NATIONAL GRID PLC
Form 6-K
May 18, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 6-K
REPORT OF FOREIGN ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934
Date: 18 May 2006
NATIONAL GRID plc

(Registrant s Name)
1-3 Strand
London
WC2N 5EH
(Registrant s Address)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F þ Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3- 2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

NATIONAL GRID plc

By: /s/ David C Forward
David C Forward
Assistant Secretary

Date: 18 May 2006

Embargoed until 7:00am 18 May 2006

National Grid plc

Results for the year ended 31 March 2006

Strong performance. Positive outlook. £12bn five year investment programme

Earnings per share up 10%

Strong operational performance

35% UK gas distribution controllable cost reduction target achieved one year early

£2.1bn investment in existing businesses

Significant strategic achievements

Successful completion of gas network sales and £2bn return of value

Agreed acquisitions of KeySpan and Rhode Island gas distribution assets

10% increase in full year dividend

Financial highlights £million (except where indicated)	**Years ended 31 March**		
	2006	**2005**	**% change**
Business performance Note A			
Operating profit actual exchange rate	2,527	2,443	3
Operating profit constant currency basis Note B	2,527	2,487	2
Pre-tax profit	1,924	1,740	11
Earnings per share	46.7p	42.3p	10
Statutory results			
Operating profit from continuing operations	2,439	2,142	14
Pre-tax profit from continuing operations	1,779	1,439	24
Earnings per share from continuing operations	42.8p	36.3p	18
Profit from discontinued operations	2,633	304	*
Dividend per share	26.1p	23.7p	10

* *Not meaningful.*

Sir John Parker, Chairman, said:

National Grid has again delivered a strong operational and financial performance which has been accompanied by our continued focus on safety and reliability of delivery.

Our projection for future investment in our existing businesses now amounts to more than £12bn over the next five years. This major investment programme, together with our announced strategic acquisitions, will continue to reshape and expand our growth platform.

These developments reinforce our confidence of delivering significant value for shareholders. The Board is pleased to recommend a 10% increase in the full year dividend, delivering growth of over 60% in the last four years. We also retain our 7% per year dividend growth target through to March 2008.

Note A: *Business performance results are the* *primary financial performance measure used by National Grid, being the results for continuing operations before exceptional items and certain non-cash mark-to-market remeasurements of commodity contracts and financial instruments that are held for economic hedging purposes but which did not achieve hedge accounting. Further details are provided in Note 3 on page 17. A reconciliation of Business performance to Statutory results is provided in the Group Income Statement on page 10.*

Note B: *Constant currency basis refers to the reporting of the actual results against the prior year results which, in respect of any US$ currency denominated activity, have* *been translated using the average US$ exchange rate for the year ended 31 March 2006, which was $1.79 to £1.00. The average rate for the year ended 31 March 2005 was $1.87 to £1.00.*

National Grid
2005/06 Full Year Results
FINANCIAL RESULTS PRESENTATION

National Grid is reporting its 2005/06 full year results under IFRS. The comparative results for the year ended 31 March 2005 have also been presented on an IFRS basis and therefore differ from the UK GAAP results previously published. Unless otherwise stated, all financial commentaries are given on a business performance basis. Business performance represents the results for continuing operations before exceptional items and certain non-cash mark-to-market remeasurements of commodity contracts and financial instruments that are held for economic hedging purposes but did not achieve hedge accounting. Commentary provided in respect of results after exceptional items and certain non-cash mark-to-market remeasurements is described as statutory .

OVERVIEW AND OUTLOOK

National Grid has delivered strong operational and financial performance this year. We have significantly increased the level of investment across our businesses and taken key strategic steps which we expect will create new value for shareholders and strengthen our growth platform. This year we delivered 11% growth in pre-tax profit, 10% growth in earnings per share and returned £2bn of value to shareholders.

We are well positioned to continue to deliver strong growth in our existing businesses through continued operational performance and investment. The operational highlight this year was UK gas distribution, which reduced controllable costs by 17% in real terms, achieved our 35% cost reduction target one year early and delivered a 14% increase in operating profit. UK transmission secured favourable results in the French interconnector and LNG storage capacity auctions and we expect a similar performance in 2006/07. National Grid Wireless delivered 23% growth in operating profit compared to the prior year[1], meeting its target of £18m annualised cash savings from synergies and growing the underlying business by 13%.

Operationally and strategically, US distribution had a good year. Underlying residential deliveries were up for the fifth consecutive year and excluding the increase in bad debts related to commodity price rises, we delivered a modest reduction in controllable costs. Regulatory agreements reached during the year are expected to increase revenue by $150m in 2006/07 and $150m in 2007/08.

The agreements to acquire KeySpan for $7.3bn cash (and the assumption of $4.5bn of debt), and Southern Union Company s gas distribution assets in Rhode Island for $498m cash (and the assumption of $77m of debt), were both announced in February. These acquisitions are an excellent strategic and operational fit with our existing business. They will increase our US gas customer base to 3.4 million, around five times the current level, and add to our electricity transmission and distribution operations. We expect these acquisitions to enhance earnings and cash flow in the first full year after completion and, through investment opportunities in gas distribution, gas pipelines and storage, create additional value for shareholders.

Investment in our existing businesses will also be a significant contributor to future growth. We have increased investment this year by 36% to £2.1bn and now project[2] a further rise to around £2.5bn per annum, totalling around £12bn over the five years to March 2011. £9bn of this investment is expected to be in UK regulated infrastructure, primarily in response to changes in UK energy infrastructure requirements with the decline of North Sea gas production, the UK Government s renewable energy policy and the need for asset replacement. During the same period, our UK regulatory asset base is projected to grow by almost 40%, with annual increases of over £1bn.

[1] *Pro forma operating profit comparison for National Grid Wireless refers to annualisation of the 7 month contribution to 2004/05*

operating profit from Crown Castle UK following its acquisition in August 2005.

[2] *National Grid is currently working with Ofgem on the Transmission Price Control Review for 2007 2012. The UK transmission regulated element of the projections set out above are central to the review with respect to assumptions about the level of capital investment and how capital investment will be depreciated for regulatory purposes.*

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Reflecting our results this year, and our continued confidence in National Grid s future prospects, the Board has reaffirmed our strongly progressive dividend policy. The Board is recommending a 10% increase in the full year dividend which, for the third consecutive year, is ahead of our aim of increasing dividends per share by 7% per annum.

REVIEW OF GROUP RESULTS

Revenue from continuing activities was £9.2bn, up £1.8bn.

Operating profit increased by 3% to £2,527m, up £84m. This was primarily driven by a continued achievement of efficiencies, particularly in UK gas distribution, favourable results from UK capacity auctions in LNG storage and the French interconnector, a full-year contribution from the growing Wireless infrastructure business and sustained volume growth in the US. Strong operational performance across the Group more than offset an increase in depreciation charges in UK transmission, a loss on the UK electricity Balancing Services Incentive Scheme and the impact of timing of recoveries of pass-through costs in the US.

Net finance costs decreased 14% from £706m to £606m. This was primarily the result of a decrease in average net borrowings following the gas distribution network sales, which were completed in June.

Profit before tax was up 11% to £1,924m from £1,740m.

The tax charge on profit for the year was £597m, £160m higher than the prior year due to increased profit before tax and a higher effective tax rate of 31%. This rate reflected a reduction in prior year tax credits, an increase in profits and changes in UK tax legislation.

Earnings increased 2% on the prior year to £1,325m from £1,303m, while earnings per share increased 10% from 42.3p last year to 46.7p.

Exceptional items and remeasurements for continuing operations amounted to £110m after tax. These comprised restructuring costs of £60m (£48m after tax), commodity remeasurement impacts of £63m (£38m after tax), exceptional finance charges of £49m (£34m after tax), net financial instrument remeasurement gains of £6m (£11m loss after tax) and profit on sale and reversal of impairment of non-core Group businesses of £21m (£21m after tax). After these items and minority interests, statutory earnings for continuing operations were £1,215m. Statutory basic earnings per share from continuing operations increased 18% to 42.8p, up from 36.3p last year.

National Grid s cash flows grew strongly, with operating cash flow up 8% to £3.1bn.

Investment in our existing businesses increased by 36% to £2.1bn, primarily due to increases in new UK gas and electricity transmission infrastructure and UK electricity transmission asset replacement. Investment during the year included:

- £280m on UK electricity asset replacement, particularly overhead lines
- £203m on UK electricity demand connections and other load-related infrastructure
- £124m on the Milford Haven project to deliver new gas transmission entry capacity in South Wales; this represents around 15% of the total projected investment through to 2008
- £77m on projects in support of new UK gas transmission entry capacity at Easington
- £295m on UK gas distribution replacement expenditure
- £136m on the Isle of Grain LNG importation terminal. Phase I of the terminal was commissioned in July 2005; Phase II investment to increase capacity is well underway
- £71m on the Basslink interconnector, which commenced operations in April.

Other smaller projects across the UK and US together account for a further £876m of investment.

Group net debt fell to £10.9bn at 31 March 2006 compared with £14.0bn at 1 April 2005. This reduction primarily reflected the receipt of £5.8bn upon completion of the gas distribution network sales

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in June 2005, less the £2.0bn return of value to shareholders in August 2005 and the impact of increased capital investment.

A final dividend of 15.9p per ordinary share ($1.5115 per American Depository share (ADS)) is to be paid on 23 August 2006 to shareholders on the register as at 9 June 2006.

REVIEW OF OPERATIONS
TRANSMISSION

Year ended 31 March	2006 (£m)	2005 (£m)	% Change
Operating profit			
UK electricity transmission	492	559	(12)
UK gas transmission	250	268	(7)
Other *	102	32	219
UK electricity and gas transmission	844	859	(2)
US electricity transmission			
actual exchange rate	127	126	1
constant currency basis	127	132	(4)

* *Other includes LNG storage and the French interconnector in both periods. The Scottish interconnector is included in UK electricity transmission in both periods.*

UK electricity and gas transmission operating profit was down 2% at £844m compared with £859m last year. Increased demand for capacity on the French interconnector and in LNG storage led to a £70m increase in operating profit; the results of recent capacity auctions indicate that these businesses will also deliver similar results in 2006/07. However this was more than offset by TO depreciation charges which were £83m higher year-on-year. This increase comprised a one-off benefit of £15m in the prior year, £58m of charges related to early asset write-off and a £10m increase in core depreciation.

Timing on the collection of income benefited operating profit by £40m. This was offset by other one-off charges totalling £21m, for which we are pursuing regulatory recovery, and a £10m loss under the electricity Balancing Services Incentive Scheme, resulting in an adverse operating profit movement of £21m year-on-year. Higher energy prices, together with tougher regulatory targets, have resulted in higher electricity system balancing costs. In March 2006 we chose not to accept Ofgem s proposal for an incentivised scheme for 2006/07. Instead we opted for a cost pass-through scheme, with no up-side incentive or down-side loss, which we will deliver against our licence obligations to operate the electricity system in an economic and efficient manner.

In January, we accepted Ofgem s final proposals for the one-year extension of the UK electricity transmission price control to 31 March 2007. In this extension, Ofgem moved to a post-tax allowed return of 4.4% which, after a

National Grid Electricity Transmission specific tax allowance of £104m, is equivalent to a 7% pre-tax real return. This will result in a 9% increase in revenue for 2006/07. We are currently working with Ofgem on a five-year UK electricity and gas transmission price control and have set out our projections for necessary and efficient investment in asset replacement and new infrastructure. For the five years to March 2011, we project a total investment of over £6bn.

On the basis of these projections, if agreed by Ofgem, we expect the combined UK electricity and gas transmission regulatory asset base to grow by more than 50% from its March 2006 value over the next five years. Ofgem s initial proposals are expected in June.

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US transmission operating profit at £127m was broadly flat year-on-year. Higher returns in New England and the benefit of the stronger US dollar were offset by a one-time write-off of interconnection related costs, generally higher costs to address reliability issues and the cessation of Grid America.

UK GAS DISTRIBUTION

Year ended 31 March	2006 (£m)	2005 (£m)	% Change
Operating profit	483	424	14

Operating profit from UK gas distribution continuing operations was up 14% at £483m compared with £424m last year, despite high gas prices driving shrinkage gas costs up £17m.

This year, through the Way Ahead programme, we delivered a very strong performance, reducing operating expenditure by £52m. Controllable costs, excluding increases in ongoing pension costs and shrinkage gas commodity prices, have decreased by 17% in real terms this year, and by 35% in real terms since March 2002. This represents cumulative savings of around £375m.

UK gas distribution results are also affected by changes in volumes, including weather-related effects. Underlying volumes were down by 3%, partly as a result of reduced gas usage in the second half of the year as energy prices rose. This was more than offset by weather effects, as 2005/06 was close to seasonal norm and, on average, colder than the prior year. Taken together, the effects of weather and volumes added £12m to operating profit during 2005/06.

During the year, we consolidated our UK gas distribution activities into three key sites at Warwick, Hinckley and Northampton. This will enable the business to move to the next stage in improving some of its cross-functional processes and systems. Our Alliance initiative has continued to deliver the growing mains replacement programme, with over 1,700km of mains replaced during 2005/06, 18% more than the previous year resulting in total replacement expenditure (repex) of £295m. Mains replacement is expected to increase to over 1,800km in 2006/07. We have also continued to invest in network infrastructure projects, resulting in total capital expenditure (including repex) of £444m.

We are currently working with Ofgem on a one-year extension of the UK gas distribution price control to March 2008. In December, Ofgem published its initial consultation. A second consultation is expected in July and initial proposals from Ofgem are expected in September. Following this one-year review, we will work with Ofgem on a five-year UK gas distribution price control. In this five-year review Ofgem may consider using comparative regulation, similar to the models used in electricity and water distribution price control reviews, and we believe that the controllable cost reductions we have achieved will place our four gas networks in a strong position.

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US DISTRIBUTION

Year ended 31 March	2006 (£m)	2005 (£m)	% Change
Operating profit (actual exchange rate)			
US electricity and gas distribution	364	375	(3)
US stranded cost recoveries	489	465	5
	853	840	2
Operating profit (constant currency basis)			
US electricity and gas distribution	364	392	(7)
US stranded cost recoveries	489	486	1
	853	878	(3)

Operating profit from US gas and electricity distribution was £364m, down 3%. This was primarily due to a £23m increase in pension costs, the majority of which will be recovered from 2006/07 onwards, and timing on the recovery of commodity costs, partially offset by the stronger US dollar. Excluding these items US distribution operating profit was flat year-on-year.

Growth, with weather normalised residential volumes up 1.7%, was offset by higher depreciation and amortisation as capital projects, including new IT systems, went into service. The strong focus on managing bad debts resulted in only a £2m increase despite significantly higher gas and electric prices, which were up 45% on average and increased accounts receivable by over $150m. Excluding the increase in bad debts relating to commodity price rises, we achieved a modest reduction in controllable costs.

In accordance with our New York rate plan, US distribution makes biannual regulatory filings to recover amounts in the deferral account . Following the latest filing, we received approval to recover $150m during 2006/07 and $150m during 2007/08. A regulatory audit of the deferral account is ongoing. In March 2006, the Massachusetts rate plan entered its index-linked phase. Until 2010, rates in Massachusetts will be linked to an index of regional peers which requires that its delivery rates remain at 88% of the peer group index. Implementing this mechanism resulted in a 4% delivery rate increase, which will increase revenues by $20m, with effect from March 2006. US distribution is also incentivised under service quality standards and, in 2006/07, we expect to increase spending in our reliability enhancement programme to improve performance.

US stranded cost recoveries delivered £489m of operating profit. This comprised the ongoing recovery of and return on the stranded cost base amounting to £337m, and £152m primarily related to the recovery of contract settlements made under certain long-term purchased power arrangements.

WIRELESS INFRASTRUCTURE

Year ended 31 March	2006 (£m)	2005 (£m)	% Change
Operating profit	75	42	23*

* *Operating profit growth compared to pro forma 2004/05*

operating profit with Crown Castle UK 7 month contribution annualised over 12 months.

Operating profit for Wireless infrastructure was £75m, up from £42m in the prior year. This reflected a full year contribution from the enlarged business, delivery of 23% growth in operating profit, including achievement of our target of £18m annualised cash synergy savings. Excluding these savings we delivered 13% growth in operating profit, as compared to the prior year on a pro forma basis.

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This business is well positioned for continued double digit profit growth. In mobile, demand for additional tenancies was good. In November, we successfully extended our contract with the BBC to deliver analogue television and radio services through to 2012 for television and 2013 for AM and FM radio. Over the six years to 2012, we expect to invest over £200m in new common digital television broadcast infrastructure, and around £50m in our own digital broadcast transmission assets. We have also bid to provide managed transmission services to the BBC for digital television and radio.

We also own digital broadcast channel capacity and during the year exploited continuing advances in digital compression technology to create capacity for three additional channels. These were successfully purchased by ITV and Channel 4.

OTHER ACTIVITIES

Year ended 31 March	2006 (£m)	2005 (£m)	% Change
Operating profit	145	152	(5)

Operating profit from our Other Activities was down 5% at £145m, compared with £152m in the prior year, reflecting the fluctuation of Property profits.

Phase I at the Isle of Grain LNG terminal was commissioned in July and with work on Phase II well under way, this business contributed £6m to operating profit. The total expected £500m investment is underpinned by 20-year capacity contracts with BP, Sonatrach, Centrica and Gaz de France, and when Phase II is complete in late 2008, will have the capacity to deliver around 13% of current UK gas demand. We are evaluating market demand for a third phase that would offer further capacity to the market.

National Grid Metering has delivered strong performance, with operating profit up £28m. We made good progress in driving operational efficiency, which together with growth in our competitive metering business, more than offset a decline in regulated metering revenue. In June, Ofgem initiated an investigation under the Competition Act into certain aspects of our domestic gas metering business. On 17th May 2006, Ofgem issued a Statement of Objections detailing, for the first time, why it believes that National Grid s conduct in relation to this business amounts to a breach of the Competition Act. We are now considering our response.

Land and buildings surplus to our operational requirements are remediated as necessary and sold by our property business. By their nature, property sales can vary from period to period depending on the number and mix of properties sold. At £88m, operating profit was £14m lower this year.

Our Basslink interconnector, linking Tasmania to the energy market in southeastern Australia, was successfully commissioned and entered into operational service in April. This investment is supported by a long-term contract with Hydro Tasmania and is the longest sub-sea interconnector in the world.

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DIVIDEND

The Board has recommended a final dividend of 15.9p per ordinary share ($1.5115 per American Depository share (ADS)), representing a 10% increase in the full-year dividend. This increase delivers dividend growth of more than 60% since March 2002.

The final dividend is to be paid on 23 August 2006 to shareholders on the register as at 9 June 2006.

We aim to continue to increase dividends per ordinary share expressed in sterling by 7% in each financial year through to 31 March 2008.

KEYSPAN AND NEW ENGLAND GAS ACQUISITIONS

We are making good progress on both the KeySpan and Rhode Island gas distribution acquisitions. Key personnel have been appointed to the integration teams.

With respect to the Rhode Island acquisition, National Grid and Southern Union Company have filed for regulatory approvals at the Federal and State level and we expect the transaction to complete during the summer.

Together with KeySpan we continue to meet with stakeholders regularly and, as part of this process, are in discussions with Long Island Power Authority as it evaluates the benefits of the transaction to Long Island electricity customers. We are also working on the Federal and State regulatory filings and the shareholder approvals processes and expect the transaction to complete in early 2007.

BOARD CHANGES

In January, we announced that Roger Urwin will retire as Group Chief Executive towards the end of 2006. Following a thorough evaluation of internal and external candidates, the Board was pleased to appoint Steve Holliday as Deputy Group Chief Executive with effect from 1 April 2006. Steve will assume the role of Group Chief Executive upon Roger s retirement.

In February we also announced the retirement of John Grant as a Non-executive Director with effect from 31 July 2006.

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CONTACT DETAILS
National Grid:

Investors		
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Citigate Dewe Rogerson	+44 (0)20 7638 9571	
Anthony Carlisle	+44 (0)7973 611888(m)	

An analyst presentation will be held at London Stock Exchange, 10 Paternoster Square, London EC4M 7LS at 9:00am (UK time) today.

Live telephone coverage of the analyst presentation password National Grid

Dial in number	+44 (0)20 7081 9429
US dial in number	+1 866 43 27 186

Telephone replay of the analyst presentation (available until 2 June 2006)

Dial in number	+44 (0)20 8196 1998
US dial in number	+1 866 583 1035
Account number	869448

A live web cast of the presentation will also be available at www.nationalgrid.com

Photographs are available on **www.newscast.co.uk**

Cautionary statement

This announcement 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. Because these forward-looking statements are subject to assumptions, risks and uncertainties, actual future results may differ materially from those expressed in or implied by such 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 in connection with the announced US acquisitions, unseasonable weather and changes in historical weather patterns 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 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 announcement include the ability to complete the announced US acquisitions when or as planned and to integrate the businesses relating to such acquisitions with the Group and realise the expected synergies from such integration, the availability of new acquisition opportunities and the timing and success of future acquisition opportunities, the impact of the sales of businesses by the Group, 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 National Grid s 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, owned or operated by National Grid. For a more detailed description of some of these assumptions, risks and uncertainties, together with any other risk factors, please see National Grid s filings with and submissions to the US Securities and Exchange Commission (and in particular the Risk Factors and Operating and Financial Review sections in its most recent Annual Report on Form 20-F). Recipients are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this announcement. Except as required by law or regulation, National Grid does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this announcement.

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GROUP INCOME STATEMENT for the years ended 31 March	Notes	**2006** **£m**	2005(i) £m
Group revenue	2a	**9,193**	7,382
Other operating income		**80**	70
Operating costs		**(6,834)**	(5,310)
Operating profit			
Before exceptional items and remeasurements	2b	**2,527**	2,443
Exceptional items and remeasurements	3	**(88)**	(301)
Total operating profit	2c	**2,439**	2,142
Interest income and similar income	4	**1,038**	946
Interest expense and other finance costs			
Before exceptional items and remeasurements	4	**(1,644)**	(1,652)
Exceptional items and remeasurements	3	**(57)**	
	4	**(1,701)**	(1,652)
Share of post-tax results of joint ventures		**3**	3
Profit before taxation			
Before exceptional items and remeasurements		**1,924**	1,740
Exceptional items and remeasurements		**(145)**	(301)
Total profit before taxation		**1,779**	1,439
Taxation			
Before exceptional items and remeasurements	5	**(597)**	(437)
Exceptional items and remeasurements	3	**35**	118
Total taxation		**(562)**	(319)
Profit from continuing operations after taxation			
Before exceptional items and remeasurements		**1,327**	1,303
Exceptional items and remeasurements		**(110)**	(183)
Profit for the year from continuing operations		**1,217**	1,120
Profit for the year from discontinued operations			
Before exceptional items	6	**43**	352
Exceptional items	6	**2,590**	(48)
		2,633	304
Profit for the year		**3,850**	1,424

Attributable to:

Equity shareholders of the parent		**3,848**	1,424
Minority interests		**2**	
		3,850	1,424
Earnings per share			
Basic	7a	**135.6p**	46.2p
Diluted	7b	**135.0p**	46.0p
Earnings per share from continuing operations			
Basic	7a	**42.8p**	36.3p
Diluted	7b	**42.6p**	36.2p
Dividends per ordinary share: paid during the year	8	**25.4p**	20.4p
Dividends per ordinary share: approved or proposed to be paid		**26.1p**	23.7p

i) Refer to note 1 for the basis of preparation of the comparatives presented under International Financial Reporting Standards.

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GROUP BALANCE SHEET at 31 March	Note	**2006**	2005(i)
		£m	£m
Non-current assets			
Goodwill		**2,142**	2,031
Other intangible assets		**321**	358
Property, plant and equipment		**18,935**	22,645
Investments in joint ventures		**12**	17
Deferred tax assets		**159**	318
Other receivables		**38**	96
Financial investments		**148**	131
Derivative financial assets		**351**	
Total non-current assets		**22,106**	25,596
Current assets			
Other intangible assets		**41**	
Inventories		**108**	101
Trade and other receivables		**1,519**	1,193
Financial investments		**384**	398
Derivative financial assets		**314**	
Cash and cash equivalents		**1,452**	272
Total current assets		**3,818**	1,964
Total assets		**25,924**	27,560
Current liabilities			
Bank overdrafts		**(3)**	(18)
Borrowings		**(2,839)**	(3,243)
Derivative financial liabilities		**(92)**	
Trade and other payables		**(2,095)**	(2,337)
Current tax liabilities		**(419)**	(103)
Provisions		**(235)**	(273)
Total current liabilities		**(5,683)**	(5,974)
Non-current liabilities			
Borrowings		**(10,287)**	(11,047)
Derivative financial liabilities		**(130)**	
Other non-current liabilities		**(1,719)**	(2,429)
Deferred tax liabilities		**(2,161)**	(3,189)

Pensions and other post-retirement benefit obligations		**(1,915)**	(2,282)
Provisions		**(536)**	(518)
Total non-current liabilities		**(16,748)**	(19,465)
Total liabilities		**(22,431)**	(25,439)
Net assets		**3,493**	2,121
Equity			
Called up share capital		**310**	309
Share premium account		**1,316**	1,289
Retained earnings		**6,817**	5,650
Other reserves		**(4,961)**	(5,137)
Total shareholders equity		**3,482**	2,111
Minority interests		**11**	10
Total equity		**3,493**	2,121
Net debt (net of related derivative financial instruments) included above	9	**10,850**	13,638

i) Refer to note 1 for the basis of preparation of the comparatives presented under International Financial Reporting Standards.

Net debt at 31 March 2005 has not been adjusted to reflect the impact of IAS 39, which has been adopted from 1 April 2005 onwards.

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GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the years ended 31 March	**2006**	2005(i)
	£m	£m
Exchange adjustments	**141**	(6)
Actuarial gains	**181**	253
Net losses taken to equity in respect of cash flow hedges	**(12)**	
Transferred to profit or loss on sale of cash flow hedges	**(20)**	
Net gains taken to equity on available-for-sale investments	**4**	
Transferred to profit or loss on sale of available-for-sale investments	**(1)**	
Tax on items taken directly to or transferred from equity	**(43)**	(66)
Net income recognised directly in equity	**250**	181
Profit for the year	**3,850**	1,424
Total recognised income and expense for the year	**4,100**	1,605
Attributable to:		
Equity shareholders of the parent	**4,097**	1,605
Minority interests	**3**	
	4,100	1,605
Effect of change in accounting policy IAS 39 (ii)	**(43)**	

i) Refer to note 1 for the basis of preparation of the comparatives presented under International Financial Reporting Standards.

ii) The Group has adopted IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39

Financial Instruments: Recognition and Measurement prospectively with effect from 1 April 2005, in accordance with the transition provisions of IFRS 1. The impact of IAS 39 attributable to minority interests was £nil.

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GROUP CASH FLOW STATEMENT

for the years ended 31 March	**2006**	2005(i)
	£m	£m
Cash flows from operating activities		
Total operating profit	**2,439**	2,142
Adjustments for:		
Exceptional items and remeasurements	**88**	301
Depreciation and amortisation	**952**	819
Share-based payment charge	**15**	12
Changes in working capital	**(212)**	(105)
Changes in provisions	**9**	(119)
Changes in pensions and other post-retirement benefit obligations	**(42)**	(19)
Cash flows relating to exceptional items	**(118)**	(120)
Cash flows generated from continuing operations	**3,131**	2,911
Cash flows relating to discontinued operations	**(20)**	547
Cash generated from operations	**3,111**	3,458
Tax paid continuing operations	**(103)**	(52)
Tax paid discontinued operations	**(37)**	(98)
Net cash inflow from operating activities	**2,971**	3,308
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired		(1,122)
Sale of investments in joint ventures	**8**	8
Purchases of intangible assets	**(16)**	(79)
Purchases of property, plant and equipment	**(1,750)**	(1,427)
Disposals of property, plant and equipment	**18**	22
Net movements in financial investments	**25**	(59)
Dividends received from joint ventures	**2**	5
Cash flows used in continuing operations investing activities	**(1,713)**	(2,652)
Cash flows relating to discontinued operations disposal proceeds	**5,750**	
Cash flows relating to discontinued operations other investing activities	**(115)**	(323)
Net cash inflow from/(used in) investing activities	**3,922**	(2,975)
Cash flows from financing activities		
Proceeds from issue of share capital	**54**	13
(Decrease)/increase in borrowings and related derivatives	**(2,304)**	1,052
Net interest paid	**(704)**	(762)
Exceptional finance costs on the repayment of debt	**(49)**	

Dividends paid to shareholders	**(745)**	(628)
Cash paid to shareholders under B share scheme	**(1,957)**	
Purchase of treasury shares	**(7)**	
Net cash used in financing activities	**(5,712)**	(325)
Net increase in cash and cash equivalents	**1,181**	8
Exchange movements	**14**	(1)
Net cash and cash equivalents at start of year (ii)	**254**	247
Net cash and cash equivalents at end of year (ii)	**1,449**	254

i) Refer to note 1 for the basis of preparation of the comparatives presented under International Financial Reporting Standards.

ii) Net of bank overdrafts.

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NOTES TO THE PRELIMINARY ANNOUNCEMENT
1. Basis of preparation
Basis of preparation

The financial information contained in this announcement, which does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985, has been derived from the statutory accounts for the year ended 31 March 2006, which will be filed with the Registrar of Companies in due course. The auditors report on these statutory accounts was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

For the financial periods up to 31 March 2005, National Grid plc prepared consolidated financial statements in accordance with UK GAAP. From 1 April 2005 National Grid has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and effective for National Grid s reporting for the year ended 31 March 2006. This preliminary announcement has been prepared on the basis of the Group s accounting policies applicable for the year ending 31 March 2006 as set out in Appendix 1.

IFRS transitional arrangements

The Group s transition date to IFRS is 1 April 2004. The rules for first-time adoption of IFRS are set out in IFRS 1 First-time adoption of International Financial Reporting Standards . In preparing the Group s first IFRS financial statements, these transition rules have been applied to the amounts reported previously under generally accepted accounting principles in the United Kingdom (UK GAAP). IFRS 1 generally requires full retrospective application of the standards and interpretations in force at the first reporting date. However, IFRS 1 allows certain exemptions in the application of particular standards to prior periods in order to assist companies with the transition process. National Grid has applied the following exemptions and choices on transition:

i) The Group has elected to adopt IAS 32 and IAS 39 with effect from 1 April 2005, with no restatement of comparative information for the year to 31 March 2005. As a result, the balance sheet at 31 March 2005 and the income statement for the year ended 31 March 2005 exclude the effect of IAS 32 and IAS 39. The adoption of IAS 39 had the effect of increasing net debt at 1 April 2005 by £348m and reducing net assets by £43m.

ii) IFRS 3 Business combinations has not been applied to business combinations that occurred before 1 April 2004.

iii) The Group has deemed cumulative translation differences for foreign operations to be zero at the date of transition. Any gains and losses on subsequent disposals of foreign operations will not therefore include translation differences arising prior to the transition date.

iv) At the date of transition, the vast majority of assets were valued at depreciated cost, as adjusted for IFRS measurement changes with some assets being measured at deemed cost.

v) The Group has elected to account for existing joint ventures using the equity method.

vi) For pensions accounting, the Group has elected to recognise all actuarial gains and losses each year in the Statement of Recognised Income and Expense.

vii) For share-based payments, all active grants were recognised retrospectively. This is consistent with the treatment the Group had applied in prior years under UK GAAP in accordance with FRS 20.

New IFRS accounting standards and interpretations adopted in 2005/06

In preparing these financial statements, the Group has complied with all IFRSs applicable for periods beginning on or after 1 January 2005. In addition the Group has adopted the following amendments to standards:

Amendment to IAS 1 Presentation of Financial Statements

The amendment requires new disclosures about entities management of their capital resources and compliance with capital requirements.

Amendment to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures

The principal impact of adopting the amendment is that actuarial gains and losses in respect of the Group s defined benefit schemes are recognised in the statement of recognised income and expense and additional disclosures regarding the schemes have been provided.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement Cash Flow Hedge Accounting of Forecast Intragroup Transactions

In consolidated financial statements, the amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect consolidated profit or loss.

IFRS 7 Financial Instruments: Disclosures

IFRS 7 replaces the disclosure requirements in IAS 32 Financial Instruments: Presentation and Disclosure and locates in one place all disclosures relating to financial instruments. The new requirements incorporate many of IAS 32 s disclosures as well as additional qualitative and quantitative disclosures on the risks arising from financial instruments.

This announcement was approved by the Board of Directors on 17 May 2006.

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2005/06 Full Year Results
2. Segmental analysis

Segmental information is presented in accordance with the management responsibilities and economic characteristics, including consideration of risks and returns, of the Group s business activities. The following table describes the main activities for each business segment:

UK electricity and gas transmission	High-voltage electricity transmission networks, the gas National Transmission System in the UK, UK liquefied natural gas storage activities and the Scottish and French electricity interconnectors
US electricity transmission	High-voltage electricity transmission networks and management of electricity transmission operations for other utilities in the US
UK gas distribution	Four of the eight regional networks of Great Britain s gas distribution system
US electricity and gas distribution	Electricity and gas distribution in New York and electricity distribution in New England
US stranded cost recoveries	The recovery of stranded costs from US customers as permitted by regulatory agreements
Wireless infrastructure	Broadcast and mobile telephone infrastructure in the UK and US

Other activities primarily relate to UK-based gas metering activities, UK property management, a UK LNG import terminal, an electricity interconnector in Australia and our engineering and software company, together with corporate activities, including business development.

UK liquefied natural gas storage activities and the Scottish and French interconnectors are both included within UK electricity and gas transmission. These were previously reported in the Group UK GAAP accounts for the year ended 31 March 2005 within Other activities. This change in segmental presentation follows a change in the organisational and management structure within the Group and the change in regulatory arrangements for the Scottish interconnector following the introduction of British Electricity Trading and Transmission Arrangements (BETTA). The segment results for the year ended 31 March 2005 have been amended to reflect this change. The impact of this change on segment results for the year ended 31 March 2005 was to increase UK electricity and gas transmission revenue by £65m and operating profit by £42m, to reduce Other activities revenue by £110m and operating profit by £42m and to reduce intra-group revenue eliminations by £45m. There was no difference between the impact on operating profit before exceptional items and remeasurements and that for operating profit after exceptional items and remeasurements.

Discontinued operations comprise the operations of the four UK gas distribution networks that the Group sold on 1 June 2005 and the results of Citelec, an Argentinian joint venture sold in August 2004. The results for discontinued operations are disclosed in note 6.

The Group assesses the performance of its businesses principally on the basis of operating profit before exceptional items and remeasurements. The Group s primary reporting format is by business and the secondary reporting format is by geographical area.

Sales between businesses are generally based on the same prices as would have been charged to third parties (arms-length principle).

a) Group revenue

Years ended 31 March	**2006**	2005
	£m	£m

Business segments		
UK electricity and gas transmission	**2,710**	1,995
US electricity transmission	**310**	284
UK gas distribution	**1,222**	1,113
US electricity and gas distribution	**3,711**	3,087
US stranded cost recoveries	**511**	409
Wireless infrastructure	**325**	208
Other activities	**701**	734
Sales between businesses	**(297)**	(448)
Group revenue	**9,193**	7,382
Geographical segments		
UK	**4,671**	3,621
US	**4,522**	3,761
Group revenue	**9,193**	7,382

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2. Segmental analysis (continued)
b) Operating profit before exceptional items and remeasurements

Years ended 31 March	**2006**	2005
	£m	£m
Business segments		
UK electricity and gas transmission	**844**	859
US electricity transmission	**127**	126
UK gas distribution	**483**	424
US electricity and gas distribution	**364**	375
US stranded cost recoveries	**489**	465
Wireless infrastructure	**75**	42
Other activities	**145**	152
Operating profit before exceptional items and remeasurements	**2,527**	2,443
Geographical segments		
UK	**1,549**	1,473
US	**983**	970
Rest of the World	**(5)**	
Operating profit before exceptional items and remeasurements	**2,527**	2,443

c) Operating profit after exceptional items and remeasurements

Years ended 31 March	**2006**	2005
	£m	£m
Business segments		
UK electricity and gas transmission	**843**	857
US electricity transmission	**127**	119
UK gas distribution	**432**	333
US electricity and gas distribution	**364**	258
US stranded cost recoveries	**440**	427
Wireless infrastructure	**70**	29
Other activities	**163**	119
Operating profit after exceptional items and remeasurements	**2,439**	2,142
Geographical segments		
UK	**1,489**	1,335
US	**934**	807

Rest of the World	**16**	
Operating profit after exceptional items and remeasurements	**2,439**	2,142
		16

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2005/06 Full Year Results
3. Exceptional items and remeasurements
The Group separately discloses items of income and expenditure relating to transactions that are material, either by their nature or their size, that are relevant to an understanding of the Group s financial performance. These include non-recurring exceptional income or charges that do not relate to the underlying financial performance of the Group and remeasurement gains or losses arising from movements in the carrying value of certain commodity contracts and of derivative financial instruments.

Years ended 31 March	**2006**	2005
	£m	£m
Exceptional items restructuring costs (i)	**60**	121
Exceptional items past service pension costs (ii)		41
Exceptional items environmental related provisions (iii)		101
Exceptional items profit on sale and reversal of impairment (iv)	**(21)**	
Remeasurements commodity contracts (v)	**49**	38
Total exceptional items and remeasurements included within operating profit	**88**	301
Exceptional finance costs (vi)	**49**	
Remeasurements commodity contracts (v)	**14**	
Remeasurements net gains on derivative financial instruments (vii)	**(6)**	
Total exceptional items and remeasurements included within finance costs	**57**	
Total exceptional items and remeasurements before taxation	**145**	301
Tax on restructuring costs (i)	**(12)**	(34)
Tax on exceptional past service pension costs (ii)		(17)
Tax on environmental related provisions (iii)		(39)
Tax on commodity contract remeasurements (v)	**(25)**	(15)
Tax on exceptional finance costs (vi)	**(15)**	
Tax on derivative financial instrument remeasurements (vii)	**17**	
Other exceptional tax credits (viii)		(13)
Tax on exceptional items and remeasurements	**(35)**	(118)
Total exceptional items and remeasurements	**110**	183

i) Restructuring costs relate to planned cost reduction programmes in the UK and US businesses. For the year ended 31 March 2006, restructuring costs included pension curtailment costs of £25m arising as a result of redundancies (2005: £22m).

ii) Past service pension costs arose from the renegotiation of terms and conditions of service with certain employees in the US.

iii) During the year ended 31 March 2005, a review of the environmental provisions was undertaken to take into account the impact of changes to UK regulations on waste disposal. This review, together with related revisions to the expected UK expenditure profile, resulted in a charge of £41m in 2005. Following a similar review in the US of environmental provisions, an additional exceptional charge of £60m was made for site restoration, which reflected the experience of restoring similar sites.

iv) Reversal of prior period impairment of £13m related to National Grid s investment in Copperbelt Energy Corporation (CEC) and gain on disposal of an investment in Energis Polska of £8m.

v) Remeasurements commodity contracts represent mark-to-market movements on certain commodity contract obligations, primarily indexed-linked swap contracts, in the US. Under the Group s existing rate plans in the US, commodity costs are fully recovered from customers, although the pattern of recovery may differ from the pattern of costs incurred. These movements are comprised of those impacting operating profit which is based on the change in the commodity contract liability and those impacting finance costs as a result of changing discount rates due to market fluctuations.

vi) Exceptional finance costs for the year ended 31 March 2006 represent costs incurred on the early redemption of debt following the disposal of four UK gas distribution networks (£39m), together with issue costs associated with the B share scheme (£10m).

vii) Remeasurements net gains on derivative financial instruments represent mark-to-market movements in the fair value of financial instruments, primarily derivatives, that are mainly held for economic hedging purposes, but which do not achieve hedge accounting or are partly ineffective under IAS 39.

viii) The exceptional tax credit in 2005 includes a credit of £22m associated with the prior period disposal of Energis, a former associate company, a £3m credit associated with the prior period write-down of investments, and a £12m charge relating to the settlement of the liabilities arising from operating the Group s Qualifying Employee Share Ownership Trust.

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4. Finance income and costs

Years ended 31 March	**2006**	2005
	£m	£m
Pensions expected return on scheme assets	**903**	882
Interest income on financial instruments held at amortised cost	**135**	64
Interest income and similar income	**1,038**	946
Pensions interest on scheme liabilities	**(891)**	(881)
Interest payable on borrowings (and related derivatives)	**(795)**	(820)
Unwinding of discount on provisions	**(18)**	(14)
Less: interest capitalised	**60**	63
	(1,644)	(1,652)
Net losses on derivative financial instruments and commodity contracts	**(8)**	
Exceptional losses on early redemption of debt and B share issue costs	**(49)**	
Interest expense and other finance costs	**(1,701)**	(1,652)
Net finance costs	**(663)**	(706)
Comprising:		
Net finance costs excluding exceptional finance costs and remeasurements	**(606)**	(706)
Exceptional finance costs and remeasurements (note 3)	**(57)**	
	(663)	(706)

5. Taxation

Years ended 31 March	**2006**	2005
	£m	£m
United Kingdom		
Corporation tax at 30%	**290**	31
Adjustment in respect of prior years (i)	**(5)**	(19)
Deferred tax	**1**	82
	286	94
Overseas		
Corporate tax	**125**	33
Adjustment in respect of prior years	**22**	(21)

Deferred tax	**129**	213
	276	225
Taxation	**562**	319
Comprising:		
Taxation excluding exceptional items and remeasurements	**597**	437
Taxation exceptional items and remeasurements (note 3)	**(35)**	(118)
	562	319

i) The UK corporation tax adjustment in respect of prior years includes £nil (2005: £10m) that relates to exceptional items.

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6. Discontinued operations

On 1 June 2005, the Group disposed of its holding in four of its eight regional gas distribution networks. The results of these operations were previously included within the UK gas distribution segment, when reported under UK GAAP. The Group disposed of its interest in Citelec, an Argentinian joint venture in August 2004.

Results of discontinued operations

Years ended 31 March	**2006**	2005
	£m	£m
Revenues	**168**	1,102
Operating costs	**(122)**	(666)
Operating profit before exceptional items	**61**	510
Exceptional items (i)	**(15)**	(74)
Total operating profit from discontinued operations	**46**	436
Share of post-tax results of joint venture		(5)
Profit before tax from discontinued operations	**46**	431
Taxation	**(18)**	(140)
Profit after tax from discontinued operations	**28**	291
Gain on disposal of gas distribution networks (ii)	**2,636**	
Gain on disposal of joint venture		13
Gain on disposal of discontinued operations before tax	**2,636**	13
Taxation	**(31)**	
Gain on disposal of discontinued operations	**2,605**	13
Total profit for the year from discontinued operations		
Before exceptional items	**43**	352
Exceptional items	**2,590**	(48)
	2,633	304