insurance indemnifies individual Directors' and Officers' personal legal liability and cost for claims arising out of actions taken in connection with the business of National Grid plc and its subsidiaries.

## **NATIONAL GRID (US) INVESTMENTS 2 LIMITED**

### **DIRECTORS' REPORT (continued)**

**FOR THE YEAR ENDED 31 MARCH 2009**

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **POST BALANCE SHEET EVENTS**

Subsequent to the year end, on 1 April 2009 the Company acquired 37% of the ordinary share capital of National Grid (Ireland) 1 Limited from a fellow subsidiary undertaking for a consideration of £1,762,086,000, settled by the assignment of a loan receivable from a fellow subsidiary undertaking.

In addition, on 26 June 2009 and 24 August 2009 respectively, the Company issued a further 6,883,737 and 71,326,006 ordinary shares of £1 each at par. In both cases the cash consideration received was loaned to the ultimate parent company, National Grid plc. The authorised share capital was increased from 1,800,000,000 to 2,500,000,000 ordinary shares of £1 each on 24 August 2009.

**NATIONAL GRID (US) INVESTMENTS 2 LIMITED**

**DIRECTORS' REPORT (continued)**

**FOR THE YEAR ENDED 31 MARCH 2009**

**TRANSACTIONS WITH DIRECTORS**

None of the Directors had a material interest in any contract of significance to which the Company was a party or made any transaction, arrangement or agreement within the provisions of Schedule 6 to the Companies Act 1985, during the year.

**AUDIT INFORMATION**

Having made the requisite enquiries, so far as the Directors in office at the date of the signing of this report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

**AUDITORS**

The Company has previously taken advantage of the provisions of Section 487 of the Companies Act 2006 that enable a private company to dispense with the requirement to appoint auditors annually. Accordingly, PricewaterhouseCoopers LLP will be deemed to remain in office until further notice.

**ON BEHALF OF THE BOARD**



**DC Forward**  
Company Secretary  
3 September 2009

**REGISTERED OFFICE**

1-3 STRAND  
LONDON  
WC2N 5EH

## NATIONAL GRID (US) INVESTMENTS 2 LIMITED

### INDEPENDENT AUDITORS REPORT TO

#### THE MEMBERS OF NATIONAL GRID (US) INVESTMENTS 2 LIMITED

We have audited the financial statements of National Grid (US) Investments 2 Limited for the year ended 31 March 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

#### **Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you, if in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2009 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
3 September 2009

**NATIONAL GRID (US) INVESTMENTS 2 LIMITED**

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEARS ENDED 31 MARCH**

	Notes	2009 £'000	2008 £'000
Operating charges	3	(5)	-
<b>Loss on ordinary activities before taxation</b>		<u>(5)</u>	<u>-</u>
Taxation	4	1	-
<b>Loss on ordinary activities after taxation transferred from reserves</b>	7	<u>(4)</u>	<u>-</u>

The results reported above relate to continuing activities.

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

The Company has no recognised gains and losses other than the loss for the years stated above and therefore no separate statement of total recognised gains and losses has been presented.

# NATIONAL GRID (US) INVESTMENTS 2 LIMITED

## BALANCE SHEET

AT 31 MARCH

	Notes	2009 £'000	2008 £'000
<b>Current assets</b>			
Amounts owed by fellow subsidiary undertakings		1,762,087	-
Cash at bank		<u>1</u>	<u>-</u>
		1,762,088	-
<b>Creditors: amounts falling due within one year</b>	5	<u>(5)</u>	<u>-</u>
<b>Net current assets</b>		1,762,083	-
<b>Net assets employed</b>		<u>1,762,083</u>	<u>-</u>
<b>Capital and reserves</b>			
Called up share capital	6	1,762,087	-
Profit and loss account	7	<u>(4)</u>	<u>-</u>
<b>Total shareholders' funds</b>	8	<u>1,762,083</u>	<u>-</u>

The financial statements on pages 6 to 11 were approved by the Board of Directors on 3 September 2009 and signed on its behalf by:



**AJ Agg**  
Director



# **NATIONAL GRID (US) INVESTMENTS 2 LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 MARCH 2009**

#### **1 Accounting policies**

##### **a) Basis of accounting**

These financial statements have been prepared on the going concern basis in accordance with applicable UK accounting and financial reporting standards and the Companies Act 1985. These financial statements have been prepared using the historical cost convention and in accordance with the accounting policies set out below. There have been no changes to accounting policies during the year.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

The Company has taken the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash Flow Statements'. Further, in accordance with exemptions under FRS 29 'Financial Instruments: Disclosures', the Company has not presented the financial instruments disclosures required by the standard, as disclosures that comply with the standard are included in the consolidated financial statements of National Grid plc.

##### **b) Taxation**

Current tax for the current and prior periods is provided at the amount expected to be paid (or recovered) using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

##### **c) Financial instruments**

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs.

Loans receivable are carried at amortised cost using the effective interest rate method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired is recognised on an effective interest basis in the profit and loss account.

Borrowings, which include interest-bearing loans and overdrafts, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest rate method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the profit and loss account using the effective interest method.

**NATIONAL GRID (US) INVESTMENTS 2 LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 MARCH 2009**

**2 Directors and employees**

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements. During the year there were no Directors (2008: one) who exercised share options in the ordinary shares of the ultimate parent company, National Grid plc.

There were no employees of the Company during the year (2008: none)

**3 Operating charges**

	2009 £'000	2008 £'000
Operating charges include:		
Audit fees	<u>3</u>	<u>-</u>

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

**4 Taxation**

	2009 £'000	2008 £'000
<b>Current tax:</b>		
UK corporation tax	<u>(1)</u>	<u>-</u>

The tax credit for the year is equivalent to the standard rate of corporation tax in the UK of 28% (2008: 30%).

**Factors that may affect future tax charges**

A number of changes to the UK corporation tax system were announced in the April 2009 Budget Statement which have been enacted in the Finance Act 2009.

The changes announced to the UK corporation tax system include temporary changes to the capital allowance regime and the introduction of a system for taxing foreign profits which is expected to bring in a dividend exemption and a worldwide debt cap.

The dividend exemption is likely to be available for both UK and foreign distributions, falling within an exempt classification, received on or after 1 July 2009. This is not expected to have a material effect on the future tax charge.

**NATIONAL GRID (US) INVESTMENTS 2 LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

**4 Taxation (continued)**

**Factors that may affect future tax charges (continued)**

A worldwide debt cap is likely to restrict the amount of finance expense available for UK tax purposes, based on the consolidated finance expense, and is expected to apply for accounting periods ending 31 March 2011 onwards. We are in the process of evaluating the impact the worldwide debt cap will have on the future tax charge.

These changes have not been substantively enacted as at the balance sheet date and therefore have not been included in these financial statements.

**5 Creditors: amounts falling due within one year**

	2009 £'000	2008 £'000
Accruals	5	-
	<u>5</u>	<u>-</u>

**6 Called up share capital**

	2009 £'000	2008 £'000
<b>Authorised</b>		
1,800,000,000 (2008: 100) ordinary shares of £1 each	<u>1,800,000</u>	<u>-</u>
<b>Allotted, called up and fully paid</b>		
1,762,087,211 (2008: 100) ordinary shares of £1 each	<u>1,762,087</u>	<u>-</u>

The Company re-registered on 2 March 2009 as a company limited by shares.

On 16 March 2009 the Company increased the authorised share capital from 100 ordinary shares of £1 each to 2,000,000 ordinary shares of £1 each. On 31 March 2009 the authorised share capital was further increased to 1,800,000,000 ordinary shares of £1 each. On 16 March 2009, the Company issued 850 ordinary shares of £1 each at par for cash. On 31 March 2009, the Company issued a further 1,762,086,261 ordinary shares of £1 each at par. The consideration was settled by a transfer of inter company debt from a fellow subsidiary undertaking.

Subsequent to the year end, on 26 June 2009 and 24 August 2009 respectively, the Company issued a further 6,883,737 and 71,326,006 ordinary shares of £1 each at par. In both cases the cash consideration received was loaned to the ultimate parent company, National Grid plc. The authorised share capital was increased from 1,800,000,000 to 2,500,000,000 ordinary shares of £1 each on 24 August 2009.

**NATIONAL GRID (US) INVESTMENTS 2 LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2009**

**7 Reserves**

	<b>Profit and Loss Account £'000</b>
At 1 April 2008	-
Loss for the year	(4)
<b>At 31 March 2009</b>	<b>(4)</b>

**8 Reconciliation of movements in shareholders' funds**

	<b>2009 £'000</b>	<b>2008 £'000</b>
Loss on ordinary activities after taxation	(4)	-
Proceeds on issue of ordinary share capital	1,762,087	-
Net increase in shareholders' funds	1,762,083	-
Opening shareholders' funds	-	-
<b>Closing shareholders' funds</b>	<b>1,762,083</b>	<b>-</b>

**9 Related party transactions and ultimate parent company**

The Company is exempt from disclosing transactions with National Grid plc and its subsidiary undertakings where all of the voting rights are held within the group. There were no related party transactions with companies where not all of the voting rights are held within the National Grid plc group of companies.

The ultimate parent and controlling company is National Grid plc and the immediate parent company is NG Luxembourg 4 Sarl (previously National Grid (US) Holdings Limited up to 30 March 2009). The largest and smallest group which includes the Company and for which consolidated financial statements are prepared is headed by National Grid plc. National Grid plc is registered in England and Wales and NG Luxembourg 4 Sarl is incorporated in Luxembourg.

Copies of the consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.

**10 Post balance sheet event**

Subsequent to the year end, on 1 April 2009 the Company acquired 37% of the ordinary share capital of National Grid (Ireland) 1 Limited from a fellow subsidiary undertaking for a consideration of £1,762,086,000, settled by the assignment of a loan receivable from a fellow subsidiary undertaking.