

## Risk factors

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### Proposed Lattice merger

The proposed merger with Lattice is subject to the approval of the shareholders of both National Grid and Lattice, satisfaction of certain regulatory conditions, and sanction of the Lattice Scheme by the Court. It is expected that the regulatory approvals will be received so that completion of merger can occur in the autumn of 2002.

There is also the risk that the merger will not generate the savings and benefits as expected. The “Chairman’s statement” on page 2 notes that the combined management team have a proven track record, demonstrating that the Group has the abilities required.

### Business performance

Earnings maintenance and growth from the UK regulated electricity industry is dependent upon outperforming regulatory efficiency targets set by Ofgem. Generally, over time, the continued ability to make efficiency improvements will decline. National Grid has published cost and efficiency saving targets for its UK regulated business. To meet these targets National Grid must continue to improve management and operational performance. Earnings are increasingly dependent on the performance of the US regulated businesses. Under the state rate plans, the ability to deliver integration savings will affect earnings. To meet National Grid’s announced savings targets for its acquisition of Niagara Mohawk, National Grid must improve efficiency and reduce costs. US earnings are also dependent on meeting service quality standards set by state regulators. In order to meet such standards, National Grid must improve service reliability and customer service.

National Grid’s core skills are the design, construction, system operation, regulatory management and customer service activities associated with operating complex networks. National Grid aims to continually improve these skills. These skills allow National Grid to address these and other business performance risks. For more information see “Outlook” on page 4 and “Operating and financial review” starting on page 5.

### Regulation

Most of National Grid’s businesses are utilities that are subject to regulation by authorities of the UK, the US, the EU or other jurisdictions. Decisions by regulators concerning permitted revenues and rates of return, market trading arrangements, the facilitation of competition in markets in which National Grid operates and proposed acquisitions or mergers could have an adverse impact on National Grid’s business, including its results of operations, cash flow, financial condition and ability to develop its business in the future. For instance, National Grid believes it is positioned in the US market to take advantage of the development of RTOs. Whilst National Grid is in discussion with a number of parties, further agreements among the parties and FERC are required. Adverse decisions by FERC would affect National Grid’s ability to become an independent transmission company.

National Grid’s core skills are the design, construction, system operation, regulatory management and customer service activities associated with operating complex networks. These skills allow National Grid to address these and other regulatory risks. For more information see “Transmission business development” on page 9. For a description of current UK regulation see “Electricity networks – England and Wales” on pages 6 and 7. For a description of current US regulation see “Electricity and gas networks – US” on pages 8 to 11.

### Commodity risk

The costs incurred by National Grid in purchasing electricity are subject to movements in underlying commodity prices, particularly of oil and gas. Regulatory arrangements in the UK and US provide some ability to pass through higher prices. For more information see “Electricity networks – England and Wales” on pages 6 and 7 and “Electricity and gas networks – US” on pages 8 to 11.

### Operational performance

Electricity and gas utilities are subject to certain risks mainly outside of their control such as weather or possible security breaches. Unusually hot or cold weather will affect revenues, particularly in the US. Severe weather that causes outages or damages infrastructure will adversely affect revenues. The Group has security protocols and business continuity plans in place to manage these types of risks but cannot ensure they are adequate for all risks.

### Joint ventures

National Grid’s investments in joint ventures are subject to risks normally associated with ventures that are not majority owned. National Grid is not able to exercise complete control over the joint venture operations and may be dependent on the actions of the other joint owners regarding decisions such as continued funding or interest in the business. The health of the joint venture is also dependent upon the financial health of the other owners. The problems associated with National Grid’s joint venture telecoms highlight these risks. Following a review of National Grid’s telecoms investments, the Group has decided to concentrate on its wholly-owned infrastructure businesses. For more information see “Other electricity businesses and projects” on page 12 and “Telecoms” on page 13.

### Safety and environmental

Aspects of the Group’s business are inherently dangerous, such as the operation and maintenance of high voltage transmission lines and the transmission and distribution of natural gas. Electricity and gas utilities typically utilise and generate in their operations a range of potentially hazardous products and by-products. The Group is subject to numerous laws and regulations in each of the jurisdictions in which it operates relating to pollution, the protection of the environment, the generation, storage, handling, transportation, treatment, disposal and remediation of hazardous substances and waste materials, and the health and safety of employees and the general public. National Grid requires all operating companies to comply fully with all relevant laws and regulations. For a description of National Grid’s approach to business responsibility see “Our framework for a responsible business” on page 14.

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**Financial measures**

National Grid is subject to certain covenants and limits in relation to listed debt and bank lending facilities. Such limits may hinder National Grid in the servicing of current businesses or the financing of new businesses. National Grid's debt is rated by credit rating agencies and these ratings may impact the borrowing capacity of the Group.

In order to take advantage of National Grid's current financing authority under the Public Utility Holding Company Act of 1935, National Grid must maintain an equity capitalisation ratio calculated on a US GAAP basis of at least 30 per cent. A large deterioration in the equity base through, for example, the write down in the value of assets, or a large increase in debt through, for example, business expansion, currency or fair value adjustments could cause National Grid to not meet this requirement.

The Group manages these risks in part through the operations of its Treasury Policy Committee, a committee of the Board, which is responsible for the regular review and monitoring of treasury activity. For further information see "Treasury policy" on page 23.

**Interest rates**

A proportion of National Grid's borrowings are subject to interest rates that may fluctuate with certain prevailing interest rates. Increases in these prevailing interest rates would result in increased costs for the Group. Interest rates are among the items regularly reviewed by the Treasury Policy Committee, a committee of the Board. For further information see "Interest rate risk" on page 23.

**Foreign currency exchange/Foreign operations**

National Grid has significant international operations and conducts business in many currencies. These operations are subject to the risks normally associated with international operations, including the need to translate foreign currency denominated assets and profits into National Grid's reporting currency.

Other risks of international operations include trade barriers, tariffs, exchange controls, national and regional labour strikes, social and political risks, general economic risks, required compliance with a variety of foreign laws, including tax laws, and the need to enforce agreements and collect receivables through foreign legal systems. For example, National Grid's investment in Transener has been impacted by the devaluation of the Argentine peso. Transener could default on its debt obligations without government intervention. Currency risk is among the items regularly reviewed by the Treasury Policy Committee, a committee of the Board. For further information see "Currency risk" on page 25.

**Technological change**

National Grid's principal business is the transmission and distribution of electricity via lines and cables. It is therefore vulnerable to certain types of technological changes. Examples of possible changes are growth in distributed generation, renewable energy sources, fuel cells and the introduction of an alternative power carrier. Directors are briefed on technology issues and the Group invests each year in research and development. For more information see "Research and development" on page 31.

**Business development**

The Group is subject to the risk that any business development will be based on incorrect assumptions or conclusions or that substantial liabilities will be overlooked. The Group has a business development process in place and ultimate responsibility for certain decisions falls to the Directors. For further information see "Directors" on page 32.

**Internal controls**

There is a risk that, with the rate of organisational change and development, management may become distracted from the core business of the Group with adverse consequences. To ensure that the business remains focused the Group has in place an established a system of internal control. For more information see "Internal control" on page 33.

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Exchange rates

The following tables set out, for the periods indicated, certain information concerning the noon buying rate in New York City for cable transfers in pounds sterling, as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”) expressed in US dollars per £1.00.

Financial year	Period end	Average–	High	Low
1997/98	1.68	1.65	1.70	1.58
1998/99	1.61	1.65	1.72	1.60
1999/2000	1.59	1.61	1.68	1.55
2000/01	1.42	1.47	1.60	1.40
2001/02	1.42	1.44	1.48	1.37

\*The average of the Noon Buying Rates on the last business day of each month during the relevant period.

	High	Low
December 2001	1.46	1.42
January 2002	1.45	1.41
February 2002	1.43	1.41
March 2002	1.43	1.41
April 2002	1.46	1.43
May 2002*	1.47	1.45

\*For the period to 29 May 2002.

Market prices

The following tables set out for the periods indicated the highest and lowest closing middle-market quotations for ordinary shares, as derived from the Official List, and the ADS equivalent of such prices, or where available the actual ADS price. Prices for periods up to 9 February 1998 are adjusted to take account of the share consolidation and special dividend.

Financial year	Ordinary shares		ADS	
	High(p)	Low(p)	High(\$)	Low(\$)
1997/98	355.0	208.5	30.73	20.44
1998/99	552.5	353.0	45.62	29.75
1999/2000	597.0	388.5	48.12	31.87
2000/01	646.0	479.5	47.87	37.00
2001/02	581.0	417.2	41.75	30.40

Financial period	Ordinary shares		ADS	
	High(p)	Low(p)	High(\$)	Low(\$)
<b>2000/01</b>				
Quarter 1	573.0	479.5	45.75	37.50
Quarter 2	597.0	517.5	43.25	37.75
Quarter 3	646.0	568.0	47.87	40.75
Quarter 4	638.0	518.0	47.00	37.00
<b>2001/02</b>				
Quarter 1	581.0	518.0	41.75	36.90
Quarter 2	536.0	424.5	37.50	31.64
Quarter 3	502.0	417.2	36.04	30.04
Quarter 4	471.5	434.5	33.61	31.11

	Ordinary shares		ADS	
	High(p)	Low(p)	High(\$)	Low(\$)
December 2001	438.0	420.5	31.95	30.40
January 2002	461.0	434.5	33.06	31.11
February 2002	471.5	451.7	33.61	32.17
March 2002	468.0	447.5	33.18	31.74
April 2002	505.0	460.7	36.65	32.87
May 2002*	511.5	492.0	37.40	35.90

\*For the period to 29 May 2002.

Trading markets for ordinary shares

National Grid’s ordinary shares have been listed on the London Stock Exchange since 11 December 1995. National Grid’s ADSs have had a full listing on the New York Stock Exchange since 7 October 1999.

Defaults, dividend arrearages and delinquencies

There has been no material default in the payment of principal, interest, a sinking or purchase fund instalment or any other material default with respect to any indebtedness for or in respect of monies borrowed or raised by whatever means of the Company or any of its significant subsidiaries. There have been no arrears in the payment of dividends on, and no material

delinquency with respect to, any class of preferred stock of any significant subsidiary of the Company.

**Exchange controls**

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

**Taxation**

The following summary describes the principal US Federal income and UK tax consequences to beneficial owners of ADSs or ordinary shares who are residents of the United States. The summary is not a complete analysis or listing of all of the possible tax consequences of ownership and does not discuss special tax rules that may be applicable to certain classes of investors, including banks, insurance companies, securities dealers, investors with a “functional currency” other than the US dollar and any corporation which, alone or together with one or more corporations which are treated as associated for the purposes of the US/UK taxation convention relating to income and capital gains (the “Income Tax Convention”), directly or indirectly controls 10 per cent or more of the voting share capital of National Grid. The statements regarding US Federal tax laws set out below are based (i) on the US Internal Revenue Code of 1986, as amended (the “Code”) and regulations issued thereunder, all of which are subject to change, possibly with retroactive effect and (ii) in part on representations of The Bank of New York as depositary (the “Depositary”) and assume that each obligation provided for in or otherwise contemplated by the deposit agreement entered into by and among National Grid, the Depositary and the registered holders of ADRs pursuant to

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which ADRs have been issued dated as of 21 November 1995 and amended and restated as of 31 January 2002 (the “Deposit Agreement”) and any related agreement will be performed in accordance with its terms. The statements regarding UK tax set out below are based on UK domestic law and the Income Tax Convention as in force on the date of this document and on what is understood to be the practice of the UK Inland Revenue as at such date and are subject to any change therein (including any change having retroactive effect). Beneficial owners of the ADSs who are residents or citizens of the United States will be treated as the owners of the underlying ordinary shares for the purposes of the Code.

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

#### **Taxation of dividends**

The tax credit to which UK resident individual shareholders are generally entitled in respect of any dividend on their ordinary shares and which they can set against their total income tax liability is equal to one-ninth of the cash dividend (10 per cent of the aggregate of the tax credit and the cash dividend). Under the terms of the Income Tax Convention, US residents and corporations controlling less than 10 per cent of the voting share capital of National Grid are technically entitled to a refund (the “Tax Treaty Payment”) in respect of dividends paid by National Grid calculated by reference to the amount of the tax credit available to a UK individual, less a withholding. However, the combination of the reduction in the value of the tax credit on dividends paid to UK individuals to one-ninth of the cash dividend and the withholding means that no Tax Treaty Payments will be made to those US Holders holding less than 10 per cent of the voting share capital of National Grid.

#### **Taxation of capital gains**

A US Holder who is not resident or ordinarily resident for UK tax purposes in the UK will not be liable for UK taxation on capital gains realised or accrued on the sale or other disposal of ADSs or ordinary shares unless the US Holder carries on a trade, profession or vocation in the UK through a branch or agency and such ADSs or ordinary shares are or have been used, held or acquired for the purposes of such trade, profession or vocation or such branch or agency. A US Holder will be liable for US Federal income tax on gains on the sale of ADSs or ordinary shares to the same extent as on any other gains from sales of stock. Gain, if any, will generally be US source.

A US citizen who is resident or ordinarily resident in the UK, a US corporation which is resident in the UK by reason of its business being managed and controlled in the UK or a US citizen who, or US corporation which, is trading or carrying on a profession or vocation in the UK through a branch or agency and has used, held or acquired ADSs or ordinary shares for the purpose of such trade, profession or vocation or such branch or agency, may be liable for both UK and US tax on a capital gain recognised on the disposal of ADSs or ordinary shares. Such holder, however, will generally be entitled to foreign tax credit, subject to certain limitations, against any US Federal tax liability for the amount of any UK tax (namely capital gains tax in the case of an individual and corporation tax on chargeable gains in the case of a corporation) which is paid in respect of such gain.

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

#### **UK stamp duty and stamp duty reserve tax (“SDRT”)**

**Transfers of ordinary shares** Generally speaking SDRT at the rate of 0.5 per cent of the amount or value of the consideration paid is payable where an agreement, to transfer ordinary shares is not completed by a duly stamped transfer to the transferee. Where an instrument of transfer is executed and duly stamped before the expiry of the period of six years beginning with such date, the SDRT liability will be cancelled, and any SDRT which has been paid will be refunded. SDRT is due whether or not the agreement or transfer of such chargeable securities is made or carried out in the UK and whether or not any party to that agreement or transfer is a UK resident.

Purchases of ordinary shares completed by execution of a stock transfer form will generally give rise to a liability to UK stamp duty at the rate of 0.5 per cent (rounded up to the nearest £5) of the actual consideration paid.

Paperless transfers under the CREST paperless settlement system will generally be liable to SDRT at the rate of 0.5 per cent, and not stamp duty.

The transfer of ordinary shares where there is no change of beneficial ownership will generally attract fixed rate stamp duty of £5 per transfer.

SDRT is generally the liability of the purchaser and UK stamp duty is usually paid by the purchaser or transferee.

**Transfer of ADSs** No UK stamp duty will be payable on the acquisition or transfer of existing ADSs or beneficial ownership of ADSs, provided that any instrument of transfer or written agreement to transfer is executed outside the UK and remains at all times outside the UK. An agreement for the transfer of ADSs in the form of American Depositary Receipts (ADRs) will not give rise to a liability for SDRT. On a transfer of ordinary shares from the London, England office of The Bank of New York as agent of the Depositary (the “Custodian”) to a holder of ADSs upon cancellation of the ADSs, only a fixed stamp duty fee of £5 per instrument of transfer will be payable. Any transfer for value of the underlying ordinary shares represented by ADSs may give rise to a liability on the transferee to UK stamp duty or SDRT.

A charge to stamp duty or SDRT may arise on the issue or transfer of ordinary shares to the Depositary or the Custodian. The rate of stamp duty or SDRT will generally be 1.5 per cent of either (i) in the case of an issue of ordinary shares, the issue price of the ordinary shares concerned, or (ii) in the case of a transfer of ordinary shares, the value of the consideration or, in some circumstances, the value of the ordinary shares concerned. The Depositary will generally be liable for the stamp duty or SDRT. In accordance with the terms of the Depositary Agreement, the Depositary will charge any tax payable by the Depositary or the Custodian (or their nominees) on the deposit of ordinary shares to the party to whom the ADSs are delivered against such deposits.

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If the stamp duty is not already a multiple of £5, the duty will be rounded up to the nearest multiple of £5.

**US information reporting and backup withholding**

A US resident Holder who holds ADSs may in certain circumstances be subject to information reporting to the IRS and possible US backup withholding at a rate of 30 per cent with respect to dividends on ADSs and proceeds from the sale or other disposition of ADSs unless such holder furnishes a correct taxpayer identification number or is otherwise exempt.

**UK inheritance tax**

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

**Memorandum and Articles of Association**

The following description is a summary of the material terms of National Grid's share capital and material provisions of the Memorandum and Articles of Association of National Grid (the "Articles") and English law. The following description is a summary only and is qualified in its entirety by reference to the Articles, which have been filed with the US Securities and Exchange Commission, and the Companies Act 1985, as amended (the "Companies Act"). National Grid's authorised share capital is 2,500,000,000 ordinary shares of 10 pence each and one special rights non-voting redeemable preference share of £1. All of the outstanding shares are fully paid. Accordingly, no further contribution of capital may be required by National Grid from the holders of such shares.

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

- carrying on the business of a holding company;
- employing the funds of the Company to develop and expand its business; and
- carrying on any other activity supplemental to the foregoing or capable of enhancing the Company's profitability.

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

**Directors** The Articles provide that unless otherwise determined by an ordinary resolution of the Company's shareholders, the number of Directors shall not be less than two but shall not be subject to any maximum number. Under the Articles, a Director may not vote in respect of any contract in which the Director, directly or indirectly, has an interest. This is subject to certain exemptions relating to (a) giving the Director any guarantee, security or indemnity in respect of obligations incurred at the request of or for the benefit of National Grid, (b) giving any guarantee, security or indemnity to a third party in respect of obligations of National Grid for which the Director has assumed responsibility under an indemnity or guarantee, (c) an offer of securities of National Grid in which the Director may be entitled to participate or will be interested as an underwriter, (d) any contract concerning any other company in which the Director is beneficially interested in less than one per cent of that other company, (e) any arrangement for the benefit of employees of National Grid under which he benefits in a similar manner as the employees and (f) any contract concerning any insurance that National Grid is empowered to purchase or maintain for its Directors.

The compensation awarded to Executive Directors is decided by a remuneration committee, which consists exclusively of Non-executive Directors.

The Directors are empowered to exercise all the powers of National Grid to borrow money, subject to the limitation that the aggregate principal amount outstanding of all borrowings shall not exceed an amount equal to four times National Grid's share capital and aggregate reserves, calculated in the manner described in the Articles, unless sanctioned by an ordinary resolution of the Company's shareholders.

Any Director not otherwise required to retire at an annual general meeting of shareholders shall do so unless he was appointed or re-appointed as a Director at either of the last two annual general meetings before that meeting. At each annual general meeting at least one-third of the Directors (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation. A retiring Director shall be eligible for re-election. No Director shall be required to retire by reason only of the fact that he has attained the age of 70 or any other age.

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

**The Special Share** Any one of Her Majesty's Secretaries of State, another Minister of the Crown, the Solicitor for the affairs of HM Treasury or any other person acting on behalf of the Crown may hold the special share. The registered holder of the special share may, after consulting National Grid and subject to the provisions of the Companies Act, require National Grid to redeem the special share at par at any time. The holder of the special share has the right to receive notice of, and to attend and speak at, any general meeting or any separate meeting of the holders of any class of shares, but the special share confers no right to vote nor any other rights at any shareholders' meeting. The special share confers no right to participate in National Grid's capital or profits except that, on a distribution of capital in a winding-up, the holder of the special share is entitled to repayment of £1 in priority to other shareholders.

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Each of the following actions is effective only with the written consent of the holder of the special share:

- (a) the amendment, removal or alteration of the effect of (including the ratification of any breach of) specified provisions of the Articles, including the Article relating to the special share, the Article on general limitations on shareholdings, the Article on shareholding restrictions on Pool members or licence holders and the Article relating to the disclosure of interests in shares under section 212 of the Companies Act (each as described under "General Limitations on Shareholdings" and "Shareholding Restrictions on Persons who are bound by the Balancing and Settlement Code or Licence Holders" below) except to the extent that any amendment, removal or alteration of the Article relating to the disclosure of interests in shares is required to comply with the Listing Rules of the UK Listing Authority;
- (b) the creation or issue of any shares in National Grid carrying voting rights other than (1) shares carrying voting rights in all circumstances at general meetings and (2) shares which do not constitute equity share capital (as defined in the Companies Act) and which, when aggregated with all other similar shares, carry the right to cast less than 15 per cent of the votes capable of being cast on a poll on any resolution at any general meeting;
- (c) the variation of any rights (save for dividend rights and rights to repayment of capital) attached to any shares in National Grid;
- (d) the disposal by National Grid of any shares in The National Grid Company plc to any person which is not a wholly-owned subsidiary;
- (e) any scheme or arrangement which, if put into effect, would relieve The National Grid Company plc or any of National Grid's affiliates of, or otherwise modify, the obligations which National Grid must impose on them by virtue of the provisions described under "Obligations Relating to the Transmission Licence Holder" below;
- (f) the voluntary winding-up of National Grid, a special resolution to the effect that National Grid should be wound up by the court, the presentation by National Grid or by the Board of Directors of a petition for the winding-up of National Grid by the court, or any proposal for any of the foregoing;
- (g) the presentation by National Grid or by the Board of Directors of a petition applying for an administration order or a proposal by the Board of Directors for a voluntary arrangement, in each case pursuant to the Insolvency Act 1986; or
- (h) the establishment of a holding company for National Grid.

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

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

A general meeting declaring a dividend may, upon the recommendation of the Board of Directors, direct that the dividend be satisfied wholly or partly by the distribution of assets and may be declared or paid in any currency. The Board of Directors may, if authorised by a shareholders' ordinary resolution, offer the holders of ordinary shares the right to elect to receive new ordinary shares credited as fully paid, instead of cash for all or part of the dividend specified by that ordinary resolution.

National Grid may stop paying dividends or other monies payable in respect of a share to a shareholder if in respect of at least two consecutive dividend payments, through no fault of National Grid, has not been effected (or, following one such occasion, reasonable enquiries have failed to establish any new address of the holder or appropriate details for effecting payment by other means). National Grid must resume payment of dividends or other monies payable in respect of a share if the shareholder or person entitled by transmission claims the arrears of dividend.

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

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

Unless the Board of Directors determines otherwise, no shareholder holding shares representing 0.25 per cent or more of any class of National Grid's shares will be entitled to receive payment of any dividend or other distribution if he or any person appearing to be interested in those shares has been given a notice under section 212 of the Companies Act and has failed to give National Grid the information required by the notice within 14 days from the date of service of the notice.

**Voting rights:** Subject to any rights or restrictions attached to any shares and to any other provisions of the Articles, at any general meeting on a show of hands every shareholder who



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is present in person will have one vote and on a poll every shareholder will have one vote for every share which he holds. On a poll, shareholders may cast votes either personally or by proxy and a proxy need not be a shareholder. Under the Articles all special and extraordinary resolutions must be decided on a poll.

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. Seniority will be determined by the order in which the names of the holders appear in the register of shareholders.

Unless the Board of Directors otherwise determines, no shareholder, or person to whom any of that shareholder's holding is transferred other than by a transfer approved under the Articles, can vote at any general meeting either in person or by proxy in respect of any share in National Grid held by him:

- (1) if all monies presently payable by him in respect of that share have not been paid;
- (2) if he or any other person appearing to be interested in the share has been given a notice under section 212 of the Companies Act and has failed to provide the information required by the notice within 14 days from the date of service of the notice (or in the case of shares representing less than 0.25 per cent of their class, within 28 days of service of the notice); or
- (3) in the circumstances referred to under "General Limitations on Shareholdings" and "Shareholding Restrictions on Persons who are bound by the Balancing and Settlement Code or Licence Holders" below.

**Variation of Rights:** Subject to applicable provisions of English law and the rights attached to any specific class of shares, the rights attached to any class of shares of National Grid may be varied with the written consent of the holders of three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class. The applicable provisions of English law and the Articles relating to general meetings will generally apply to any such separate meeting except that:

- (1) the necessary quorum will be two persons between them Holding or representing by proxy not less than one-third in nominal amount of the issued shares of that class or, at any adjourned meeting of holders of shares of that class at which that quorum is not present, will be any holder of shares of that class who is present in person or by proxy whatever the number of shares held by him;
- (2) any holder of shares of that class present in person or by proxy may demand a poll; and
- (3) every holder of shares of that class will, on a poll, have one vote in respect of every share of that class held by him.

**Alteration of Capital** National Grid may by ordinary resolution increase, consolidate and divide and sub-divide its share capital. Subject to applicable provisions of English law, National Grid may by special resolution reduce its share capital, any capital redemption reserve and any share premium account or other undistributable reserve in any manner. Subject to applicable provisions of English law and to any rights conferred on the holder of any class of shares, National Grid may purchase all or any of its shares of any class (including any redeemable shares).

**General Limitations on Shareholdings** The Articles contain provisions which limit interests in voting shares. These provisions are described briefly below:

- (a) If any person has, or appears to the Board of Directors to have, an interest in shares which carry 15 per cent or more of the total votes attaching to the relevant share capital (as defined in the Companies Act) of National Grid and capable of being cast on a poll or is deemed so to have such an interest, the Board of Directors must take the following actions. The Board must give notice to all persons who appear to the Board of Directors to have interests in the shares concerned and, if different, to the registered holders of those shares. The notice will require that the interest concerned be reduced to less than 15 per cent by selling shares within 2 days of the notice (or a longer period that the Board of Directors considers reasonable). No transfer of the shares to which the interest relates may then be registered except for the purpose of reducing the interest to less than 15 per cent or until the notice has been withdrawn.
- (b) If a person receiving a notice described in paragraph (a) does not comply with it, the Board of Directors will, so far as it is able, sell the shares on appropriate terms, as it determines. The proceeds of that sale will be received by National Grid and paid (without interest and after deduction of any expenses of sale) to the former registered holder.
- (c) A registered holder receiving a notice described in paragraph (a) is not entitled, until he has complied with the notice, to attend or vote at any general meeting of National Grid or of any class of shares. Likewise, the holder will not be able to exercise any other of the rights of a shareholder in relation to that meeting, and those rights will vest in the chairman of that meeting who will have discretion to exercise them or not.
- (d) Any resolution or determination of, or decision or exercise of any discretion or power by, the Board of Directors or any Director or the chairman of any meeting under the relevant Article will be final and conclusive. Any disposal or transfer made by or on behalf of or on the authority of the Board of Directors or any Director pursuant to the relevant Article will be conclusive and binding on all persons concerned and will not be open to challenge. The Board of Directors is not required to give any reasons for any decision, determination or declaration taken or made in accordance with the relevant Article.

There are limited exceptions to these restrictions relating principally to holdings of a trustee or fiduciary nature and market clearing arrangements. These restrictions do not apply to the Depositary acting in its capacity as such.

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**Shareholding Restrictions on Persons who are bound by the Balancing and Settlement Code or Licence Holders** The Articles contain additional restrictions which are intended to prevent any person who is bound by the Balancing and Settlement Code by virtue of being a party to the BSC Framework Agreement dated 14 August 2000, a holder of a licence under the Electricity Act 1989, or in either case, any affiliate thereof, from having an interest in shares which carry one per cent or more of the total votes attaching to the relevant share capital of National Grid and capable of being cast on a poll.

The Board of Directors has the same rights as those set out under "General Limitations on Shareholdings" above to require the sale or to sell sufficient numbers of shares to bring the relevant interest within the permitted limit where these provisions are breached.

**Obligations Relating to the Transmission Licence Holder** The Articles provide that National Grid must provide that, without the consent in writing of the holder of the special share:

- (a) the transmission licence (as subsequently amended) which was granted by the then Secretary of State for Energy may not be held by any person which is not National Grid or a wholly-owned subsidiary of National Grid;
- (b) National Grid and its wholly-owned subsidiaries may not cease to carry on, or dispose of or relinquish operational control over any asset required to carry on, the transmission business or the interconnectors business (as defined in the transmission licence in place at 11 December 1995) except if that cessation, disposal or relinquishment is required by law or is permitted pursuant to or by virtue of the terms of the transmission licence;
- (c) neither National Grid nor any affiliate of National Grid is permitted to carry on in the United Kingdom any activity which requires a generation or supply licence or which is exempted from such requirement, save where that activity is expressly permitted under the terms of the transmission licence in place at 11 December 1995 and neither National Grid nor any affiliate of National Grid is permitted to engage outside the United Kingdom in the generation of electricity to be imported into the United Kingdom;
- (d) no employee or director of any person who is bound by the Balancing and Settlement Code by virtue of being a party to the BSC Framework Agreement dated 14 August 2000 or the holder of a licence under the Electricity Act 1989 or, in either case, any affiliate thereof (other than National Grid or any wholly-owned subsidiary of National Grid) is permitted to be a director of National Grid or the transmission licence holder; and
- (e) the transmission licence holder is not permitted to carry on activities other than:
  - (i) those required or contemplated on the part of the transmission licence holder (in its capacity as the holder of the transmission licence) by the transmission licence or the Electricity Act 1989 or related to those requirements; or
  - (ii) those carried on by The National Grid Company plc at or prior to 11 December 1995.

The restrictions set out in this sub-paragraph (e) would not prevent the acquisition of any share capital by the transmission licence holder in any company (subject to sub-paragraph (c)).

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

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

#### **Disclosure of Interests**

- (a) A shareholder may lose the right to vote his shares if he or any other person appearing to be interested in those shares fails to comply within a prescribed period of time with a request by National Grid under the Companies Act to give the required information with respect to past or present ownership or interests in those shares. In the case of holders of more than 0.25 per cent in nominal amount of the share capital of National Grid or any class of the share capital, in addition to disenfranchisement, the sanctions that may be applied by National Grid include withholding of the right to receive payment of dividends and other monies payable on shares, and restrictions on transfers of the shares.
- (b) The Companies Act provides that a person (including a company and other legal entities) that acquires an interest of three per cent or more in any class of shares constituting an English public company's "relevant share capital" (i.e. National Grid's issued share capital carrying the right to vote in all circumstances at a general meeting of National Grid) is required to notify the company of its interest within two business days following the day on which the obligation arises. After the 3 per cent level is exceeded, similar notifications must be made in respect of increases or decreases of one per cent or more.

For purposes of the notification obligation, the interest of a person in shares means any kind of interest in shares including interests in any shares (a) in which a spouse, or child or stepchild under the age of 18 is interested, (b) in which a corporate body is interested and either (1) that corporate body or its directors generally act in accordance with that person's directions or instructions or (2) that person controls one-third or more of the voting power of that corporate body or (c) in which another party is interested and the person and that other party are parties to a "concert party" agreement. A concert party agreement is one which provides for one or more parties to acquire interests in shares of a particular company and imposes obligations or restrictions on any one of the parties as to the use, retention or disposal of such interests acquired under the agreement, and any interest in the company's shares is in fact acquired by any of the parties under the agreement. Some of the interests (e.g. those held by certain investment fund managers) may be disregarded for the purposes of calculating the three per cent threshold,

## Investor information continued

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but the obligations of disclosure will still apply where those interests exceed 10 per cent or more of any class of the company's relevant share capital and to increases or decreases of one per cent or more thereafter.

In addition, section 212 of the Companies Act provides that a public company may send a written notice to a person whom the company knows or has reasonable cause to believe to be, or to have been at any time during the three years immediately preceding the date on which the notice is issued, interested in shares constituting the company's "relevant share capital". The notice will require that person to state whether he has an interest in the shares, and in case that person holds or had held an interest in those shares, to give additional information relating to that interest and any other interest in the shares of which that person is aware.

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

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

### Material contracts

A summary of material contracts found in Part IX, Section 17.1 of the National Grid Transco plc Listing Particulars is incorporated by reference herein.

### Proposed Lattice Merger

A summary of terms for the proposed merger with Lattice found in Part I, Section 1 and Sections 2.8-2.11 of the National Grid Transco plc Listing Particulars is incorporated by reference herein.

### Subsidiaries

Note 29 to the accounts (Group undertakings, joint ventures and associate) sets out in respect of National Grid's principal subsidiaries, its principal joint ventures and the associate company Energis details including jurisdiction of incorporation or formation and National Grid's ownership interest.

### Documents on display

National Grid is subject to the filing requirements of the US Securities Exchange Act of 1934. In accordance with these requirements, National Grid files reports and other information with the US Securities and Exchange Commission (SEC). These materials, including this document, may be inspected during normal business hours at National Grid's registered office at 15 Marylebone Road, London NW1 5JD or at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. For further information about the Public Reference Room, please call the SEC on 1-800-SEC-0330. Some of National Grid's filings are also available on the SEC's website at [www.sec.gov](http://www.sec.gov).

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**Exhibits**

The following have been filed with the Securities and Exchange Commission or will so be filed with the 2001/02 Annual Report and Form 20-F:

- 1 Memorandum and Articles of Association of National Grid Group plc
  - 2(a) Amended and restated Deposit Agreement dated as of 31 January 2002
  - 2(b) (i) Offering circular issued by NGG Finance plc on 20 August 2001 summarising the trust deeds, subscription agreements and paying agency agreements relating to the €1,250,000,000 5.25 per cent guaranteed bonds due 2006 and the €750,000,000 6.125 per cent guaranteed bonds due 2001 issued by NGG Finance plc and guaranteed by National Grid  
  
(ii) Offering circular issued by National Grid Company on 23 July 2001 summarising the trust deeds, subscription agreements and paying agency agreements relating to the £200,000,000 3.806 per cent Retail Price Index-linked bonds due 2020, the £40,000,000 3.589 per cent limited Retail Price Index-linked bonds due 2030 and the £360,000,000 6.50 per cent bonds due 2028 issued by National Grid Company  
  
(iii) Credit agreement dated 22 November 2001 between National Grid Group plc (as guarantor and borrower); NGG Finance plc (as borrower); HSBC Investment Bank plc (the agent); HSBC (USA) Inc. (the swingline agent); and certain banks and financial institutions (the banks) which provides a \$1.7 billion 364 day multicurrency revolving credit facility and \$600 million five year multicurrency revolving facility with a \$300 million swingline facility
  - 4(a) (i) Supplemental Trust Deed dated 10 December 2001 between National Grid Company, National Grid, National Grid Holdings One plc and The Law Debenture Trust Company p.l.c. relating to £460 million 4.25 per cent unsecured exchangeable bonds  
  
(ii) Letter Agreement dated 20 November 2001 between National Grid, National Grid Company, National Grid Holdings One plc and the European Investment Bank relating to a guarantee given by National Grid  
  
(iii) Agreement and Plan of Merger and Scheme of Arrangement, dated as of 4 September 2000, as amended 1 December 2000, entered into between National Grid, National Grid Holdings One plc, Grid Delaware, Inc. and Niagara Mohawk  
  
(iv) Asset Purchase Agreement dated as of 11 December 2000 and made between Niagara Mohawk Power Corporation, Constellation Nuclear and Constellation Energy Group, Inc. regarding the sale of the Nine Mile Point No. 1 nuclear generating facilities  
  
(v) Asset Purchase Agreement dated as of 11 December 2000 and made between Niagara Mohawk Power Corporation, RG&E, Central Hudson, NYSEG, Constellation Nuclear and Constellation Energy Group, Inc. regarding the sale of the Nine Mile Point No. 2 nuclear generating facilities  
  
(vi) Purchase and Sale Agreement dated as of 13 April 2002 and made by and among North Atlantic Energy Corporation, The United Illuminating Company, Great Bay Power Corporation, New England Power Company, The Connecticut Light and Power Company, Canal Electric Company, Little Bay Power Corporation, New Hampshire Electric Cooperative, Inc., North Atlantic Energy Service Corporation, and FPL Energy Seabrook, LLC regarding the sale of Seabrook Nuclear Station
  - 4(b) (i) Service Agreement - Edward Astle  
  
(ii) Service Agreement - Stephen Box  
  
(iii) Employment Agreement - William E Davis  
  
(iv) Service Agreement - Steven Holliday  
  
(v) Employment Agreement - Richard P Sergei  
  
(vi) Service Agreement - Roger Urwin
  - 4(c) National Grid Executive Share Option Plan 2002 and National Grid Share Matching Plan 2002
  - 6 Earnings per share. See note 11 to the accounts
  - 7 Ratio of earning to fixed charges. See note 8 to the accounts and page 17
  - 8 List of subsidiaries
  - 10(b) (i) Details of proposed merger with Lattice Group plc
  - 10(b) (ii) Summaries of material contracts
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