

Accounting policies

for the year ended 31 March 2007

(a) Basis of preparation of consolidated financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. They are prepared on the basis of all IFRSs and Interpretations that are mandatory for periods ending 31 March 2007 and in accordance with applicable United Kingdom law and Article 4 of the IAS Regulation. The 2006 and 2005 comparative financial information has also been prepared on this basis, with the exception of certain standards, details of which are given below, for which comparative information has not been restated.

In respect of the comparative financial information disclosed for the year ended 31 March 2005, IFRS 1 requires that estimates made under IFRS must be consistent with estimates made for the same date under generally accepted accounting principles in the United Kingdom (UK GAAP) except where adjustments are required to reflect any differences in accounting policies.

The consolidated financial statements have been prepared on a historical cost basis, except for the recording of pension liabilities and revaluation of certain financial instruments from 1 April 2005 onwards, the date of adoption of IAS 32 'Financial Instruments: Presentation and Disclosure' and IAS 39 'Financial Instruments: Recognition and Measurement'.

These consolidated financial statements are presented in pounds sterling.

Our wireless infrastructure business and our Australian interconnector business have been classified as held for sale in the consolidated balance sheet and as discontinued in the consolidated income statement, in accordance with our accounting policy – (i) Discontinued operations, assets and businesses held for sale. Prior period income statements have been adjusted accordingly.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, together with a share of the results, assets and liabilities of jointly controlled entities (joint ventures) using the equity method of accounting, where the investment is carried at cost plus post-acquisition changes in the share of net assets of the joint venture, less any provision for impairment.

A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. A joint venture is an entity established to engage in economic activity, which the Company jointly controls with its fellow venturers.

Losses in excess of the consolidated interest in joint ventures are not recognised, except where the Company or its subsidiaries have made a commitment to make good those losses.

Where necessary, adjustments are made to bring the accounting policies used under relevant local GAAP in the individual financial statements of the Company, subsidiaries and joint ventures into line with those used by the Company in its consolidated financial statements under IFRS. Inter-company transactions are eliminated.

The results of subsidiaries and joint ventures acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Acquisitions are accounted for using the purchase method, where the purchase price is allocated to assets and liabilities on a fair value basis and the remainder recognised as goodwill.

(c) Foreign currencies

Transactions in currencies other than the functional currency of the Company or subsidiary concerned are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Other non-monetary assets are not retranslated unless they are carried at fair value.

As set out in note (p) below, as permitted by IFRS 1, prior to 1 April 2005 the Company adopted the then prevailing UK GAAP for hedge accounting in its consolidated financial statements and, consequently, monetary assets and liabilities denominated in foreign currencies were translated at hedged rates instead of closing exchange rates.

Gains and losses arising on retranslation of monetary assets and liabilities are included in the income statement.

On consolidation, the assets and liabilities of operations that have a functional currency different from the Company's functional currency of sterling are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the weighted average exchange rates for the period. Exchange differences arising are classified as equity and transferred to the consolidated translation reserve.

(d) Goodwill

Goodwill arising on a business combination represents the excess of the cost of acquisition over the Company's consolidated interest in the fair value of the identifiable assets and liabilities of a subsidiary or joint venture at the date of acquisition.

Goodwill is recognised as an asset and is not amortised, but is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill recorded under UK GAAP arising on acquisitions before 1 April 2004, the date of transition to IFRS, has been frozen at that date, subject to testing for impairment.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

(e) Intangible assets other than goodwill

With the exception of goodwill, as described above, identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment.

Internally generated intangible fixed assets, such as software, are recognised only if an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and that the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

On a business combination, as well as recording separable intangible assets possessed by the acquired entity at their fair value, identifiable intangible assets that arise from contractual or other legal rights are also included in the balance sheet at their fair value.

Intangible assets, other than goodwill, are amortised on a straight-line basis over their estimated economic useful lives. Amortisation periods for categories of intangible assets are:

Amortisation periods	Years
Software	3 to 5
Acquired customer relationships	10 to 25
Other – telecommunication licences	10 to 25
– other licences and other intangibles	3 to 5

(f) Property, plant and equipment

Property, plant and equipment is recorded at cost or deemed cost at the date of transition to IFRS, less accumulated depreciation and any impairment losses.

Cost includes payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment as well as the cost of any associated asset retirement obligations.

Property, plant and equipment includes assets in which National Grid's interest comprises legally protected statutory or contractual rights of use.

Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets.

Contributions received towards the cost of property, plant and equipment are included in creditors as deferred income and credited on a straight-line basis to the income statement over the estimated economic useful lives of the assets to which they relate.

No depreciation is provided on freehold land and assets in the course of construction.

Other property, plant and equipment are depreciated, principally on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods	Years
Freehold and leasehold buildings	up to 65
Plant and machinery	
Electricity transmission plant	15 to 60
Electricity distribution plant	15 to 60
Interconnector plant	15 to 60
Gas plant – mains, services and regulating equipment	30 to 100
Gas plant – storage	40
Gas plant – meters	10 to 33
Wireless infrastructure	20 to 55
Motor vehicles and office equipment	up to 10

(g) Impairment of assets

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated.

Recoverable amount is defined as the higher of fair value less costs to sell and estimated value in use at the date the impairment review is undertaken.

Value in use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Goodwill is tested for impairment at least annually. Otherwise, tests for impairment are carried out only if there is some indication that the carrying value of the assets may have been impaired.

Impairments are recognised in the income statement and are disclosed separately.

(h) Taxation**Current tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax and investment tax credits

Deferred tax is provided using the balance sheet liability method and is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the accounting profits nor the taxable profits.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Company and its subsidiaries intend to settle their current tax asset and liabilities on a net basis.

Investment tax credits are amortised over the economic life of the asset which gives rise to the credits.

(i) Discontinued operations, assets and businesses held for sale

Cash flows and operations that relate to a major component of the business or geographical region that has been sold or is classified as held for sale are shown separately from continuing operations.

Assets and businesses classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. No depreciation is charged on assets and businesses classified as held for sale.

Assets and businesses are classified as held for sale if their carrying amount will be recovered or settled principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or businesses are available for immediate sale in their present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Finance income or costs are included in discontinued operations only in respect of financial assets or liabilities classified as held for sale or derecognised on sale.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

(k) Decommissioning and environmental costs

Provision is made for decommissioning and environmental costs, based on future estimated expenditures, discounted to present values. Where appropriate, the establishment of a provision is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

The unwinding of the discount is included within the income statement as a financing charge.

(l) Revenue

Revenue primarily represents the sales value derived from the transmission and distribution of energy and recovery of US stranded costs together with the sales value derived from the provision of other services, including wireless infrastructure services, to customers during the year and excludes value added tax and intra-group sales.

US stranded costs are various generation-related costs incurred prior to the divestiture of generation assets beginning in the late 1990s and costs of legacy contracts that are in general being recovered over the period up to 2011. The recovery of stranded costs and other amounts allowed to be collected from customers under regulatory arrangements are recognised in the period in which they are recoverable from customers.

Revenue includes an assessment of energy and transportation services supplied to customers between the date of the last meter reading and the year end.

Where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery, no liability is recognised. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

(m) Pensions and other post-retirement benefits

For defined benefit retirement schemes, the cost of providing benefits is determined using the projected unit method, with actuarial valuations being carried out at each balance sheet date.

Current service cost is recognised in operating costs in the period in which the defined benefit obligation increases as a result of employee services.

Actuarial gains and losses are recognised in full in the period in which they occur in the statement of recognised income and expense.

Past service costs are recognised immediately to the extent that benefits are already vested. Otherwise such costs are amortised on a straight-line basis over the period until the benefits vest.

Settlements are recognised when a transaction is entered into that eliminates all further legal or constructive obligations for benefits under a scheme.

Curtailments are recognised when a commitment is made to a material reduction in the number of employees covered by a scheme.

The retirement benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligations, as reduced by the fair value of scheme assets and any unrecognised past service cost.

The expected return on scheme assets and the unwinding of the discount on defined benefit obligations are recognised within interest income and expense respectively.

(n) Leases

Rentals under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Assets held under finance leases are recognised at their fair value or, if lower, the present value of the minimum lease payments on inception, and depreciated over their useful economic lives. The corresponding liability is recognised as a finance lease obligation within borrowings. Rental payments are apportioned between finance costs and reduction in the finance lease obligation, so as to achieve a constant rate of interest.

(o) Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered in to.

An equity instrument is any contract that evidences a residual interest in the consolidated assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs.

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected. Indications that the trade receivable may become irrecoverable would include financial difficulties of the debtor, likelihood of the debtor's insolvency, and default or significant failure of payment.

Loans receivable and other receivables are carried at amortised cost using the effective interest rate method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, are recognised in the income statement.

Other financial investments are initially measured at cost including transaction costs and, with effect from 1 April 2005, are subsequently carried at fair value. Changes in the fair value of investments classified at fair value through profit and loss are included in the income statement, while changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Investment income on investments classified at fair value through profit and loss and on available-for-sale investments is recognised in the income statement as it accrues.

Interest-bearing loans and overdrafts are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments, and subsequently stated at amortised cost, inclusive of accrued interest. Any difference between the proceeds after direct issue costs and the redemption value is recognised in the income statement over the life of the borrowing.

Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest rate method.

With effect from 1 April 2005 derivative financial instruments are recognised initially at fair value, and are subsequently also measured at fair value. Commodity contracts that meet the definition of a derivative and which are not used for own purposes are also carried at fair value. Changes in the fair value of derivative financial instruments are included in the income statement to the extent hedge accounting is not applied.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for issued liabilities. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (being assets that necessarily take a substantial period of time to get ready for their intended use or sale) are added to their cost. Such additions cease when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Purchases and sales of financial assets are usually recognised on the trade date, being the date of commitment to purchase or sell the assets.

(p) Hedge accounting and derivative financial instruments

The Company and its subsidiaries enter into both derivative financial instruments (derivatives) and non-derivative financial instruments in order to manage interest rate and foreign currency exposures and commodity price risks in respect of expected energy usage. The principal derivatives used include interest rate swaps, forward rate agreements, currency swaps, forward foreign currency contracts, interest rate swaptions and indexed swap contracts relating to the purchase of energy.

All derivative transactions are undertaken, or maintained, with a view to managing the interest, currency or commodity price risks associated with underlying business activities and the financing of those activities.

From 1 April 2005, the accounting policy for hedge accounting is described below.

Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows (cash flow hedges) are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the income statement in the same period in which

the hedged item affects net profit or loss. Where a non-financial asset or a non-financial liability results from a forecasted transaction or firm commitment being hedged, the amounts deferred in equity are included in the initial measurement of that non-monetary asset or liability.

Changes in the carrying value of financial instruments that are designated as hedges of the changes in the fair value of assets or liabilities (fair value hedges) are recognised in the income statement. An offsetting amount is recorded as an adjustment to the carrying value of the hedged items, with a corresponding entry in the income statement, to the extent that the adjustment to the carrying value is attributable to the risk being hedged and that the fair value hedge is effective.

Exchange gains or losses arising on financial instruments that are designated and effective as hedges of the Company's consolidated net investment in overseas operations (net investment hedges) are recorded directly in equity, with any ineffective portion recognised immediately in the income statement.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the income statement as they arise, within finance costs. Remeasurements of commodity contracts carried at fair value are recognised in the income statement, with changes due to movements in commodity prices recorded in operating costs and changes relating to movements in interest rates recorded in finance costs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement in the same periods in which the previously hedged item affects net profit or loss. Amounts deferred in equity in respect to net investment hedges are subsequently recognised in the income statement in the event of the disposal of the overseas operations concerned. For fair value hedges, the cumulative adjustment recorded to the carrying value of the hedged item at the date hedge accounting is discontinued, is amortised to the income statement using the effective interest rate method.

If a hedged forecast transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement immediately.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts.

Prior to 1 April 2005 and the adoption of IAS 32 and IAS 39, derivatives used for hedging purposes were not recorded on the balance sheet as assets or liabilities. Monetary assets and liabilities in foreign currencies were retranslated at hedged rates instead of closing rates. Exchange gains and losses relating to the hedge of the net investment in overseas subsidiaries were recorded directly in equity.

As permitted by the provisions of IFRS 1, the consolidated income statement for the year ended 31 March 2005 has not been restated to reflect either the adoption of IAS 32 or IAS 39.

(q) Share-based payments

The Company issues equity-settled share-based payments to certain employees of the Company's subsidiary undertakings.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest.

(r) Business performance, exceptional items and remeasurements

Our financial performance is analysed into two components: business performance, which excludes exceptional items and remeasurements; and exceptional items and remeasurements. Exceptional items and remeasurements are excluded from the measures of business performance used by management to monitor financial performance as they are considered to distort the comparability of our reported financial performance from year to year. Business performance measures presented on the face of the income statement or in the notes to the accounts include operating profit before exceptional items and remeasurements, profit before tax before exceptional items and remeasurements, profit for the year before exceptional items and remeasurements and adjusted earnings per share (which excludes exceptional items and remeasurements).

Exceptional items and remeasurements are items of income and expenditure that, in the judgement of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of our financial performance and significantly distort the comparability of financial performance between periods. Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, material changes in environmental or decommissioning provisions, integration of acquired businesses and gains or losses on disposals of businesses or investments. Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective.

(s) Restructuring costs

Costs arising from restructuring programmes primarily relate to redundancy costs. Redundancy costs are charged to the income statement in the year in which an irrevocable commitment is made to incur the costs and the main features of the restructuring plan have been announced to affected employees.

(t) Other operating income

Other operating income includes profits or losses arising on the disposal of properties by our property management business, which is considered to be part of normal recurring operating activities.

(u) Emission allowances

Emission allowances are recorded as an intangible asset within current assets and are initially recorded at deemed cost and subsequently at the lower of deemed cost and net realisable value. For allocations of emission allowances granted by the UK Government, deemed cost is measured as fair value at the date of allocation. Receipts of such grants are treated as deferred income and are recognised in the income statement over the period to which they relate. A provision is recorded in respect of the obligation to deliver emission allowances and charges are recognised in the income statement in the period in which carbon dioxide emissions are made.

Income from emission allowances which are sold is reported as part of other operating income.

(v) Cash and cash equivalents

Cash and cash equivalents include cash held at bank and in hand, together with short-term highly liquid investments with an original maturity of less than three months that are readily convertible to known amounts of cash and subject to an insignificant change in value.

(w) Other reserves

Other reserves have arisen primarily as a result of the application of merger accounting principles under the then prevailing UK GAAP, which under IFRS 1 was retained for mergers that occurred prior to the IFRS transition date of 1 April 2004. Under merger accounting principles, the difference between the carrying amount of the capital structure of the acquiring vehicle and that of the acquired business was treated as a merger difference and included within reserves.

As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

(x) Dividends

Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

(y) Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimation is contained in the accounting policies or the notes to the accounts, and the key areas are summarised below.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are:

- The categorisation of certain items as exceptional and the definition of adjusted earnings – notes 5 and 13.
- The exemptions adopted under IFRS including, in particular, those relating to business combinations – Accounting policies (a) Basis of preparation of consolidated financial statements.
- Classification of business activities as held for sale and discontinued operations – Accounting policies (i) Discontinued operations, assets and businesses held for sale.

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- Impairment of goodwill – Accounting policies (d) Goodwill and note 14.
- Review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – Accounting policies (e) Intangible assets other than goodwill, (f) Property, plant and equipment and (g) Impairment of assets.
- Estimation of liabilities for pension and other post-retirement benefits – note 8.
- Valuation of financial instruments and derivatives – notes 22 and 23.
- Revenue recognition and assessment of unbilled revenue – Accounting policies (l) Revenue.
- Recoverability of deferred tax assets – Accounting policies (h) Taxation and note 19.
- Environmental and decommissioning liabilities – note 30.
- Hedge accounting and derivative financial instruments – Accounting policies (p) Hedge accounting and derivative financial instruments.

Consolidated income statement

for the years ended 31 March

	Notes	2007 £m	2006* £m	2005* £m
Revenue				
Other operating income	2(a)	8,695	8,868	7,174
Operating costs	3	83	80	67
	4	(6,265)	(6,574)	(5,128)
Operating profit				
Before exceptional items and remeasurements	2(b)	2,454	2,457	2,401
Exceptional items and remeasurements	5	59	(83)	(288)
Total operating profit	2(b)	2,513	2,374	2,113
Interest income and similar income	9	1,144	1,036	945
Interest expense and other finance costs				
Before exceptional items and remeasurements	9	(1,691)	(1,638)	(1,649)
Exceptional items and remeasurements	5,9	(217)	(57)	–
	9	(1,908)	(1,695)	(1,649)
Share of post-tax results of joint ventures	2(c)	2	3	3
Profit before taxation				
Before exceptional items and remeasurements		1,909	1,858	1,700
Exceptional items and remeasurements	5	(158)	(140)	(288)
Total profit before taxation		1,751	1,718	1,412
Taxation				
Before exceptional items and remeasurements	10	(611)	(565)	(424)
Exceptional items and remeasurements	5,10	170	30	118
Total taxation	10	(441)	(535)	(306)
Profit from continuing operations after taxation				
Before exceptional items and remeasurements		1,298	1,293	1,276
Exceptional items and remeasurements	5	12	(110)	(170)
Profit for the year from continuing operations		1,310	1,183	1,106
Profit for the year from discontinued operations				
Before exceptional items and remeasurements	11	104	77	379
Exceptional items and remeasurements	11	(18)	2,590	(61)
	11	86	2,667	318
Profit for the year		1,396	3,850	1,424
Attributable to:				
Equity shareholders of the parent		1,394	3,848	1,424
Minority interests		2	2	–
		1,396	3,850	1,424
Earnings per share from continuing operations				
Basic	13	48.1p	41.6p	35.9p
Diluted	13	47.8p	41.4p	35.7p
Earnings per share				
Basic	13	51.3p	135.6p	46.2p
Diluted	13	50.9p	135.0p	46.0p

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

The notes on pages 112 to 172 form part of the consolidated financial statements.

Consolidated balance sheet

at 31 March

	Notes	2007 £m	2006 £m
Non-current assets			
Goodwill	14	1,480	2,142
Other intangible assets	16	144	321
Property, plant and equipment	17	18,895	18,935
Investments in joint ventures	18	5	12
Deferred tax assets	19	–	159
Other receivables	20	73	38
Financial and other investments	21	132	148
Derivative financial assets	22	380	351
Total non-current assets		21,109	22,106
Current assets			
Other intangible assets	16	2	41
Inventories	24	106	108
Trade and other receivables	25	1,236	1,519
Financial and other investments	21	2,098	384
Derivative financial assets	22	277	314
Cash and cash equivalents	26	1,593	1,452
Total current assets		5,312	3,818
Assets of businesses held for sale	11	1,968	–
Total assets	2(d)	28,389	25,924
Current liabilities			
Bank overdrafts	26	(6)	(3)
Borrowings	27	(1,025)	(2,839)
Derivative financial liabilities	22	(235)	(92)
Trade and other payables	28	(1,852)	(2,095)
Current tax liabilities		(75)	(419)
Provisions	30	(167)	(235)
Total current liabilities		(3,360)	(5,683)
Non-current liabilities			
Borrowings	27	(14,686)	(10,287)
Derivative financial liabilities	22	(184)	(130)
Other non-current liabilities	29	(1,475)	(1,719)
Deferred tax liabilities	19	(2,389)	(2,161)
Pensions and other post-retirement benefit obligations	8	(1,282)	(1,915)
Provisions	30	(427)	(536)
Total non-current liabilities		(20,443)	(16,748)
Liabilities of businesses held for sale	11	(450)	–
Total liabilities	2(d)	(24,253)	(22,431)
Net assets		4,136	3,493
Equity			
Called up share capital	31	308	310
Share premium account	32	1,332	1,316
Retained earnings	32	7,635	6,817
Translation reserve	32	(48)	127
Cash flow hedge reserve	32	26	37
Available-for-sale investment reserve	32	1	6
Other reserves	32	(5,129)	(5,131)
Total parent company shareholders' equity		4,125	3,482
Minority interests	32	11	11
Total equity		4,136	3,493

These financial statements comprising the consolidated income statement, consolidated balance sheet, consolidated statement of recognised income and expense, consolidated cash flow statement and the related notes 1 to 40, were approved by the Board of Directors on 16 May 2007 and were signed on its behalf by:

Sir John Parker Chairman

Steve Lucas Finance Director

Consolidated statement of recognised income and expense

for the years ended 31 March

	Notes	2007 £m	2006 £m	2005 £m
Exchange adjustments		(179)	141	(6)
Actuarial net gain	8	365	181	253
Net gains/(losses) taken to equity in respect of cash flow hedges		47	(12)	–
Transferred to profit or loss on cash flow hedges		(45)	(20)	–
Net (losses)/gains taken to equity on available-for-sale investments		(3)	4	–
Transferred to profit or loss on sale of available-for-sale investments		(1)	(1)	–
Tax on items taken directly to or transferred from equity	10	(81)	(43)	(66)
Net income recognised directly in equity		103	250	181
Profit for the year		1,396	3,850	1,424
Total recognised income and expense for the year		1,499	4,100	1,605
Attributable to:				
Equity shareholders of the parent		1,498	4,097	1,605
Minority interests		1	3	–
		1,499	4,100	1,605
Effect of change in accounting policy – IAS 39 (i)		–	(43)	–

(i) IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' were adopted 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.

Consolidated cash flow statement

for the years ended 31 March

	Notes	2007 £m	2006* £m	2005* £m
Cash flows from operating activities				
Total operating profit		2,513	2,374	2,113
Adjustments for:				
Exceptional items and remeasurements		(59)	83	288
Depreciation and amortisation		871	888	782
Share-based payment charge		15	14	12
Changes in working capital		18	(206)	(117)
Changes in provisions		(57)	(25)	(126)
Changes in pensions and other post-retirement benefit obligations		(125)	(40)	(19)
Cash flows relating to exceptional items		(86)	(115)	(113)
Cash flows generated from continuing operations		3,090	2,973	2,820
Cash flows relating to discontinued operations	33(a)	181	138	638
Cash generated from operations		3,271	3,111	3,458
Tax paid – continuing operations		(310)	(103)	(52)
Tax paid – discontinued operations		(3)	(37)	(98)
Net cash inflow from operating activities		2,958	2,971	3,308
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired	15	(269)	–	–
Sale of investments in joint ventures and other investments		19	8	8
Purchases of intangible assets		(33)	(15)	(79)
Purchases of property, plant and equipment		(2,185)	(1,657)	(1,300)
Disposals of property, plant and equipment		21	18	22
Purchases of financial investments		(3,699)	(2,870)	(113)
Sales of financial investments		1,974	2,895	54
Dividends received from joint ventures		–	2	5
Cash flows used in continuing operations – investing activities		(4,172)	(1,619)	(1,403)
Cash flows relating to discontinued operations – disposal proceeds		27	5,750	–
Cash flows relating to discontinued operations – acquisition of subsidiaries, net of cash acquired	15	(85)	–	(1,122)
Cash flows relating to discontinued operations – other investing activities		(47)	(209)	(450)
Net cash flow (used in)/from investing activities		(4,277)	3,922	(2,975)
Cash flows from financing activities				
Proceeds from issue of share capital		16	54	13
Proceeds from loans received		5,519	1,026	998
Repayment of loans		(2,311)	(1,714)	(868)
Net movements in short-term borrowings and derivatives		(163)	(1,616)	922
Interest received		216	130	75
Interest paid		(813)	(834)	(837)
Exceptional finance costs on the repayment of debt		(45)	(49)	–
Dividends paid to shareholders		(730)	(745)	(628)
Cash paid to shareholders under B share scheme		(26)	(1,957)	–
Repurchase of share capital		(169)	–	–
Purchase of treasury shares		–	(7)	–
Net cash flow from/(used in) financing activities		1,494	(5,712)	(325)
Net increase in cash and cash equivalents				
Exchange movements		(14)	14	(1)
Amounts reclassified as assets of businesses held for sale		(23)	–	–
Net cash and cash equivalents at start of year (i)		1,449	254	247
Net cash and cash equivalents at end of year (i)	26	1,587	1,449	254

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

(i) Net of bank overdrafts.

Notes to the accounts

1. Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2006/07

During the year ended 31 March 2007 the Company adopted the following amendments to standards and interpretations. None of these had a material impact on consolidated results or assets and liabilities.

International Financial Reporting Interpretations Committee (IFRIC) 4 'Determining whether an arrangement contains a lease' provides guidance on determining whether arrangements which convey the right to use an asset in return for a series of payments should be accounted for in accordance with IAS 17 'Leases'.

IFRIC 5 'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds' addresses the issues of how a contributor to such a fund should account for its interest in the fund and how obligations to make additional contributions should be accounted for.

IFRIC 6 'Liabilities arising from participating in a specific market – Waste electrical and electronic equipment' relates to the European Union's Directive on waste electrical and electronic equipment, which deals with the responsibility of producers for the backlog of waste for goods sold to private households.

IFRIC 7 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies' deals with what is meant by the phrase 'measuring unit, current at the balance sheet date' and also with how an entity accounts for opening deferred tax items in its restated financial statements.

Amendment to IAS 39 'Financial Instruments: Recognition and Measurement: The Fair Value Option' restricts the ability of entities to designate financial assets and liabilities at fair value through profit or loss to those financial instruments that meet certain specified conditions.

Amendment to IAS 39 'Financial Instruments: Recognition and Measurement', and IFRS 4 'Insurance Contracts: Financial Guarantee Contracts' define a financial guarantee contract and specify which accounting standard will apply to such contracts. Generally, financial guarantee contracts are within the scope of IAS 39. However, where the issuer of a financial guarantee contract has previously asserted that it regards such contracts as insurance contracts, then they may elect to apply either IAS 39 or IFRS 4 to those contracts. The Company accounts for such contracts as insurance contracts.

Amendment to IAS 21 'The Effects of Changes in Foreign Exchange Rates' clarifies the requirements of IAS 21 regarding an entity's investment in foreign operations and, in particular, the treatment of monetary items entered into as net investment hedges.

New IFRS accounting standards and interpretations not yet adopted

The Company has yet to adopt the following standards and interpretations. These will be adopted on 1 April 2007, but are not expected to have a material impact on consolidated results or assets and liabilities.

IFRIC 8 'Scope of IFRS 2' addresses the issue of whether IFRS 2 'Share-Based Payment' applies to transactions in which the entity cannot identify specifically some or all of the goods or services received.

IFRIC 9 'Reassessment of Embedded Derivatives' prohibits reassessment of the treatment of embedded derivatives subsequent to initial recognition unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

IFRIC 10 'Interim financial reporting and impairment' states that any impairment losses on goodwill and certain financial assets recognised in an interim financial statement may not be reversed in subsequent interim or annual financial statements.

IFRIC 11 'IFRS 2 – Group and treasury share transactions' provides guidance on whether share-based transactions involving treasury shares or involving subsidiary undertakings (for instance, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions.

1. Adoption of new accounting standards (continued)

New IFRS accounting standards and interpretations not yet endorsed by the EU

IFRS 8 'Operating segments' sets out the requirements for the disclosure of information about an entity's operating segments and about the entity's products and services, the geographical areas in which it operates and its major customers. IFRS 8 achieves convergence with the US accounting standard, SFAS 131 'Disclosures about Segments of an Enterprise and Related Information' with minor differences. If this standard had been implemented in the year ended 31 March 2007, it is not expected that it would have had a material impact on consolidated results or the presentation of those results.

Amendment to IAS 23 'Borrowing costs' removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Implementation of this amendment is not expected to have any impact on consolidated results or consolidated assets and liabilities as the Company's accounting policy is to capitalise borrowing costs.

IFRIC 12, 'Service concession arrangements' applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services, for example, under private finance initiative contracts (PFI) contracts. The impact of this interpretation on consolidated results or consolidated assets and liabilities has not yet been assessed.

2. Segmental analysis

Segmental information is presented in accordance with the management responsibilities and economic characteristics, including consideration of risks and returns, of business activities. The Company assesses the performance of its businesses principally on the basis of operating profit before exceptional items and remeasurements. The primary reporting format is by business and the secondary reporting format is by geographical area.

The following table describes the main activities for each business segment:

Transmission – UK	High-voltage electricity transmission networks, the gas transmission network in the UK, the UK liquefied natural gas (LNG) storage activities and the French electricity interconnector
Transmission – US	High-voltage electricity transmission networks in New York and New England
Gas Distribution – UK	Four of the eight regional networks of Great Britain's gas distribution system
Gas Distribution – US	Gas distribution in New York and New England
Electricity Distribution – US	Electricity distribution in New York and New England
US stranded cost recoveries	The recovery of stranded costs from US electricity distribution customers as permitted by regulatory agreements

Other activities primarily relate to: UK-based gas metering activities; UK property management; a UK LNG import terminal; engineering consulting and software; together with corporate activities, including business development.

Discontinued operations comprise broadcast and mobile telephone infrastructure solutions in the UK and the US and an electricity interconnector in Australia. The wireless infrastructure operations in the UK were sold on 3 April 2007. Discontinued operations also include the operations of the four UK gas distribution networks that were sold on 1 June 2005 and the results of Citelec, an Argentinian joint venture sold during August 2004. The results for discontinued operations are disclosed in note 11.

Our segments have changed from that previously reported as a consequence of: changes in organisational and management structure; the classification of wireless infrastructure (previously a segment) and our Australian interconnector business as discontinued; and the acquisition from Southern Union Company of its gas distribution network in Rhode Island on 24 August 2006. In particular, our US electricity distribution and US gas distribution operations are now reported as separate segments. The segment results for the years ended 31 March 2006 and 31 March 2005 have been re-presented to reflect these changes.

Sales between businesses are priced having regard to the regulatory and legal requirements to which the businesses are subject.

2. Segmental analysis (continued)

a) Revenue

	Total sales 2007 £m	Sales between businesses 2007 £m	Sales to third parties 2007 £m	Total sales 2006* £m	Sales between businesses 2006* £m	Sales to third parties 2006* £m	Total sales 2005* £m	Sales between businesses 2005* £m	Sales to third parties 2005* £m
Business segments									
– continuing operations									
Transmission – UK	2,816	18	2,798	2,710	15	2,695	1,995	10	1,985
Transmission – US	270	47	223	310	48	262	284	45	239
Gas Distribution – UK	1,193	92	1,101	1,222	86	1,136	1,113	135	978
Gas Distribution – US	638	–	638	571	–	571	427	–	427
Electricity Distribution – US	3,004	2	3,002	3,134	2	3,132	2,633	2	2,631
US stranded cost recoveries	426	–	426	517	–	517	436	–	436
Other activities	567	60	507	701	146	555	734	256	478
	8,914	219	8,695	9,165	297	8,868	7,622	448	7,174
Total excluding US stranded cost recoveries			8,269			8,351			6,738
US stranded cost recoveries			426			517			436
			8,695			8,868			7,174
Geographical segments									
UK			4,397			4,374			3,428
US			4,298			4,494			3,746
			8,695			8,868			7,174

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

The table above represents revenue from continuing operations only, as disclosed in the consolidated income statement. Revenue from discontinued operations for the year ended 31 March 2007 was £383m (2006: £493m; 2005: £1,313m). See note 11 for additional disclosures relating to discontinued operations.

The analysis of revenue by geographical area is on the basis of destination. There are no material sales between the UK and US geographical areas.

Approximately 9% (2006: 9%; 2005: 9%) of revenue for the year ended 31 March 2007 amounting to approximately £0.8bn (2006: £0.9bn; 2005: £0.7bn) derives from a single customer, the Centrica group. The majority of this revenue is in the Gas Distribution – UK segment with lesser amounts in Other activities and the Transmission – UK segment.

b) Operating profit

	Before exceptional items and remeasurements			After exceptional items and remeasurements		
	2007 £m	2006* £m	2005* £m	2007 £m	2006* £m	2005* £m
Business segments – continuing operations						
Transmission – UK	946	844	859	936	843	857
Transmission – US	108	127	126	107	127	119
Gas Distribution – UK	409	483	424	412	432	333
Gas Distribution – US	71	47	33	67	47	17
Electricity Distribution – US	364	317	342	355	317	241
US stranded cost recoveries	423	489	465	504	440	427
Other activities	133	150	152	132	168	119
	2,454	2,457	2,401	2,513	2,374	2,113
Total excluding US stranded cost recoveries	2,031	1,968	1,936	2,009	1,934	1,686
US stranded cost recoveries	423	489	465	504	440	427
	2,454	2,457	2,401	2,513	2,374	2,113
Geographical segments						
UK	1,491	1,478	1,435	1,482	1,423	1,310
US	963	979	966	1,031	930	803
Rest of the world	–	–	–	–	21	–
	2,454	2,457	2,401	2,513	2,374	2,113

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

The table above represents operating profit from continuing operations only, as disclosed in the consolidated income statement, and excludes the results of discontinued operations. Operating profit before exceptional items and remeasurements for discontinued operations for the year ended 31 March 2007 was £117m (2006: £131m; 2005: £552m). Operating profit after exceptional items and remeasurements for discontinued operations for the year ended 31 March 2007 was £62m (2006: £111m; 2005: £465m). See note 11 for additional disclosures on discontinued operations.

2. Segmental analysis (continued)

c) Share of post-tax results of joint ventures

The share of joint ventures' post-tax results relate to electricity activities and are located in the Rest of the World geographical segment (2007: £2m; 2006: £3m; 2005: £3m).

d) Total assets and total liabilities

	Total assets		Total liabilities	
	2007 £m	2006* £m	2007 £m	2006* £m
Business segments – continuing operations				
Transmission – UK	8,060	7,181	(946)	(1,447)
Transmission – US	1,481	1,653	(19)	(48)
Gas Distribution – UK	5,404	5,091	(1,192)	(1,154)
Gas Distribution – US	1,109	867	(231)	(230)
Electricity Distribution – US	4,471	4,889	(1,320)	(1,557)
US stranded cost recoveries	65	104	(377)	(665)
Other activities	1,478	1,543	(1,091)	(1,076)
	22,068	21,328	(5,176)	(6,177)
Discontinued operations	1,968	1,924	(477)	(323)
	24,036	23,252	(5,653)	(6,500)
Joint ventures – continuing operations (electricity activities)	5	12	–	–
Unallocated	4,348	2,660	(18,600)	(15,931)
	28,389	25,924	(24,253)	(22,431)
Geographical segments				
UK	16,405	15,227	(3,683)	(3,948)
US	7,288	7,659	(1,966)	(2,522)
Rest of the World	348	378	(4)	(30)
Unallocated	4,348	2,660	(18,600)	(15,931)
	28,389	25,924	(24,253)	(22,431)

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

The analysis of total assets and total liabilities includes all attributable goodwill and excludes inter-business balances. Unallocated total assets comprise cash and cash equivalents, taxation, current financial investments and derivative financial assets. Unallocated total liabilities comprise bank overdrafts, borrowings, derivative financial liabilities and taxation.

e) Other segmental information

	Capital expenditure			Depreciation and amortisation		
	2007 £m	2006* £m	2005* £m	2007 £m	2006* £m	2005* £m
Business segments – continuing operations						
Transmission – UK	1,235	849	529	352	377	296
Transmission – US	108	91	74	41	45	41
Gas Distribution – UK	490	444	359	170	161	163
Gas Distribution – US	36	25	30	24	19	18
Electricity Distribution – US	218	219	204	127	126	117
Other activities	258	279	165	157	160	147
	2,345	1,907	1,361	871	888	782
Discontinued operations	30	201	544	72	77	213
	2,375	2,108	1,905	943	965	995
Geographical segments						
UK	2,007	1,697	1,455	739	771	816
US	365	340	312	196	194	179
Rest of the World	3	71	138	8	–	–
	2,375	2,108	1,905	943	965	995

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

Capital expenditure comprises additions to property, plant and equipment and other intangible assets amounting to £2,343m (2006: £2,093m; 2005: £1,827m) and £32m (2006: £15m; 2005: £78m) respectively.

Depreciation and amortisation includes depreciation of property, plant and equipment and amortisation of other intangible assets amounting to £889m (2006: £908m; 2005: £950m) and £54m (2006: £57m; 2005: £45m) respectively.

3. Other operating income

Other operating income represents income on disposal of property, plant and equipment, principally properties disposed of by our property management business.

4. Operating costs

	Before exceptional items and remeasurements			Exceptional items and remeasurements			Total		
	2007 £m	2006* £m	2005* £m	2007 £m	2006* £m	2005* £m	2007 £m	2006* £m	2005* £m
Depreciation of property, plant and equipment	830	844	743	–	–	–	830	844	743
Amortisation of intangible assets	41	44	39	–	–	–	41	44	39
Payroll costs (note 6(a))	794	807	795	26	47	91	820	854	886
Other operating charges:									
Purchases of electricity	1,674	1,928	1,451	(81)	49	38	1,593	1,977	1,489
Purchases of gas	544	566	357	–	–	–	544	566	357
Rates and property taxes	472	437	403	–	–	–	472	437	403
Electricity transmission services scheme direct costs	558	536	301	–	–	–	558	536	301
Payments to Scottish electricity transmission network owners	237	259	–	–	–	–	237	259	–
Other operating charges	1,174	1,070	751	(4)	(13)	159	1,170	1,057	910
	4,659	4,796	3,263	(85)	36	197	4,574	4,832	3,460
	6,324	6,491	4,840	(59)	83	288	6,265	6,574	5,128
Operating costs include:									
Research expenditure							6	7	9
Operating lease rentals									
Plant and machinery							21	23	20
Other							63	53	36

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

Auditors' remuneration

Audit services									
Audit of parent company and consolidated financial statements							1.2	1.4	1.1
Other services									
Audit of subsidiary financial statements pursuant to legislation							2.8	2.0	2.6
Other services supplied pursuant to legislation							2.2	0.8	1.1
Services relating to tax compliance							0.6	0.5	0.5
Services relating to tax advisory							0.7	0.9	0.8
Services relating to corporate finance transactions							1.4	0.4	0.3
All other services							1.3	0.8	1.3
Fees paid by associated pension schemes									
Audit of pension schemes of the company pursuant to legislation							0.2	0.1	0.1
							10.4	6.9	7.8
Total services pursuant to legislation							6.4	4.3	4.9
Total other services							4.0	2.6	2.9
							10.4	6.9	7.8

Other services supplied pursuant to legislation represent fees payable for services in relation to other statutory filings or engagements that are required to be carried out by the auditor. In particular, this includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley) and audit reports on regulatory returns.

Services relating to corporate finance transactions primarily relate to the proposed acquisition of KeySpan in 2007.

All other services include costs relating to market and financial analysis, treasury related projects together with sundry services, subject to Audit Committee approval.

5. Exceptional items and remeasurements

Exceptional items and remeasurements are items of income and expenditure that, in the judgement of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of our financial performance and significantly distort the comparability of financial performance between periods. Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, material changes in environmental or decommissioning provisions, integration of acquired businesses and gains or losses on disposals of businesses or investments. Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective.

	2007 £m	2006* £m	2005* £m
Exceptional items – restructuring costs (i)	22	55	108
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)	(81)	49	38
Total exceptional items and remeasurements included within operating profit	(59)	83	288
Exceptional finance costs (vi)	45	49	–
Remeasurements – commodity contracts (v)	19	14	–
Remeasurements – net losses/(gains) on derivative financial instruments (vii)	153	(6)	–
Total exceptional items and remeasurements included within finance costs	217	57	–
Total exceptional items and remeasurements before taxation	158	140	288
Tax on restructuring costs (i)	(12)	(7)	(34)
Tax on exceptional past service pension costs (ii)	–	–	(17)
Tax on environmental related provisions (iii)	–	–	(39)
Tax on commodity contract remeasurements (v)	25	(25)	(15)
Tax on exceptional finance costs (vi)	(14)	(15)	–
Tax on derivative financial instrument remeasurements (vii)	(169)	17	–
Other exceptional tax credits (viii)	–	–	(13)
Tax on exceptional items and remeasurements	(170)	(30)	(118)
Total exceptional items and remeasurements	(12)	110	170
Total exceptional items after taxation	41	61	147
Total commodity contract remeasurements after taxation	(37)	38	23
Total derivative financial instrument remeasurements after taxation	(16)	11	–
Total exceptional items and remeasurements after taxation	(12)	110	170

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

- (i) Restructuring costs relate to planned cost reduction programmes in the UK and US (2006: UK only) businesses. For the year ended 31 March 2007, restructuring costs included pension related costs of £10m arising as a result of redundancies (2006: £25m; 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 experience of restoring similar sites.
- (iv) Reversal of a prior year impairment of £13m related to National Grid's investment in Copperbelt Energy Corporation (CEC) and a 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 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 are 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 2007 represent debt redemption costs related to the restructuring of our debt portfolio. For 2006 these related to costs incurred on the early redemption of debt following the disposal of four gas distribution networks (£39m), together with issue costs associated with the B share scheme (£10m).
- (vii) Remeasurements – net losses/(gains) on derivative financial instruments comprise losses and gains arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in equity or offset by adjustments to the carrying value of debt. These remeasurements include a loss of £126m (2006: £nil; 2005: £nil) relating to pre-tax losses on investment related derivative financial instruments that offset on a post-tax basis. The tax credit includes a £56m adjustment in respect of prior years (2006: £nil; 2005: £nil).
- (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 National Grid's Qualifying Employee Share Ownership Trust.

6. Payroll costs and employees

a) Payroll costs

	2007 £m	2006* £m	2005* £m
Wages and salaries	819	857	876
Social security costs	65	59	55
Other pension costs	132	140	146
Share-based payments	15	14	12
Severance costs	14	23	12
	1,045	1,093	1,101
Less: payroll costs capitalised	(225)	(239)	(215)
	820	854	886

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

Payroll costs above represent continuing operations only. Payroll costs of discontinued operations for the year ended 31 March 2007 were £37m (2006: £67m; 2005: £165m).

b) Number of employees

	31 March 2007 Number	Average 2007 Number	Average* 2006 Number	Average* 2005 Number
UK	10,015	10,356	10,722	11,131
US	8,753	8,618	8,400	8,649
Rest of the world	8	8	4	9
Continuing operations	18,776	18,982	19,126	19,789
Discontinued operations	735	730	1,403	4,818
	19,511	19,712	20,529	24,607

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

The vast majority of employees in:

- the US are either directly or indirectly employed in the transmission and distribution of electricity or the distribution of gas.
- the UK are either directly or indirectly employed in the transmission and distribution of gas or the transmission of electricity.

At 31 March 2007, 2,026 employees were employed in other operations.

c) Key management compensation

	2007 £m	2006 £m	2005 £m
Salaries and short-term employee benefits	8	7	6
Post-employment benefits	5	5	4
Termination benefits	1	–	–
Share-based payments	3	2	2
	17	14	12

Key management compensation relates to the Board of Directors, including the Executive Directors and Non-executive Directors for the years presented, together with Mark Fairbairn for the three months prior to his appointment as Executive Director for Gas Distribution on 1 January 2007 and Cheryl LaFleur, acting executive director for Electricity Distribution, for the period from 1 October 2006. In addition to the amounts above Mike Jesanis received £0.3m with respect to a consultancy arrangement which will expire on 30 June 2007.

7. Directors' emoluments

Details of Directors' emoluments are contained in the auditable part of the Directors' remuneration report on pages 88 to 98, which form part of these accounts.

8. Pensions and other post-retirement benefits

Substantially all National Grid's employees are members of either defined benefit or defined contribution pension plans.

In the UK the principal schemes are the National Grid UK Pension Scheme and the National Grid Electricity Group of the Electricity Supply Pension Scheme, and, in addition, the National Grid Wireless Pension Scheme, which was disposed on 3 April 2007. In the US we have a number of defined benefit pension plans and we also provide health care and life insurance benefits to eligible retired US employees.

National Grid UK Pension Scheme

The National Grid UK Pension Scheme provides final salary defined benefits for employees who joined prior to 31 March 2002 and defined contribution benefits for employees joining from 1 April 2002. The scheme is funded with assets held in a separate trustee administered fund. It is subject to independent actuarial valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme.

The latest full actuarial valuation was carried out by Watson Wyatt LLP at 31 March 2006. The aggregate market value of the scheme's assets was £12,743m and the value of the assets represented 97% of the actuarial value of benefits due to members, calculated on the basis of pensionable earnings and service at 31 March 2006 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £371m on the valuation date.

The results of the actuarial valuation carried out at 31 March 2006 showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 32% of pensionable earnings (29% employers and 3% employees). The ongoing contribution rate does not include an allowance for administration expenses. These contributions are reviewed annually. From 1 April 2007, the rate used for the recovery of administration costs was 3.7% of salary. Employers are currently, therefore, paying a total contribution rate of 32.7%. In line with the agreement made after the 2003 valuation, no funding of the deficit identified in the 2006 actuarial valuation will need to be provided to the scheme until the outcome of the actuarial assessment at 31 March 2007 is known. At this point, National Grid will pay the gross amount of any deficit up to a maximum amount of £520m (£364m net of tax) into the scheme. Until the 31 March 2007 actuarial valuation has been completed, National Grid has arranged for banks to provide the trustees of the National Grid UK Pension Scheme with letters of credit. The main conditions under which these letters of credit could be drawn relate to events that would imperil the interests of the scheme, such as National Grid Gas plc, a subsidiary undertaking, becoming insolvent or National Grid failing to make agreed payments into the scheme.

Electricity Supply Pension Scheme

The Electricity Supply Pension Scheme provides final salary defined benefits on a funded basis. The assets of the scheme are held in a separate trustee administered fund. The scheme is divided into sections, one of which is National Grid's section. National Grid's section of the scheme was closed to new entrants on 1 April 2006. It is subject to independent actuarial valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme.

The latest full actuarial valuation as at 31 March 2007 is currently being carried out by Hewitt Bacon Woodrow. The last completed full actuarial valuation was carried out by Hewitt Bacon Woodrow at 31 March 2004. The aggregate market value of the scheme's assets at that date was £1,110m and the value of the assets represented 80% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 March 2004 on an ongoing basis and allowing for projected increases in pensionable earnings.

The results of the actuarial valuation carried out at 31 March 2004 showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 19.1% of pensionable earnings (13.1% employers and 6% employees). This contribution rate will be reviewed as part of the next independent actuarial valuation being carried out currently.

It has been agreed that no funding of the deficit identified in the 2004 actuarial valuation will need to be provided to the scheme until the outcome of the actuarial valuation at 31 March 2007 is known. At this point, National Grid will pay the gross amount of any deficit up to a maximum amount of £68m (£48m net of tax) into the scheme. Until the 31 March 2007 actuarial valuation has been completed, National Grid has arranged for banks to provide the trustees of the scheme with letters of credit. The main conditions under which these letters of credit could be drawn relate to events which would imperil the interests of the scheme, such as National Grid Electricity Transmission plc, a subsidiary undertaking, becoming insolvent or National Grid failing to make agreed payments into the scheme.

National Grid Wireless Pension Scheme

Obligations under this scheme were transferred on 3 April 2007 following the disposal of our wireless infrastructure operations in the UK. The deficit in the scheme at 31 March 2007, calculated in accordance with IAS 19, was £1m, which is included within liabilities of businesses held for sale.

The scheme provides final salary defined benefits for service up to and including 30 June 2003 and a career averaged pension for service after 1 July 2003 on a funded basis.

The last completed full actuarial valuation was carried out as at 31 December 2005. There was a funding deficit of £12.6m on the valuation date. A deficit payment of £9m was made during March 2007.

8. Pensions and other post-retirement benefits (continued)

US defined benefit pension plans

National Grid's pension plans in the US provide annuity or lump sum payments for all vested employees. In addition, all employees with greater than one year's service are provided with defined contribution benefits. The assets of the plans are held in separate trustee administered funds.

The defined benefit plans are valued on an annual basis. The latest full actuarial valuations of these plans were carried out by Hewitt Associates LLC at 1 April 2006. The aggregate market value of the assets relating to National Grid's US defined benefit plans at 31 March 2006 totalled £1,235m and the actuarial value of the assets represented 96% of the actuarial value of the benefits due to members, based on service through 31 March 2006 and after allowing for future salary increases. There was a funding deficit of £54m at 31 March 2006.

Employees do not contribute to the defined benefit plans. Employer contributions are made in accordance with the rules set out by the US Internal Revenue Code. These contributions vary according to the funded status of the plans and the amounts that are tax deductible. At present, there is some flexibility in the amount that is contributed on an annual basis. The policy for the New York plan is to set the contribution amount equal to the amount that is collected in rates. These contributions are expected to meet the requirements of the Pension Protection Act of 2006. In New England, our subsidiaries contribute an amount such that 100% of the Funding Target under the Pension Protection Act will be obtained by 2009.

US retiree healthcare and life insurance

National Grid provides healthcare and life insurance to eligible retired US employees. Eligibility is based on certain age and length of service requirements and in some cases retirees must contribute to the cost of their coverage.

The latest full actuarial valuations of these plans were carried out by Hewitt Associates LLC at 31 March 2006. The plans are valued on an annual basis. The aggregate market value of the assets relating to National Grid's US health and welfare plans at 31 March 2006 totalled £568m and the actuarial value of the assets represented 46% of the actuarial value of the benefits due to members. There was a funding deficit of £654m at 31 March 2006.

In the US, there is no governmental requirement to pre-fund post-retirement health and welfare plans. However, there may be requirements under the various state regulatory agreements to contribute to these plans. Depending upon the rate jurisdiction and the plan, the funding level may be: equal to the expense as determined under SFAS 106; equal to the amount collected in rates; equal to the maximum tax deductible contribution; or zero. These requirements may change as rate agreements are reset.

	Pensions			US other post-retirement benefits		
	2007 £m	2006* £m	2005* £m	2007 £m	2006 £m	2005 £m
The amounts recognised in the income statement are as follows:						
Defined contribution scheme costs	3	2	2	-	-	-
<i>Defined benefit scheme costs</i>						
Current service cost	113	112	106	15	16	11
Past service cost	-	-	16	7	6	25
Curtailment (gain)/loss on redundancies	(10)	(24)	22	-	-	-
Special termination benefits on redundancies	23	45	-	-	-	-
Curtailment cost – augmentations	3	5	-	-	-	-
Total in payroll costs – continuing	132	140	146	22	22	36
Interest cost	806	826	824	63	63	56
Expected return on plan assets	(885)	(860)	(842)	(41)	(41)	(39)
Total in finance costs – continuing	(79)	(34)	(18)	22	22	17
Current service costs	2	7	28	-	-	-
Interest cost	2	2	1	-	-	-
Expected return on plan assets	(2)	(2)	(1)	-	-	-
Curtailment/settlement gain on sale of distribution networks	-	(168)	-	-	-	-
Total in discontinued operations	2	(161)	28	-	-	-

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

8. Pensions and other post-retirement benefits (continued)

	Pensions			US other post-retirement benefits		
	2007 £m	2006 £m	2005 £m	2007 £m	2006 £m	2005 £m
The amounts recognised in the balance sheet are as follows:						
Present value of funded obligations	(16,044)	(16,520)	(15,679)	(1,126)	(1,223)	(1,068)
Fair value of plan assets	15,468	15,341	14,077	531	568	488
	(576)	(1,179)	(1,602)	(595)	(655)	(580)
Present value of unfunded obligations	(83)	(96)	(90)	-	-	-
Other post-employment liabilities	-	-	-	(33)	(34)	(34)
Unrecognised past service cost	-	-	-	42	49	50
Net liability in the balance sheet	(659)	(1,275)	(1,692)	(586)	(640)	(564)
Liabilities	(696)	(1,275)	(1,718)	(586)	(640)	(564)
Assets	37	-	26	-	-	-
Net liability	(659)	(1,275)	(1,692)	(586)	(640)	(564)
Changes in the present value of the defined benefit obligation						
Opening defined benefit obligation (including unfunded obligations)	16,616	15,769	15,403	1,223	1,068	1,002
Current service cost	115	119	134	15	16	11
Interest cost	808	828	825	63	63	56
Actuarial (gains)/losses	(450)	1,300	147	4	40	5
Curtailment (gain)/loss on redundancies	(10)	(24)	22	-	-	-
Curtailment gain on sale of distribution networks	-	(168)	-	-	-	-
Settlement on sale of distribution networks	-	(589)	-	-	-	-
Net transfers and disposals	1	(15)	-	-	-	-
Gains on settlements	-	(20)	(1)	-	-	-
Special termination benefits	23	45	-	-	-	-
Curtailment cost – augmentations	3	5	-	-	-	-
Acquisition of subsidiary undertakings	89	-	31	19	-	-
Plan amendment	-	-	17	6	-	79
Employee contributions	14	14	17	-	-	-
Benefits paid (including unfunded obligations)	(845)	(775)	(783)	(62)	(59)	(52)
Transferred to liabilities of businesses held for sale	(48)	-	-	-	-	-
Exchange adjustments	(189)	127	(43)	(142)	95	(33)
Closing defined benefit obligation (including unfunded obligations)	16,127	16,616	15,769	1,126	1,223	1,068
Changes in the fair value of plan assets						
Opening fair value of plan assets	15,341	14,077	13,411	568	488	496
Expected return on plan assets	887	862	843	41	41	39
Actuarial (losses)/gains	(93)	1,497	418	12	24	(13)
Assets distributed on settlements and transfers	-	(623)	-	-	-	-
Transfers in	1	-	-	-	-	-
Employer contributions	276	191	184	28	30	32
Employee contributions	14	14	17	-	-	-
Acquisition of subsidiary undertakings	82	-	21	7	-	-
Benefits paid	(845)	(774)	(783)	(58)	(59)	(52)
Transferred to liabilities of businesses held for sale	(46)	-	-	-	-	-
Exchange adjustments	(149)	97	(34)	(67)	44	(14)
Closing fair value of plan assets	15,468	15,341	14,077	531	568	488
Actual return on plan assets	794	2,359	1,261	53	65	26
Expected contributions to defined benefit plans in the following year	307	153	164	27	50	50
Amounts recognised in statement of recognised income and expense						
Actuarial net gain/(loss) during the year	357	197	271	8	(16)	(18)
Exchange differences	40	(30)	9	75	(51)	19
Total recognised for the year	397	167	280	83	(67)	1
Cumulative actuarial gain/(loss)	825	468	271	(26)	(34)	(18)

8. Pensions and other post-retirement benefits (continued)

The major categories of plan assets as a percentage of total plan assets were as follows:

	UK pensions			US pensions			US other post-retirement benefits		
	2007 %	2006 %	2005 %	2007 %	2006 %	2005 %	2007 %	2006 %	2005 %
Equities (i)	35.8	40.7	41.5	63.7	66.4	64.5	68.5	69.0	65.0
Corporate bonds	18.6	19.2	17.3	33.5	32.0	34.0	31.1	30.6	33.8
Gilts	33.9	30.1	31.9	–	–	–	–	–	–
Property	8.5	8.5	8.0	–	0.2	0.3	–	–	–
Other	3.2	1.5	1.3	2.8	1.4	1.2	0.4	0.4	1.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(i) Included within equities at 31 March 2007 were ordinary shares of National Grid plc with a value of £24m (2006: £25m). No other financial instrument issued by National Grid plc was held (2006: £nil).

The principal actuarial assumptions used were:

Discount rate (i)	5.4	4.9	5.4	5.8	6.0	5.8	5.8	6.0	5.8
Expected return on plan assets	6.1	5.8	6.2	8.3	8.3	8.3	8.3	8.3	8.3
Rate of increase in salaries (ii)	4.2	3.9	3.9	4.1	4.1	4.1	4.1	4.1	4.1
Rate of increase in pensions in payment and deferred pensions	3.3	3.0	3.0	–	–	–	n/a	n/a	n/a
Rate of increase in Retail Price Index or equivalent	3.2	2.9	2.9	2.5	3.0	3.0	n/a	n/a	n/a
Initial healthcare cost trend rate	n/a	n/a	n/a	n/a	n/a	n/a	10.0	10.0	10.0
Ultimate healthcare cost trend rate	n/a	n/a	n/a	n/a	n/a	n/a	5.0	5.0	5.0

(i) The discount rates for pension liabilities have been determined by reference to appropriate yields prevailing in the UK and US debt markets at the balance sheet date.

(ii) A promotional age-related scale has also been used where appropriate.

(iii) The pensions and other post-retirement benefit assumptions allow for future improvements in mortality.

The assumed life expectations for a retiree at age 65 are:

	UK years	US years
Today:		
Males	20.1	17.6
Females	22.5	20.2
In 20 years:		
Males	21.2	17.6
Females	23.6	20.2

Sensitivities at 31 March 2007 – all other assumptions held constant:

- a 0.1% reduction in the discount rate would lead to an increase in the pension and other post-retirement obligation of £260m and an increase in the annual pension cost of £4m.
- a 0.5% increase in the long-term rate of increase in salaries would lead to an increase in the pension and other post-retirement obligation of £139m and an increase in the annual pension cost of £8m.
- an increase of one year to life expectations at age 60 would lead to an increase in the pension and other post-retirement obligation of £557m and to an increase in the annual pension cost of £4m.

In respect of UK schemes, the expected long-term rate of return on assets has been set reflecting the price inflation expectation, the expected real return on each major asset class and the long-term asset allocation strategy adopted for each plan. The expected real returns on specific asset classes reflect historical returns, investment yields on the measurement date and general future return expectations, and have been set after taking advice from the schemes' actuaries. The current target asset allocation for the National Grid UK Pension Scheme is 36% equities, 56% bonds and 8% property and other. The current target asset allocation for National Grid's section of the Electricity Supply Pension Scheme is 61% equities, 32% bonds, 7% property and other.

In respect of US schemes, the estimated rate of return for various passive asset classes is based both on analysis of historical rates of return and forward-looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of our long-term assumptions. A small premium is added for active management of both equity and fixed income. The rates of return for each asset class are then weighted in accordance with our target asset allocation, and the resulting long-term return on asset rate is then applied to the market-related value of assets. The long-term target asset allocation for the US pension schemes is 62% equities, 34% bonds and 4% property and other. The long-term target asset allocation for other post-retirement benefit schemes is 68% equities and 32% bonds.

8. Pensions and other post-retirement benefits (continued)

Assumed healthcare cost trend rates have a significant impact on the amounts recognised in the income statement. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	2007 £m	2006 £m	2005 £m
<i>Increase</i>			
Effect on the aggregate of the service cost and interest cost	14	15	12
Effect on defined benefit obligation	170	186	156
<i>Decrease</i>			
Effect on the aggregate of the service cost and interest cost	(12)	(12)	(10)
Effect on defined benefit obligation	(147)	(161)	(136)
Experience gains on liabilities	9	192	42
Experience (losses)/gains on assets	(81)	1,521	405

9. Finance income and costs

	2007 £m	2006* £m	2005* £m
Pensions – expected return on scheme assets	926	901	881
Interest income on financial instruments	218	135	64
Interest income and similar income	1,144	1,036	945
Pensions – interest on scheme liabilities	(869)	(889)	(880)
Interest expense on financial liabilities held at amortised cost	(817)	(742)	(818)
Exceptional debt redemption and B share issue costs	(45)	(49)	–
Interest on derivatives	(54)	(49)	–
Unwinding of discounts on provisions	(21)	(18)	(14)
Less: interest capitalised	70	60	63
Interest expense	(1,736)	(1,687)	(1,649)
Net gains/(losses) on derivative financial instruments:			
Ineffectiveness on derivatives designated as fair value hedges	18	(10)	–
Ineffectiveness on derivatives designated as cash flow hedges	–	17	–
Ineffectiveness on derivatives designated as net investment hedges	25	(25)	–
On undesignated forward rate risk relating to derivatives designated as net investment hedges	(82)	36	–
On derivatives not designated as hedges or ineligible for hedge accounting	(114)	(12)	–
Financial element of remeasurements on commodity contracts	(19)	(14)	–
Net losses on derivative financial instruments and commodity contracts	(172)	(8)	–
Interest expense and other finance costs	(1,908)	(1,695)	(1,649)
Net finance costs	(764)	(659)	(704)
Comprising:			
Interest income and similar income	1,144	1,036	945
Interest expense and other finance costs			
Before exceptional items and remeasurements	(1,691)	(1,638)	(1,649)
Exceptional items and remeasurements	(217)	(57)	–
	(764)	(659)	(704)

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

Interest income on financial instruments comprises interest income from bank deposits and other financial assets £214m (2006: £130m; 2005: £59m), interest receivable on finance leases £3m (2006: £4m; 2005: £5m) and gains, transferred from equity, on disposal of available-for-sale investments £1m (2006: £1m; 2005: £nil).

Interest expense on financial liabilities held at amortised cost comprises interest on bank loans and overdrafts £48m (2006: £33m; 2005: £45m), interest on other borrowings £768m (2006: £708m; 2005: £770m) and interest on finance leases £1m (2006: £1m; 2005: £3m).

Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 5.6% (2006: 5.5%; 2005: 5.6%).

Interest expense and other finance costs include £45m (2006: £39m; 2005: £12m) relating to losses incurred on the repurchase of debt and £nil (2006: £10m; 2005: £nil) associated with the issue of B shares.

Derivative net gains on fair value hedges comprise a net loss on the hedging instruments of £100m (2006: £11m; 2005: £nil) offset by a net gain of £118m (2006: £1m; 2005: £nil) from the fair value adjustments to the carrying value of debt.

Net losses on derivatives not designated as hedges or ineligible for hedge accounting includes a loss of £126m (2006: £nil) relating to pre-tax losses on investment related derivative financial instruments that offset on a post-tax basis.

10. Taxation

Taxation on items charged/(credited) to the income statement

	2007 £m	2006* £m	2005* £m
United Kingdom			
Corporation tax at 30%	66	269	22
Adjustment in respect of prior years (i)	(28)	(8)	(19)
Deferred tax (ii)	177	–	80
	215	261	83
Overseas			
Corporate tax	109	122	33
Adjustment in respect of prior years	(149)	23	(22)
Deferred tax (ii)	266	129	212
	226	274	223
Taxation	441	535	306
Comprising:			
Taxation excluding exceptional items and remeasurements	611	565	424
Taxation on exceptional items and remeasurements (note 5)	(170)	(30)	(118)
	441	535	306

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

(i) The UK corporation tax adjustment in respect of prior years includes £51m (2006: £nil; 2005: £10m) that relates to exceptional items and remeasurements.

(ii) Included within the deferred tax charge is an amount relating to prior years of £73m (2006: £35m tax credit; 2005: £11m tax credit) before exceptional items and remeasurements and £68m (2006: £35m tax credit; 2005: £14m tax credit) after exceptional items and remeasurements respectively.

Taxation on items charged/(credited) to equity

	2007 £m	2006 £m	2005 £m
Corporation tax credit on employee share schemes	(2)	–	–
Deferred tax charge on available-for-sale investments	1	1	–
Deferred tax charge/(credit) on revaluation of cash flow hedges	10	(20)	–
Deferred tax credit on employee share schemes	(11)	(7)	(4)
Deferred tax charge on actuarial gains	70	62	66
	68	36	62
Total tax charge recognised in consolidated statement of recognised income and expense	81	43	66
Total tax credit recognised directly in equity (note 32)	(13)	(7)	(4)
	68	36	62

The tax charge for the year after exceptional items and remeasurements is lower (2006: higher; 2005: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Before exceptional items and remeasure- ments 2007 £m	After exceptional items and remeasure- ments 2007 £m	Before exceptional items and remeasure- ments 2006* £m	After exceptional items and remeasure- ments 2006* £m	Before exceptional items and remeasure- ments 2005* £m	After exceptional items and remeasure- ments 2005* £m
Profit before taxation						
Before exceptional items and remeasurements	1,909	1,909	1,858	1,858	1,700	1,700
Exceptional items and remeasurements	–	(158)	–	(140)	–	(288)
Profit before taxation from continuing operations	1,909	1,751	1,858	1,718	1,700	1,412
Profit on continuing operations multiplied by rate of corporation tax in the UK of 30% (2006: 30%; 2005: 30%)	573	525	557	515	510	424
Effects of:						
Adjustments in respect of previous years	(53)	(109)	(16)	(12)	(41)	(54)
Expenses not deductible for tax purposes	44	111	84	108	85	47
Non-taxable income	(61)	(154)	(178)	(180)	(170)	(120)
Adjustment in respect of foreign tax rates	64	70	68	58	37	22
Impact of employee share schemes	9	9	(5)	(5)	(2)	(2)
Other	35	(11)	55	51	5	(11)
Total taxation from continuing operations	611	441	565	535	424	306
	%	%	%	%	%	%
At the effective income tax rate	32.0	25.2	30.4	31.1	24.9	21.7

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

Factors that may affect future tax charges

The UK rate of corporation tax is expected to decrease from the current rate of 30% to 28% in 2008/2009. We are in the process of evaluating the impact this tax rate will have on our future tax charge.

There are £nil (2006: £nil; 2005: £39m) non-trade deficits recognised and carried forward in the year.

11. Discontinued operations

During the year, our wireless infrastructure operations in the UK and US and Australian interconnector were reclassified as businesses held for sale in the expectation that they will be disposed of during the year ending 31 March 2008. The wireless infrastructure business in the UK was sold on 3 April 2007. During the year ended 31 March 2006 holdings in four of the eight UK gas distribution networks were disposed of. During August 2004, the Argentinian joint venture, Citelec was disposed of.

Results of discontinued operations

	2007 £m	2006 £m	2005 £m
Revenue	383	493	1,313
Operating costs	(321)	(382)	(848)
Operating profit before exceptional items	117	131	552
Exceptional items (i)	(55)	(20)	(87)
Total operating profit from discontinued operations	62	111	465
Net finance costs before remeasurement finance income	(2)	(4)	(2)
Remeasurement finance income (ii)	37	–	–
Share of post-tax results of joint venture	–	–	(5)
Profit before tax from discontinued operations	97	107	458
Taxation	(11)	(45)	(153)
Profit after tax from discontinued operations	86	62	305
Gain on disposal of gas distribution networks	–	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 and remeasurements	104	77	379
Exceptional items and remeasurements	(18)	2,590	(61)
	86	2,667	318

(i) The operating exceptional item for the year ended 31 March 2007 related to an impairment of goodwill within US wireless infrastructure operations. Operating exceptional items for the year ended 31 March 2006 related to a fine (£15m) incurred in respect of a breach of health and safety laws in 1999 and to restructuring costs (£5m). Operating exceptional items for the year ended 31 March 2005 related to restructuring costs (£83m) and to environmental costs (£4m).

(ii) Remeasurement finance income for the year ended 31 March 2007 comprised £24m relating to the recognition of gains on the termination of a hedging arrangement and to £13m of subsequent mark-to-market gains.

The following assets and liabilities relate to businesses held for sale at 31 March 2007. There were no businesses held for sale at 31 March 2006.

	2007 £m
Non-current assets	
Goodwill	573
Other intangible assets	206
Property, plant and equipment	1,003
Other receivables	9
Non-current assets	1,791
Current assets	
Inventories	3
Derivative financial assets	39
Trade and other receivables	112
Cash and cash equivalents	23
Current assets	177
Assets of businesses held for sale	1,968
Current liabilities	
Trade and other payables	(198)
Current tax liabilities	(1)
Provisions	(1)
Total current liabilities	(200)
Non-current liabilities	
Borrowings	(20)
Other non-current liabilities	(78)
Deferred tax liabilities	(124)
Pensions and post-retirement obligations	(2)
Provisions	(26)
Non-current liabilities	(250)
Liabilities of businesses held for sale	(450)

12. Dividends

The following table shows the dividends paid to equity shareholders:

	2007 pence (per ordinary share)	2007 £m	2006 pence (per ordinary share)	2006 £m	2005 pence (per ordinary share)	2005 £m
Ordinary dividends						
Interim dividend for the year ended 31 March 2007	10.9	297	–	–	–	–
Final dividend for the year ended 31 March 2006	15.9	433	–	–	–	–
Interim dividend for the year ended 31 March 2006	–	–	10.2	276	–	–
Final dividend for the year ended 31 March 2005	–	–	15.2	469	–	–
Interim dividend for the year ended 31 March 2005	–	–	–	–	8.5	262
Final dividend for the year ended 31 March 2004	–	–	–	–	11.9	366
	26.8	730	25.4	745	20.4	628

In addition, the Directors are proposing a final dividend for 2007 of 17.8p per share that will absorb £481m of shareholders' equity. It will be paid on 22 August 2007 to shareholders who are on the register of members at 8 June 2007.

13. Earnings per share

Earnings per ordinary share have been calculated by dividing the profit for the year attributable to equity shareholders of the parent company by the weighted average number of ordinary shares in issue during the year.

Adjusted earnings per share, excluding exceptional items and remeasurements, are provided to reflect the business performance measures used by the Company as described in Accounting policies (r) Business performance, exceptional items and remeasurements. Further details of exceptional items and remeasurements can be found in note 5 to the accounts.

a) Basic earnings per share

	Earnings 2007 £m	Earnings per share 2007 pence	Earnings 2006* £m	Earnings per share 2006* pence	Earnings 2005* £m	Earnings per share 2005* pence
Adjusted earnings – continuing operations	1,296	47.7	1,291	45.5	1,276	41.4
Exceptional items after taxation	(41)	(1.5)	(61)	(2.2)	(147)	(4.8)
Commodity contract remeasurements after taxation	37	1.3	(38)	(1.3)	(23)	(0.7)
Derivative financial instruments remeasurements after taxation	16	0.6	(11)	(0.4)	–	–
Earnings – continuing operations	1,308	48.1	1,181	41.6	1,106	35.9
Adjusted earnings – discontinued operations	104	3.8	77	2.7	379	12.3
Gain on disposal of gas distribution networks after taxation	–	–	2,605	91.8	–	–
Other exceptional items after taxation	(18)	(0.6)	(15)	(0.5)	(61)	(2.0)
Earnings – discontinued operations	86	3.2	2,667	94.0	318	10.3
Basic earnings	1,394	51.3	3,848	135.6	1,424	46.2
		2007 millions		2006 millions		2005 millions
Weighted average number of shares – basic		2,719		2,837		3,082

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

b) Diluted earnings per share

	Earnings 2007 £m	Earnings per share 2007 pence	Earnings 2006* £m	Earnings per share 2006* pence	Earnings 2005* £m	Earnings per share 2005* pence
Adjusted diluted earnings – continuing operations	1,296	47.4	1,291	45.3	1,276	41.2
Exceptional items after taxation	(41)	(1.5)	(61)	(2.2)	(147)	(4.8)
Commodity contract remeasurements after taxation	37	1.3	(38)	(1.3)	(23)	(0.7)
Derivative financial instruments remeasurements after taxation	16	0.6	(11)	(0.4)	–	–
Diluted earnings – continuing operations	1,308	47.8	1,181	41.4	1,106	35.7
Adjusted diluted earnings – discontinued operations	104	3.8	77	2.7	379	12.3
Gain on disposal of gas distribution networks after taxation	–	–	2,605	91.4	–	–
Other exceptional items after taxation	(18)	(0.7)	(15)	(0.5)	(61)	(2.0)
Diluted earnings – discontinued operations	86	3.1	2,667	93.6	318	10.3
Diluted earnings	1,394	50.9	3,848	135.0	1,424	46.0
		2007 millions		2006 millions		2005 millions
Weighted average number of shares – diluted		2,737		2,851		3,096

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

14. Goodwill

	£m
Cost at 1 April 2005	2,045
Exchange adjustments	111
Cost at 31 March 2006	2,156
Exchange adjustments	(192)
Acquisition of subsidiary undertakings	157
Reclassification to assets of businesses held for sale	(641)
Cost at 31 March 2007	1,480
Accumulated impairment losses at 1 April 2005 and 1 April 2006	14
Exchange adjustments	(1)
Impairment charge	55
Reclassification to assets of businesses held for sale	(68)
Accumulated impairment losses at 31 March 2007	–
Net book value at 31 March 2007	1,480
Net book value at 31 March 2006	2,142

Goodwill is reviewed annually for impairment. The amounts disclosed above as at 31 March 2007 include balances relating to our operations in New England of £915m (2006: £882m; 2005: £823m) and New York of £565m (2006: £639m; 2005: £592m).

Within the New England and New York operations, goodwill is allocated to the individual subsidiary companies. These are defined as cash generating units for impairment testing purposes. The recoverability of the goodwill as at 31 March 2007 that relates entirely to the New England and New York operations has been assessed by comparing the carrying value of these operations with the recoverable amount on a value-in-use basis. This has been calculated based on projections that incorporate our best estimates of future cash flows, customer rates, costs, future prices, growth, operating costs and the cash flows, prepared from internal forecasts for the next five years extrapolated into the future by using a 2% growth rate. Cash flow projections have been discounted to reflect the time value of money, using a discount rate of 6%. The discount rate is the post-tax weighted average cost of capital. On a pre-tax basis it is estimated that the discount rate would be approximately 10%.

Goodwill with respect to wireless infrastructure operations in the UK of £557m (2006: £557m; 2005: £557m) has been reclassified to assets of businesses held for sale as at 31 March 2007, as has goodwill with respect to our US wireless infrastructure operations of £16m (2006: £64m; 2005: £59m). The impairment charge for the year ended 31 March 2007 relates entirely to discontinued operations.

The recoverable amount of the goodwill relating to wireless infrastructure operations in the UK has been based on an assessment of the fair value of the operation. This has been determined by considering other recent transactions and external information on valuations placed on similar wireless infrastructure businesses, including National Grid Wireless. The key assumption used relates to the earnings multiples that might be applicable in the purchase or sale of wireless infrastructure networks.

15. Acquisitions

On 24 August 2006, the acquisition from Southern Union Company of its Rhode Island gas distribution network was completed for total consideration of £269m, including acquisition costs of £3m. The goodwill arising on the acquisition was £144m. Goodwill principally relates to synergies, cost improvements, market and regulatory position, the assembled workforce and the potential for future growth.

The acquired operations form part of the Gas Distribution business and are presented within the Gas Distribution – US segment.

Other acquisitions that were carried out during the year ended 31 March 2007 were those of telecommunications tower operations in the US. The book and fair value of assets acquired was £72m compared with total cash consideration of £85m, giving rise to goodwill of £13m. Following the decision by management to exit our wireless infrastructure operations these acquisitions have been reported within discontinued operations and are presented in the balance sheet as businesses held for sale.

	Rhode Island gas acquisition			Other acquisitions	
	Book value at acquisition under IFRS £m	Fair value adjustments £m	Final fair value £m	Book and fair value £m	Total fair value £m
Intangible assets	9	–	9	46	55
Property, plant and equipment	141	1	142	28	170
Inventories	19	–	19	–	19
Trade and other receivables	39	–	39	1	40
Deferred tax assets	4	7	11	–	11
Current liabilities	(20)	–	(20)	(3)	(23)
Borrowings	(41)	(7)	(48)	–	(48)
Pensions and other post-retirement benefit obligations	(25)	6	(19)	–	(19)
Provisions	(2)	(6)	(8)	–	(8)
Net assets acquired	124	1	125	72	197
Goodwill arising on acquisition			144	13	157
Total consideration			269	85	354

Fair value adjustments primarily related to the revaluation of pensions and other post-retirement obligations, provisions and borrowings to their fair value at the date of acquisition. The fair values of the assets and liabilities acquired have been updated from the provisional fair values reported in our half year results for the six months ended 30 September 2006. Deferred tax assets on these adjustments amounted to £7m.

The outflow of cash and cash equivalents on the acquisitions in 2007 was as follows:

	Rhode Island gas acquisitions £m	Other acquisitions £m	Total £m
Cash consideration	269	85	354

In the consolidated income statement for the year ended 31 March 2007 the operating profit of the Rhode Island gas distribution network was £17m representing the post-acquisition results for the acquired business. If the Rhode Island gas distribution network had been acquired on 1 April 2006, the results would not have been materially different.

16. Other intangible assets

	Software £m	Customer relationships £m	Other £m	Total £m
Non-current				
Cost at 1 April 2005	273	164	32	469
Exchange adjustments	8	–	–	8
Additions	14	–	1	15
Disposals	(3)	–	–	(3)
Cost at 31 March 2006	292	164	33	489
Exchange adjustments	(5)	–	(5)	(10)
Acquisition of subsidiary undertakings	–	–	55	55
Additions	20	–	12	32
Reclassification to assets of businesses held for sale	(21)	(164)	(71)	(256)
Cost at 31 March 2007	286	–	24	310
Amortisation at 1 April 2005	97	6	8	111
Exchange adjustments	3	–	–	3
Amortisation charge for the year (i)	45	11	1	57
Disposals	(3)	–	–	(3)
Amortisation at 31 March 2006	142	17	9	168
Exchange adjustments	(3)	–	(3)	(6)
Amortisation charge for the year (i)	38	11	5	54
Reclassification to assets of businesses held for sale	(12)	(28)	(10)	(50)
Amortisation at 31 March 2007	165	–	1	166
Net book value at 31 March 2007	121	–	23	144
Net book value at 31 March 2006	150	147	24	321

(i) Includes amounts in respect of discontinued operations of £13m (2006: £13m).

Expected amortisation of intangible assets for the next five years ending 31 March is:	£m
2008	47
2009	49
2010	25
2011	15
2012	8

Current other intangible assets consist of emissions allowances of £2m (2006: £41m).

17. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2005	911	30,816	1,269	809	33,805
Exchange adjustments	35	562	12	1	610
Additions	65	588	1,339	101	2,093
Disposal of subsidiary undertakings	(30)	(6,976)	(9)	(253)	(7,268)
Other disposals	(25)	(128)	–	(18)	(171)
Reclassifications	18	840	(895)	37	–
Cost at 31 March 2006	974	25,702	1,716	677	29,069
Exchange adjustments	(53)	(841)	(27)	(1)	(922)
Additions	16	604	1,611	112	2,343
Acquisition of subsidiary undertakings	12	157	1	–	170
Reclassification to assets of businesses held for sale	(152)	(1,292)	(2)	(22)	(1,468)
Other disposals	(57)	(112)	–	(36)	(205)
Other reclassifications	38	1,248	(1,327)	41	–
Cost at 31 March 2007	778	25,466	1,972	771	28,987
Depreciation at 1 April 2005	282	10,286	–	592	11,160
Exchange adjustments	7	200	–	–	207
Depreciation charge for the year (i)	17	816	–	75	908
Disposal of subsidiary undertakings	(13)	(1,781)	–	(200)	(1,994)
Other disposals	(9)	(121)	–	(17)	(147)
Depreciation at 31 March 2006	284	9,400	–	450	10,134
Exchange adjustments	(10)	(311)	–	(1)	(322)
Depreciation charge for the year (i)	18	801	–	70	889
Reclassification to assets of businesses held for sale	(97)	(350)	–	(18)	(465)
Other disposals	(3)	(107)	–	(34)	(144)
Depreciation at 31 March 2007	192	9,433	–	467	10,092
Net book value at 31 March 2007	586	16,033	1,972	304	18,895
Net book value at 31 March 2006	690	16,302	1,716	227	18,935

(i) Includes amounts in respect of discontinued operations of £59m (2006: £64m).

The net book value of land and buildings comprised:

	2007 £m	2006 £m
Freehold	540	649
Long leasehold (over 50 years)	13	13
Short leasehold (under 50 years)	33	28
	586	690

The cost of property, plant and equipment at 31 March 2007 included £565m (2006: £504m) relating to interest capitalised.

Included within trade and other payables and other non-current liabilities at 31 March 2007 are contributions to the cost of property, plant and equipment amounting to £28m (2006: £31m) and £1,079m (2006: £1,018m) respectively.

The carrying value of property, plant and equipment held under finance leases at 31 March 2007 was £107m (2006: £134m).

Additions during the year include £1m (2006: £31m) of property, plant and equipment held under finance leases.

18. Investments in joint ventures

	£m
At 1 April 2005	17
Exchange adjustments	2
Disposals	(2)
Share of retained profit	3
Dividends received	(2)
Impairment provision written back (i)	13
Reclassification	(19)
At 31 March 2006	12
Exchange adjustments	(1)
Disposals	(8)
Share of retained profit	2
At 31 March 2007	5

(i) For the year ended 31 March 2006, a £13m reversal of impairment in the investment in National Grid's joint venture, Copperbelt Energy Corporation (CEC) was recorded. As at 31 March 2006, National Grid had agreed, but not completed, the sale of its interest in CEC at a price that was £13m higher than the net carrying value of the investment after prior year impairments. As the sales process was at an advanced stage and there was a strong indication of an increase in the investment's external market value, a reversal of impairment was recognised in accordance with IAS 36 and IFRS 5. CEC was disposed of on 27 October 2006.

19. Deferred tax assets and liabilities

The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current and prior reporting periods:

Deferred tax (assets)/liabilities

	Accelerated tax depreciation £m	Employee share options £m	Pensions and other post-retirement benefits £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2005	–	(18)	(462)	–	(931)	(1,411)
Deferred tax liabilities at 31 March 2005	4,098	–	–	–	184	4,282
At 31 March 2005	4,098	(18)	(462)	–	(747)	2,871
First time adoption of IAS 39	–	–	–	38	(54)	(16)
At 1 April 2005	4,098	(18)	(462)	38	(801)	2,855
Exchange adjustments	60	–	(10)	–	(72)	(22)
Charged/(credited) to income statement	31	(3)	25	(4)	130	179
(Credited)/charged to equity	–	(7)	62	(20)	1	36
Disposal of subsidiary undertakings	(1,068)	–	–	–	9	(1,059)
Other	–	–	(12)	–	25	13
At 31 March 2006	3,121	(28)	(397)	14	(708)	2,002
Deferred tax assets at 31 March 2006	(5)	(28)	(397)	(6)	(835)	(1,271)
Deferred tax liabilities at 31 March 2006	3,126	–	–	20	127	3,273
At 1 April 2006	3,121	(28)	(397)	14	(708)	2,002
Exchange adjustments	(90)	–	13	–	91	14
Charged/(credited) to income statement	321	9	82	(9)	54	457
(Credited)/charged to equity	–	(11)	70	11	–	70
Acquisition of subsidiary undertakings	–	–	2	–	(13)	(11)
Reclassification to liabilities of businesses held for sale	(129)	1	1	–	3	(124)
Other	63	–	(238)	5	151	(19)
At 31 March 2007	3,286	(29)	(467)	21	(422)	2,389
Deferred tax assets at 31 March 2007	(4)	(29)	(532)	(9)	(452)	(1,026)
Deferred tax liabilities at 31 March 2007	3,290	–	65	30	30	3,415
	3,286	(29)	(467)	21	(422)	2,389

Deferred tax charged to the income statement includes £14m (2006: £49m; 2005: £49m) reported within profits for the year from discontinued operations.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is intention to settle the balances net. The following is an analysis of the deferred tax balances (after offset) for balance sheet purposes:

	2007 £m	2006 £m
Deferred tax liabilities	2,389	2,161
Deferred tax assets	–	(159)
	2,389	2,002

At the balance sheet date there were no material current deferred tax assets or liabilities (2006: £nil).

Deferred tax assets in respect of capital losses, non-trade deficits, trading losses and pre-trading expenditure have not been recognised as their future recovery is uncertain or not currently anticipated. The deferred tax assets not recognised are as follows:

	2007 £m	2006 £m
Capital losses	216	338
Non-trade deficits	203	166
Trading losses	3	17
Pre-trading expenditure	–	9

The capital losses, non-trade deficits, trading losses and pre-trading expenditure are available to carry forward indefinitely. The capital losses can be offset against specific types of future capital gains, non-trade deficits against specific future non-trade profits and the trading losses and pre-trading expenditure against specific future trading profits.

The aggregate amount of temporary differences associated with the unremitted earnings of overseas subsidiaries and joint ventures for which deferred tax liabilities have not been recognised at the balance sheet date is approximately £811m (2006: £546m). No liability is recognised in respect of the differences because the Company and its subsidiaries are in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

20. Other non-current receivables

	2007 £m	2006 £m
Lease debtors	15	23
Prepayments	6	7
Other debtors	15	8
Pension asset	37	–
	73	38

The fair value of other non-current receivables at 31 March 2007 was £72m (2006: £37m).

21. Financial and other investments

	2007 £m	2006 £m
Non-current		
Available-for-sale investments	132	142
Loans and receivables	–	6
	132	148
	2007 £m	2006 £m
Current		
Available-for-sale investments	1,800	254
Loans and receivables	298	130
	2,098	384
Total financial and other investments	2,230	532

Financial and other investments include the following:

	2007 £m	2006 £m
Investments in short-term UK money funds	1,591	30
UK managed investments in equity and bonds	213	254
US managed investments in equity and bonds	74	79
Bank deposits	250	–
Restricted cash balances	44	100
Cash surrender value of life insurance policies	53	59
Other investments	5	10
	2,230	532

Available-for-sale investments are recorded at fair value. The carrying value of loans and receivables approximates their fair value.

The maximum exposure to credit risk at the reporting date is the fair value of the financial investments – refer to note 23 for further information on our treasury related credit risk. None of the financial investments is past due or impaired.

Included within current financial and other investments are £1,872m (2006: £100m) of floating-rate, interest-bearing investments. The remaining balance is non interest-bearing, being investments in equity securities and other similar investments.

Included within restricted cash balances is £22m (2006: £20m) in respect of cash posted by the Company and its subsidiaries under collateral agreements.

The carrying amounts of financial and other investments are denominated in the following currencies:

	2007 £m	2006 £m
Non-current		
US dollar	132	148
	132	148
Current		
Sterling	1,663	338
US dollar	345	46
Euro	61	–
Other	29	–
	2,098	384

22. Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives enable their users to alter exposure to market or credit risks. We use derivatives to manage both our treasury and operational market risks.

Derivatives are carried at fair value and are shown in the balance sheet as separate totals of assets and liabilities. Asset values represent the cost of replacing all transactions with a fair value in our favour assuming that all relevant counterparties default at the same time, and that the transactions can be replaced immediately in the market. Liability values represent the cost to counterparties of replacing all their transactions with a fair value in their favour in the case of default. Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists and the cash flows are intended to be settled on a net basis.

Treasury financial instruments

Derivatives are used for hedging purposes in the management of exposure to market risks. This enables the optimisation of the overall cost of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from the maturity and other profiles of its assets and liabilities.

Hedging policies using derivative financial instruments are further explained in note 23. Derivatives that are held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, cash flow hedges or net investment hedges. These are described as follows:

Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the item in relation to the risk being hedged are recognised in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to the income statement as a yield adjustment over the remainder of the hedging period.

Cash flow hedges

Exposure arises from the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates. Interest rate and cross-currency swaps are maintained, and designated as cash flow hedges, where they qualify, to manage this exposure. Fair value changes on designated cash flow hedges are initially recognised directly in the cash flow hedge reserve, as gains or losses recognised in equity. Amounts are transferred from equity and recognised in the income statement as the income or expense is recognised on the hedged asset or liability.

Forward foreign currency contracts are used to hedge anticipated and committed future currency cash flows. Where these contracts qualify for hedge accounting they are designated as cash flow hedges. On recognition of the underlying transaction in the financial statements, the associated hedge gains and losses deferred in equity are transferred and included with the recognition of the underlying transaction.

The gains and losses on ineffective portions of such derivatives are recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement or on the balance sheet. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedges

Borrowings, cross-currency swaps and forward currency contracts are used in the management of the foreign exchange exposure arising from the investment in non sterling denominated subsidiaries. Where these contracts qualify for hedge accounting they are designated as net investment hedges.

The cross-currency swaps and forward foreign currency contracts are hedge accounted using the spot to spot method. The foreign exchange gain or loss on retranslation of the debt and the spot to spot movements on the cross-currency swaps and forward currency contracts are transferred to equity to offset gains or losses on translation of the net investment in the non sterling denominated subsidiaries.

Derivatives not in a formal hedge relationship

Our policy is not to use derivatives for trading purposes, however, due to the complex nature of hedge accounting under IAS 39 some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within interest expense and other finance costs.

Operational financial instruments

Commodity derivatives are used to manage commodity prices associated with our commodity delivery operations. Information regarding our commodity contracts is shown in notes 28 and 29.

22. Derivative financial instruments (continued)

Our use of derivatives may entail a derivative transaction qualifying for one or more hedge type designations under IAS 39. The fair value and their notional amounts by designated hedge type can be analysed as follows:

	2007				2006			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps	16	(555)	(30)	(1,208)	92	(1,408)	(9)	(908)
Cross-currency interest rate swaps	50	(859)	(137)	(1,541)	146	(1,453)	(72)	(755)
	66	(1,414)	(167)	(2,749)	238	(2,861)	(81)	(1,663)
Cash flow hedges								
Interest rate swaps	15	(996)	(6)	(305)	80	(436)	(16)	(685)
Cross-currency interest rate swaps	69	(1,418)	(25)	(829)	112	(1,745)	(22)	(804)
Foreign exchange forward contracts	–	(45)	–	(39)	3	(78)	(3)	24
	84	(2,459)	(31)	(1,173)	195	(2,259)	(41)	(1,465)
Net investment hedges								
Cross-currency interest rate swaps	270	(1,651)	(32)	(524)	210	(2,639)	(56)	(1,090)
Foreign exchange forward contracts	4	(791)	(13)	(1,338)	–	37	–	27
	274	(2,442)	(45)	(1,862)	210	(2,602)	(56)	(1,063)
Derivatives not in a formal hedge relationship								
Interest rate swaps	17	(2,088)	(35)	(1,874)	22	(949)	(42)	(1,337)
Cross-currency interest rate swaps	123	(1,685)	(4)	(124)	–	(2)	(2)	(12)
Foreign exchange forward contracts	–	–	–	–	–	(24)	–	27
Equity index-linked (i)	145	(250)	(189)	(357)	–	–	–	–
	285	(4,023)	(228)	(2,355)	22	(975)	(44)	(1,322)
	709	(10,338)	(471)	(8,139)	665	(8,697)	(222)	(5,513)
Hedge positions offset within derivative instruments	(52)	–	52	–	–	–	–	–
Total	657	(10,338)	(419)	(8,139)	665	(8,697)	(222)	(5,513)

(i) The equity index-linked derivatives are investment related derivative financial instruments that offset each other on a post-tax basis.

The maturity of derivative financial instruments is as follows:

	2007		2006	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
In one year or less	277	(235)	314	(92)
Current	277	(235)	314	(92)
In more than one year, but not more than two years	26	(10)	3	(1)
In more than two years, but not more than three years	12	(7)	56	(6)
In more than three years, but not more than four years	5	(3)	18	(6)
In more than four years, but not more than five years	173	(22)	1	(1)
In more than five years	164	(142)	273	(116)
Non-current	380	(184)	351	(130)
	657	(419)	665	(222)

23. Financial risk factors

Our activities expose us to a variety of financial risks: market risk (including currency risk; fair value interest rate risk; cash flow interest rate risk); credit risk and liquidity risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. Derivative financial instruments are used to hedge certain risk exposures.

Risk management is carried out by a central treasury department under policies approved by the Board of Directors. This department identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity as discussed further in our treasury policy, described on pages 65 to 67.

(a) Market risk

(i) Foreign exchange risk

National Grid operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and investments in foreign operations.

With respect to near term foreign exchange risk, we use foreign exchange forwards to manage foreign exchange transaction exposure. Our policy is to hedge a minimum percentage of known contracted foreign currency flows in the period out to 6 months and also in the period 6 to 12 months in order to mitigate foreign currency movements in the intervening period. Where cash forecasts are uncertain, we generally cover a percentage of the foreign currency flows depending on the certainty of the cash flows.

We also manage the foreign exchange exposure to net investments in foreign operations, within a policy range, by maintaining a percentage of net debt and foreign exchange forwards in the relevant currency. The primary managed foreign exchange exposure arises from the US dollar denominated assets and liabilities held by the US operations, and a small Australian dollar foreign exchange exposure with respect to our operations in Australia.

During 2007 and 2006, derivative financial instruments were used to manage foreign currency risk as follows:

	2007					2006				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Cash and cash equivalents	733	2	858	–	1,593	1,090	12	350	–	1,452
Financial investments	1,663	61	345	29	2,098	338	–	46	–	384
Bank overdrafts	(6)	–	–	–	(6)	(3)	–	–	–	(3)
Borrowings	(8,024)	(4,677)	(2,443)	(567)	(15,711)	(5,636)	(4,023)	(2,477)	(990)	(13,126)
Pre-derivative position	(5,634)	(4,614)	(1,240)	(538)	(12,026)	(4,211)	(4,011)	(2,081)	(990)	(11,293)
Derivative effect	(1,709)	4,693	(2,972)	226	238	(2,113)	3,946	(2,151)	761	443
Net debt position	(7,343)	79	(4,212)	(312)	(11,788)	(6,324)	(65)	(4,232)	(229)	(10,850)

The exposure to US dollars largely relates to our net investment hedge activities as described and shown in note 22.

(ii) Cash flow and fair value interest rate risk

Except for the investments held pending the proposed acquisition of KeySpan, which receive floating rate interest, there are no significant interest-bearing assets maintained on an ongoing basis. The income and operating cash flows are substantially independent of changes in market interest rates.

Interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose National Grid to cash flow interest rate risk. Borrowings issued at fixed-rates expose National Grid to fair value interest rate risk. Our interest rate risk management policy as further explained on page 66 is to minimise the finance costs (being interest costs and changes in the market value of debt). Some of our borrowings issued are index-linked; that is, their cost is linked to changes in the UK retail price index (RPI). We believe that these borrowings provide a good hedge for revenues and our regulatory asset values that are also RPI-linked.

23. Financial risk factors (continued)**(a) Market risk (continued)***(ii) Cash flow and fair value interest rate risk (continued)*

The following table sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps:

	2007 £m	2006 £m
Fixed interest rate borrowings		
In one year or less	(619)	(2,028)
In more than one year, but not more than two years	(1,525)	(364)
In more than two years, but not more than three years	(569)	(1,232)
In more than three years, but not more than four years	(263)	(870)
In more than four years, but not more than five years	(901)	(261)
In more than five years	(4,886)	(4,573)
	(8,763)	(9,328)
Floating interest rate borrowings (including RPI)	(6,948)	(3,798)
Total borrowings	(15,711)	(13,126)

During 2007 and 2006, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2007					2006				
	Fixed- rate £m	Floating- rate £m	RPI(i) £m	Other (ii) £m	Total £m	Fixed- rate £m	Floating- rate £m	RPI(i) £m	Other (ii) £m	Total £m
Cash and cash equivalents	-	1,593	-	-	1,593	-	1,452	-	-	1,452
Financial investments	-	1,872	-	226	2,098	-	100	-	284	384
Bank overdrafts	-	(6)	-	-	(6)	-	(3)	-	-	(3)
Borrowings	(8,763)	(3,301)	(3,647)	-	(15,711)	(9,328)	(2,396)	(1,402)	-	(13,126)
Pre-derivative position	(8,763)	158	(3,647)	226	(12,026)	(9,328)	(847)	(1,402)	284	(11,293)
Derivative effect	2,747	(2,501)	-	(8)	238	4,162	(3,742)	-	23	443
Net debt position	(6,016)	(2,343)	(3,647)	218	(11,788)	(5,166)	(4,589)	(1,402)	307	(10,850)

(i) Represents financial instruments which are linked to the UK retail price index.

(ii) Represents financial instruments which are not directly affected by interest rate risk, such as investments in equity or other similar financial instruments.

(b) Credit risk

Credit risk is managed on a portfolio basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Treasury related credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. As at 31 March 2007 the following limits were in place for investments held with banks and financial institutions:

	Maximum limit £m	Long-term limit £m
Rating		
AAA rated G8 sovereign entities	Unlimited	Unlimited
Triple 'A' vehicles	140	140
Triple 'A' range institutions (AAA)	620 to 965	310 to 505
Double 'A' range institutions (AA)	345 to 450	175 to 225
Single 'A' range institutions (A)	80 to 140	40 to 70

As at 31 March 2007 and 2006, we had a number of exposures to individual counterparties. In accordance with our treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. Management does not expect any significant losses from non-performance by these counterparties.

The counterparty exposure under derivative financial contracts as shown in note 22 was £657m (2006: £665m), after netting agreements it was £364m (2006: £524m). This exposure is further reduced by collateral received as shown in note 27.

Wholesale and retail credit risk

Our principal commercial exposure in the UK is governed by the credit rules within the regulated codes Uniform Network Code and Connection and Use of System Code. These lay down the level of credit relative to the Regulatory Asset Value (RAV) for each credit rating. In the US, we are required to provide electricity and gas under state regulations. Our credit policies and practices are designed to limit credit exposure by collecting deposits prior to providing utility services. Collection activities are managed on a daily basis. The utilisation of credit limits is regularly monitored. Sales to retail customers are usually settled in cash or using major credit cards. Management does not expect any significant losses of receivables that have not been provided for as shown in note 25.

23. Financial risk factors (continued)**(c) Liquidity analysis**

We manage our liquidity requirements by the use of both short- and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom position which is used to demonstrate funding adequacy for at least a 12 month period.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the balance sheet date:

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
At 31 March 2007					
Non derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(776)	(1,865)	(1,013)	(12,283)	(15,937)
Interest payments on borrowings (i)	(686)	(612)	(548)	(6,489)	(8,335)
Finance lease liabilities	(17)	(17)	(12)	(113)	(159)
Other non interest-bearing liabilities	(1,525)	(214)	-	-	(1,739)
Derivative financial liabilities					
Derivative contracts – receipts	382	608	299	2,116	3,405
Derivative contracts – payments	(443)	(571)	(318)	(1,910)	(3,242)
Commodity contracts	(56)	(55)	(38)	(240)	(389)
Total at 31 March 2007	(3,121)	(2,726)	(1,630)	(18,919)	(26,396)

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
At 31 March 2006					
Non derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(2,569)	(404)	(1,317)	(8,948)	(13,238)
Interest payments on borrowings (i)	(572)	(488)	(439)	(3,982)	(5,481)
Finance lease liabilities	(20)	(26)	(22)	(124)	(192)
Other non interest-bearing liabilities	(1,582)	(324)	-	-	(1,906)
Derivative financial liabilities					
Derivative contracts – receipts	1,170	87	248	1,225	2,730
Derivative contracts – payments	(1,046)	(122)	(209)	(1,011)	(2,388)
Commodity contracts	(113)	(114)	(112)	(439)	(778)
Total at 31 March 2006	(4,732)	(1,391)	(1,851)	(13,279)	(21,253)

(i) The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating-rate interest is estimated using a future interest rate curve as at 31 March.

23. Financial risk factors (continued)

(d) Sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits, derivative financial instruments and commodity contracts. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity to changes in market variables, being UK and US interest rates, the UK retail price index and the US dollar to sterling exchange rate on our financial instruments. We have excluded from this analysis the impact of movements in market variables on the carrying value of our commodity contracts as we are able to substantially recover the costs of these contracts from customers in future periods.

The analysis also excludes the impact of movements in market variables on the carrying value of pension and other post-retirement obligations, provisions and on the non-financial assets and liabilities of overseas subsidiaries.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2007 and 31 March 2006, respectively. As a consequence, this sensitivity analysis relates to the positions at those dates and is not representative of the years then ended, as all of these varied.

The following assumptions were made in calculating the sensitivity analysis:

- the balance sheet sensitivity to interest rates relates only to derivative financial instruments and available-for-sale investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- changes in the carrying value of derivatives from movements in interest rates designated as cash flow hedges are assumed to be recorded fully within equity;
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in interest rates are recorded in the income statement as they are designated using the spot rather than the forward translation method. The impact of movements in the US dollar to sterling exchange rate are recorded directly in equity;
- changes in the carrying value of derivative financial instruments not in hedging relationships only affect the income statement;
- all other changes in the carrying value of derivative financial instruments designated as hedges are fully effective with no impact on the income statement;
- debt with a maturity below one year is floating rate for the accrued interest part of the calculation;
- the floating leg of any swap or any floating-rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations; and
- sensitivity to the retail price index does not take into account any changes to revenue or operating costs that are affected by the retail price index or inflation generally.

Using the above assumptions, the following table shows the illustrative effect on the income statement and items that are recognised directly in equity that would result from reasonably possible movements in changes in the UK retail price index, UK and US interest rates and in the US dollar to sterling exchange rate, before the effects of tax.

	2007		2006	
	Income statement -/+ £m	Equity -/+ £m	Income statement -/+ £m	Equity -/+ £m
UK retail price index +/- 0.50%	18	-	7	-
UK interest rates +/- 0.50%	50	62	63	70
US interest rates +/- 0.50%	37	11	30	10
US dollar exchange rate +/- 10%	52	194	52	228

24. Inventories

	2007 £m	2006 £m
Raw materials and consumables	69	62
Work in progress	17	22
Fuel stocks	20	24
	106	108

£97m of inventories were consumed during the year (2006: £58m; 2005: £56m). The above table includes a £3m provision for obsolescence as at 31 March 2007 (2006: £4m).

25. Trade and other receivables

	2007 £m	2006 £m
Trade receivables	638	838
Other receivables	60	137
Prepayments and accrued income	538	525
Asset held for sale	-	19
	1,236	1,519

On 27 October 2006 a subsidiary sold its interest in a joint venture, Copperbelt Energy Corporation plc. The joint venture investment was classified as an asset held for sale at 31 March 2006.

Trade receivables are non interest-bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade and other receivables approximates to their book value. Asset held for sale is recorded at fair value. All other receivables are recorded at amortised cost.

The carrying amounts of trade and other receivables are denominated in the following currencies, which in most instances are the functional currency of the respective subsidiaries. Our exposure to US dollars forms part of our net investment in our US subsidiaries which is further described in note 23 (a). We do not have any other significant exposure to currency risk on these amounts.

	2007 £m	2006 £m
Sterling	465	687
US dollar	771	832
	1,236	1,519

Provision for impairment of receivables

	£m
At 1 April 2005	133
Exchange adjustments	(9)
Charge for the year	24
Uncollectable amounts written off, net of recoveries	(41)
At 31 March 2006	107
Exchange adjustments	(12)
Charge for the year	63
Uncollectable amounts written off, net of recoveries	(51)
Reclassification to assets held for sale	(5)
At 31 March 2007	102

As at 31 March 2007, trade receivables of £18m (2006: £28m) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2007 £m	2006 £m
Up to 3 months past due	10	9
3 to 6 months past due	2	3
Over 6 months past due	6	16
	18	28

Refer to note 23 for further information about our wholesale and retail credit risk.

26. Cash and cash equivalents

	2007 £m	2006 £m
Cash at bank	50	46
Short-term deposits	1,543	1,406
Cash and cash equivalents	1,593	1,452
Bank overdrafts	(6)	(3)
Net cash and cash equivalents	1,587	1,449

The carrying amounts of cash and cash equivalents and bank overdrafts approximates their fair values.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements, and earn interest at the respective short-term deposit rates.

26. Cash and cash equivalents (continued)

Net cash and cash equivalents are held in the following currencies; those held in currencies other than sterling have been converted into sterling at year-end exchange rates:

	2007 £m	2006 £m
Sterling	727	1,087
Euro	2	12
US dollar	858	350
	1,587	1,449

National Grid USA and its public utility subsidiaries (all consolidated subsidiaries) are subject to restrictions on the payment of dividends by administrative order and contract. At 31 March 2007, £132m (2006: £46m) of cash and cash equivalents were restricted.

27. Borrowings

The following table analyses borrowings, excluding bank overdrafts:

	2007 £m	2006 £m
Current		
Bank loans	136	717
Bonds	849	1,982
Finance leases	10	14
Other loans	30	126
	1,025	2,839
Non-current		
Bank loans	930	550
Bonds	13,544	9,485
Finance leases	92	115
Other loans	120	137
	14,686	10,287
Total borrowings	15,711	13,126

Total borrowings are repayable as follows:

	2007 £m	2006 £m
In one year or less	1,025	2,839
In more than one year, but not more than two years	1,869	404
In more than two years, but not more than three years	1,011	1,288
In more than three years, but not more than four years	748	1,090
In more than four years, but not more than five years	1,411	294
In more than five years:		
by instalments	116	131
other than by instalments	9,531	7,080
	15,711	13,126

The carrying amounts of borrowings are denominated in the following currencies:

	2007 £m	2006 £m
Sterling	8,024	5,636
US dollar	2,443	2,477
Euro	4,677	4,023
Other currencies	567	990
	15,711	13,126

The fair value of borrowings at 31 March 2007 was £15,913m (2006: £13,757m). Market values, where available, have been used to determine fair value. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

Charges over property, plant and other assets were provided as collateral over borrowings totalling £418m at 31 March 2007 (2006: £607m).

The notional amount outstanding of the debt portfolio at 31 March 2007 was £16,042m (2006: £13,230m).

27. Borrowings (continued)

Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current marked-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £134m (2006: £240m) in respect of cash received under collateral agreements. Cash placed under collateral agreements is shown in note 21 Financial and other investments.

Obligations under finance leases at the balance sheet dates are analysed as follows:

	2007 £m	2006 £m
Gross finance lease liabilities repayable as follows:		
In one year or less	17	20
In more than one year, but not more than five years	48	47
In more than five years	94	125
	159	192
Less: finance charges allocated to future periods	(57)	(63)
	102	129
The present value of finance lease liabilities is as follows:		
In one year or less	9	14
In more than one year, but not more than five years	21	26
In more than five years	72	89
	102	129

The table below shows our significant bonds in issue, being £50m notional value or greater. Unless otherwise indicated, these instruments were outstanding at both 31 March 2007 and 31 March 2006.

Issuer	Description of instrument
British Transco Finance Inc.	USD 300 million 6.625% Fixed Rate Instruments due 2018
British Transco International Finance BV (i)	USD 350 million 7.0% Fixed Rate Instruments due 2006
British Transco International Finance BV	FRF 2,000 million 5.125% Fixed Rate Instruments due 2009
British Transco International Finance BV	USD 1,500 million Zero Coupon Bond due 2021
National Grid Electricity Transmission plc	EUR 600 million 4.125% Fixed Rate Instruments due 2008
National Grid Electricity Transmission plc	GBP 250 million 4.75% Fixed Rate Instruments due 2010
National Grid Electricity Transmission plc	GBP 300 million 2.983% Guaranteed Retail Price Index-Linked Instruments due 2018
National Grid Electricity Transmission plc	GBP 220 million 3.806% Retail Price Index-Linked Instruments due 2020
National Grid Electricity Transmission plc	GBP 450 million 5.875% Fixed Rate Instruments due 2024
National Grid Electricity Transmission plc	GBP 360 million 6.5% Fixed Rate Instruments due 2028
National Grid Electricity Transmission plc	GBP 70 million 3.589% Limited Retail Price Index-Linked Instruments due 2030
National Grid Electricity Transmission plc	GBP 50 million 2.817% Guaranteed Limited Retail Price Index-Linked Instruments due 2032
National Grid Electricity Transmission plc	GBP 75 million 5.0% Fixed Rate Instruments due 2035
National Grid Electricity Transmission plc	GBP 50 million 2.2280% Retail Price Index-Linked Instruments due 2035
National Grid Electricity Transmission plc	GBP 75 million 2.0353% Retail Price Index-Linked Instruments due 2035
National Grid Electricity Transmission plc	GBP 50 million 1.8204% Retail Price Index-Linked Instruments due 2035
National Grid Electricity Transmission plc	JPY 10,000 million Callable Fixed Rate Notes due 2035
National Grid Electricity Transmission plc (ii)	GBP 200 million 1.6449% RPI-Linked Instruments due 2036
National Grid Electricity Transmission plc (ii)	GBP 50 million 1.6747% RPI-Linked Instruments due 2036
National Grid Electricity Transmission plc (ii)	GBP 50 million 1.819% RPI-Linked Instruments due 2056
National Grid Electricity Transmission plc (ii)	GBP 150 million 1.823% RPI-Linked Instruments due 2056
National Grid Electricity Transmission plc (ii)	GBP 50 million 1.797% RPI-Linked Instruments due 2056
National Grid Electricity Transmission plc (ii)	GBP 50 million 1.6574% RPI-Linked Instruments due 2056
National Grid plc (ii)	CAD 200 million 4.98% Fixed Rate Instruments due 2011
National Grid plc	EUR 500 million 3.75% Fixed Rate Instruments due 2008
National Grid plc (ii)	EUR 1,000 million 4.125% Fixed Rate Instruments due 2013
National Grid plc	EUR 600 million 5.0% Fixed Rate Instruments due 2018
National Grid plc	EUR 500 million 4.375% Fixed Rate Instruments due 2020
National Grid plc (ii)	EUR 600 million Floating Rate Instruments due 2010
National Grid plc (ii)	EUR 300 million Floating Rate Instruments due 2008
National Grid plc (ii)	EUR 750 million Floating Rate Instruments due 2012
National Grid plc (ii)	EUR 300 million Floating Rate Instruments due 2009
National Grid plc (ii)	EUR 450 million Floating Rate Instruments due 2008
National Grid plc (ii)	EUR 100 million 3.25% Fixed Rate Instruments due 2009
National Grid plc (ii)	GBP 300 million 5.25% Fixed Rate Instruments due 2011
National Grid plc (ii)	GBP 250 million 5.5% Fixed Rate Instruments due 2013
National Grid plc (ii)	USD 1,000 million 6.3% Notes due 2016
National Grid plc (ii)	USD 100 million Floating Rate Instruments due 2011

27. Borrowings (continued)

Issuer	Description of instrument
New England Power Company	USD 135.85 million Tax Exempt Pollution Control Revenue Bonds, Variable Rate due 2020
New England Power Company	USD 106.15 million Tax Exempt Pollution Control Revenue Bonds, Variable Rate due 2022
NGG Finance plc (i)	EUR 1,250 million 5.25% Fixed Rate Instruments due 2006
NGG Finance plc	EUR 750 million 6.125% Fixed Rate Instruments due 2011
Niagara Mohawk Power Corporation (i)	USD 275 million 7.75% Taxable First Mortgage Bonds due 2006
Niagara Mohawk Power Corporation	USD 200 million 8.875% Senior Notes due 2007
Niagara Mohawk Power Corporation	USD 600 million 7.75% Senior Notes due 2008
Niagara Mohawk Power Corporation (iii)	USD 115.71 million 7.2% Tax-Exempt First Mortgage Bonds due 2029
National Grid Gas Holdings plc	GBP 503.078 million Floating Rate Instruments due 2009
National Grid Gas Holdings plc	GBP 503.078 million 4.1875% Index-Linked Instruments due 2022
National Grid Gas Holdings plc	GBP 503.078 million 7.0% Fixed Rate Instruments due 2024
National Grid Gas plc (i)	EUR 650 million 5.25% Fixed Rate Instruments due 2006
National Grid Gas plc (i)	GBP 250 million 6.125% Fixed Rate Instruments due 2006
National Grid Gas plc	GBP 300 million 5.625% Fixed Rate Instruments due 2007
National Grid Gas plc	GBP 250 million 8.875% Fixed Rate Instruments due 2008
National Grid Gas plc	AUD 500 million 7.0% Fixed Rate Instruments due 2008
National Grid Gas plc	GBP 300 million 5.375% Fixed Rate Instruments due 2009
National Grid Gas plc	GBP 300 million 6.0% Fixed Rate Instruments due 2017
National Grid Gas plc	GBP 275 million 8.75% Fixed Rate Instruments due 2025
National Grid Gas plc	GBP 50 million 6.2% Fixed Rate Instruments due 2028
National Grid Gas plc (ii)	GBP 100 million 1.6747% RPI-Linked Instruments due 2036
National Grid Gas plc (ii)	GBP 115 million 1.7298% RPI-Linked Instruments due 2046
National Grid Gas plc (ii)	GBP 100 million 1.6298% RPI-Linked Instruments due 2048
National Grid Gas plc (ii)	GBP 100 million 1.5522% RPI-Linked Instruments due 2048
National Grid Gas plc (ii)	GBP 300 million 1.754% RPI-Linked Instruments due 2036
National Grid Gas plc (ii)	GBP 140 million 1.7864% Index-Linked Instruments due 2037
National Grid Gas plc (ii)	GBP 50 million 1.7552% Index-Linked Instruments due 2037
National Grid Gas plc (ii)	GBP 50 million 1.6783% Index-Linked Instruments due 2037
National Grid Gas plc (ii)	GBP 100 million 1.9158% Index-Linked Instruments due 2037
National Grid Gas plc (ii)	GBP 50 million 1.8928% Index-Linked Instruments due 2037
National Grid Gas plc (ii)	GBP 65 million 1.9211% Index-Linked Instruments due 2037
National Grid Gas plc (ii)	GBP 50 million 1.7642% Index-Linked Instruments due 2037
National Grid Gas plc (ii)	GBP 100 million 1.7762% Index-Linked Instruments due 2037

(i) Matured during the year ended 31 March 2007.

(ii) Issued during the year ended 31 March 2007.

(iii) Secured against the assets of Niagara Mohawk Power Corporation.

The following significant bonds were announced to the market prior to the year end. However, they were not issued until after 31 March 2007.

Issuer	Description of instrument
National Grid Electricity Transmission plc	GBP 50 million 1.8055% Index-Linked Instruments due 2039
National Grid Electricity Transmission plc	GBP 150 million 1.8575% Index-Linked Instruments due 2039
National Grid Gas plc	GBP 100 million 1.7744% Index-Linked Instruments due 2039
National Grid Gas plc	GBP 100 million 1.8625% Index-Linked Instruments due 2039

Borrowing facilities

At 31 March 2007, there were bilateral committed credit facilities of £1,290m (2006: £1,340m), of which £1,290m (2006: £1,340m) were undrawn. In addition, there were committed credit facilities from syndicates of banks of £879m at 31 March 2007 (2006: £1,095m), of which £879m (2006: £1,095m) were undrawn. An analysis of the maturity of these undrawn committed facilities is shown below:

Undrawn committed borrowing facilities

	2007 £m	2006 £m
Expiring:		
In one year or less	762	50
In more than one year, but not more than two years	–	891
In more than two years	1,407	1,494
	2,169	2,435

At 31 March 2007, of the unused facilities £2,052m (2006: £2,232m) was held as back-up to commercial paper and similar borrowings.

28. Trade and other payables

	2007 £m	2006 £m
Trade payables	1,246	1,313
Commodity contract liabilities	138	174
Social security and other taxes	108	147
Other payables	279	269
Deferred income	81	192
	1,852	2,095

Due to their short maturities, the fair value of trade and other payables approximates to their book value. Commodity contract liabilities are recorded at fair value. All other trade and other payables are recorded at amortised cost.

The carrying amounts of trade and other payables are denominated in the following currencies, which are the functional currency of the respective subsidiaries. Our exposure to US dollars forms part of our net investment in our US subsidiaries which is further described in note 23 (a). We do not have any other significant exposure to currency risk on these amounts.

	2007 £m	2006 £m
Sterling	1,287	1,449
US dollar	565	646
	1,852	2,095

29. Other non-current liabilities

	2007 £m	2006 £m
Commodity contract liabilities	130	314
Other payables	214	324
Deferred income	1,131	1,081
	1,475	1,719

Commodity contract liabilities are recorded at fair value. All other non-current liabilities are recorded at amortised cost. The fair value of other payables at 31 March 2007 was £204m (2006: £309m).

The carrying amounts of other non-current liabilities are denominated in the following currencies, which are the functional currency of the respective subsidiaries. Our exposure to US dollars forms part of our net investment in our US subsidiaries which is further described in note 23 (a). We do not have any other significant exposure to currency risk on these amounts.

	2007 £m	2006 £m
Sterling	1,140	1,168
US dollar	335	551
	1,475	1,719

Commodity contract liabilities

Commodity contract liabilities are contracts for the purchase of electricity and gas, or derivative commodity instruments, which are carried at fair value in the balance sheet. They comprise purchased power obligations in the US, index-linked swap contracts in the US and New York Mercantile Exchange (NYMEX) gas and electricity futures that do not qualify as hedges of future sales.

Under our rate plans in the US, payments made under these contracts are recovered from customers.

The maturity of commodity contract liabilities measured at fair value can be analysed as follows:

	2007 £m	2006 £m
In one year or less	138	174
Current	138	174
In more than one year, but not more than two years	42	169
In more than two years, but not more than three years	11	50
In more than three years, but not more than four years	12	15
In more than four years, but not more than five years	12	13
In more than five years	53	67
Non-current	130	314
	268	488

Commodity contract liabilities of £268m (2006: £488m) include £136m (2006: £309m) of electricity swaps with notional quantities totalling 6,845,127 MWh (2006: 9,223,107 MWh). Other commodity contract liabilities, relating to power purchase commitments over periods of 2 to 12 years, do not have specified notional quantities. As at 31 March 2007 our obligations under those agreements totalled £389m (2006: £778m).

30. Provisions

	Decommissioning £m	Environmental £m	Emissions £m	Restructuring £m	Other £m	Total provisions £m
At 1 April 2005	105	491	4	90	101	791
Exchange adjustments	9	19	–	–	–	28
Disposal of subsidiary undertakings	–	(44)	–	–	(22)	(66)
Additions	18	3	19	35	70	145
Reclassification from working capital	24	–	–	–	5	29
Unwinding of discount	3	15	–	–	–	18
Utilised	(32)	(55)	–	(50)	(37)	(174)
At 31 March 2006	127	429	23	75	117	771
Exchange adjustments	(12)	(27)	–	–	–	(39)
Acquisition of subsidiary undertakings	1	7	–	–	–	8
Additions	–	14	13	14	1	42
Unused amounts reversed	(13)	(11)	(23)	(1)	(2)	(50)
Reclassification to working capital	–	(4)	–	–	–	(4)
Reclassification to assets of businesses held for sale	(12)	–	–	–	(15)	(27)
Unwinding of discount	4	15	–	–	2	21
Utilised	(25)	(51)	(12)	(32)	(8)	(128)
At 31 March 2007	70	372	1	56	95	594

Provisions have been analysed as current and non-current as follows:

	2007 £m	2006 £m
Current	167	235
Non-current	427	536
	594	771

Decommissioning provision

The decommissioning provision of £70m at 31 March 2007 primarily represented the net present value of the estimated expenditure (discounted at a nominal rate of 5.3%) expected to be incurred in respect of the decommissioning of certain nuclear generating units. It also included £9m relating to other asset retirement obligations. Expenditure is expected to be incurred between financial years 2008 and 2015.

Environmental provision

The environmental provision represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by subsidiary undertakings.

At 31 March 2007, £168m (2006: £193m) of the environmental provision represented the net present value of the estimated statutory decontamination costs of old gas manufacturing sites in the UK (discounted using a nominal rate of 5.6%). The anticipated timing of the cash flows for statutory decontamination cannot be predicted with certainty, but they are expected to be incurred over the financial years 2008 to 2058 with some 69% of the spend projected to be spent over the next five years.

There are a number of uncertainties that affect the calculation of the provision for UK gas site decontamination, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. We have made our best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision and hence the income statement.

The undiscounted amount of the provision at 31 March 2007 relating to UK gas site decontamination was £246m (2006: £239m), being the undiscounted best estimate of the liability having regard to the uncertainties referred to above.

The environmental provision at 31 March 2007 also included £200m (2006: £227m) which represents the net present value of estimated remediation expenditure in the US that has been discounted at a nominal rate of 6.0%. This expenditure is expected to be incurred between financial years 2008 and 2047. The uncertainties regarding the calculation of this provision are similar to those considered in respect of UK gas decontamination. However, unlike the UK, with the exception of immaterial amounts of such costs, this expenditure is expected to be recoverable from rate payers under the terms of various rate agreements in the US.

The undiscounted amount of the environmental provision relating to US sites amounted to £296m at 31 March 2007 (2006: £333m). We do not have sufficient information to calculate a range of outcomes, but it is expected that any outcome of the liability would be recovered from rate payers (with the exception of immaterial amounts of site costs).

The remainder of the environmental provision of £4m (2006: £9m) related to the expected cost of remediation of certain other sites in the UK. This is calculated on an undiscounted basis and is expected to be utilised within the next five years.

The undiscounted amount of the total environmental provision at 31 March 2007 is £546m (2006: £581m).

30. Provisions (continued)

Emissions provision

The provision for emission costs is expected to be settled using emission allowances granted which are reported as an intangible asset.

Restructuring provision

At 31 March 2007, £31m of the total restructuring provision (2006: £34m) consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties. The remainder of the restructuring provision related to business reorganisation costs in the UK, to be paid between financial years 2008 and 2016.

Other provisions

Other provisions at 31 March 2007 included £49m (2006: £51m) of estimated liabilities in respect of past events insured by insurance subsidiary undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates are based on experience from previous years and there is, therefore, no identifiable payment date. Other provisions at 31 March 2007 also included £24m (2006: £28m) in respect of the sales of four UK gas distribution networks relating to property transfer costs; and £11m (2006: £11m) in respect of obligations associated with the impairment of investments in joint ventures.

31. Share capital

Ordinary shares	Allotted, called up and fully paid	
	millions	£m
At 1 April 2004	3,088	309
Issued during the year	2	–
At 31 March 2005	3,090	309
Issued during the year	8	1
Effect of share consolidation (i)	(378)	–
At 31 March 2006	2,720	310
Issued during the year	4	–
Repurchased during the year (ii)	(23)	(2)
At 31 March 2007	2,701	308

(i) On 29 July 2005, the ordinary share capital was consolidated with 43 new ordinary shares of 11^{17/43} pence each issued for every 49 existing ordinary shares of 10 pence each cancelled.

(ii) From 20 November 2006 to 22 March 2007, the Company repurchased, and subsequently cancelled, under its share buy-back programme 22,388,381 ordinary shares for aggregate consideration of £169m, including transaction costs. The shares repurchased have a nominal value of 11^{17/43} pence each and represented 1% of the ordinary shares in issue as at 31 March 2007. The excess of the consideration over the nominal value has been charged against retained earnings.

The total consideration received in respect of ordinary shares issued during the year ended 31 March 2007 was £16m (2006: £28m; 2005: £9m).

In June 2005, we issued a Circular to Shareholders, dated 6 June 2005, outlining a £2bn return of cash to shareholders by way of a B share scheme. Shareholders were issued one B share (a non-cumulative preference share of 10 pence nominal value per share) for every existing ordinary share they held. Shareholders then had choices in respect of the B shares and the return of cash, details of which were set out in the Circular to Shareholders.

At the same time that the B shares were issued, the ordinary shares were consolidated to reflect the return of cash. Shareholders received 43 new ordinary shares (of 11^{17/43} pence nominal value per share) for every 49 existing ordinary shares (of 10 pence nominal value per share) held on the record date of 29 July 2005. This resulted in the existing 3,091,247,761 issued ordinary shares of 10 pence each, at 29 July 2005, being replaced by a total of 2,712,727,627 new ordinary shares of 11^{17/43} pence each. In addition, 3,091,247,761 B shares of 10 pence each were also issued. To facilitate the above, the authorised share capital of the Company was increased from £500m to £815m by the creation of 3,150m B shares of 10 pence each.

At 31 March 2007 and 31 March 2006, the authorised share capital of the Company was £815m (4,388m ordinary shares of 11^{17/43} pence each and 3,150m B shares of 10 pence each). At 31 March 2005, the authorised share capital of the Company was £500m (5,000m ordinary shares of 10 pence each).

31. Share capital (continued)

Share option and award plans

We operate three principal forms of share option and award plans. They are an employee Sharesave scheme, a Performance Share Plan (PSP) and the Deferred Share Plan.

In any 10 year period, the maximum number of shares that may be issued or issuable pursuant to the exercise of options under all of the share option plans may not exceed the number of shares representing 10% of the issued ordinary share capital.

The Sharesave scheme is savings-related where, under normal circumstances, share options are exercisable on completion of a three and/or five year Save-As-You-Earn contract. The exercise price of options granted represents 80% of the market price at the date the option was granted.

Under the PSP, awards have been made to Executive Directors and approximately 350 senior employees. Awards made in 2004 are subject to Total Shareholder Return (TSR) performance based on a comparator group of UK and international utilities over a three year period. For awards made in 2005 and 2006, the criteria was amended so that 50% is based on the Company's TSR performance when compared to the FTSE 100 and 50% is based on the annualised growth of the Company's EPS. Awards are delivered in National Grid plc shares. At 31 March 2007 the number of conditional awards of ordinary share equivalents outstanding under the PSP was 7,979,436 (2006: 9,235,636; 2005: 6,653,420) of which nil (2006: nil; 2005: nil) were available for release. The number of conditional awards during the year ended 31 March 2007 was 2,624,055 (2006: 3,066,047; 2005: 3,635,062) with lapses/forfeits during the year of 3,833,775 (2006: 478,324; 2005: 436,700) and vestings during the year of 50,840 (2006: nil; 2005: 2,997).

Under the Deferred Share Plan, one half of any bonus earned by Executive Directors and a predetermined part of any bonus earned by UK senior employees is automatically deferred into National Grid shares. The shares are held in trust for three years before release. At 31 March 2007 the number of conditional awards of ordinary share equivalents was 395,629 of which 99,140 were available for release. The number of conditional awards during the year ended 31 March 2007 was 409,461 with 13,832 vested during the year.

In addition we have a number of historical plans under which awards are still outstanding but no further awards are being granted. These include the Executive Plan, the Share Matching Plan and the Transitional Share Awards and Special Share Awards.

The Executive Plan applied to senior executives, including Executive Directors. Options granted for the 1999/2000 financial year were subject to the achievement of performance targets related to earnings per share growth over a three year period and have now vested. Options granted for the 2000/01 financial year and thereafter are subject to the achievement of performance targets related to total shareholder return over a three year period. The share options are generally exercisable between the third and tenth anniversaries of the date of grant if the relevant performance target is achieved. The 2000 awards remain unvested.

The Share Matching Plan applied to Executive Directors and other senior employees whereby a predetermined part of each participant's bonus entitlement was automatically deferred into National Grid plc shares (known as qualifying shares) and a matching award may be exercised under the Plan after a three year period provided the Director or senior employee is still employed by the Company or its subsidiary undertakings. At 31 March 2007 the number of options over ordinary shares outstanding under the Share Matching Plan was 383,848 (2006: 435,583; 2005: 341,482) of which 163,616 (2006: 45,384; 2005: 28,534) were exercisable. No options were granted during the year ended 31 March 2007 (2006: 149,232; 2005: 171,460) with lapses during the year of nil (2006: 1,489; 2005: nil) and exercises during the year of 51,735 (2006: 53,642; 2005: 42,163).

The Transitional Share Awards and Special Share Awards were made during the year ended 31 March 2005 to wireless employees and had a vesting period of four and two years respectively, provided the employee was still employed by the Company or its subsidiary undertakings. The number of awards made during the year ended 31 March 2005 were 188,650 and 45,700 respectively. At 31 March 2007 the number of conditional awards of ordinary share equivalents outstanding in relation to the Transitional Share Award and Special Share Awards were 77,293 (2006: 121,170; 2005: 188,650) and nil (2006: 11,000; 2005: 45,700) with lapses during the year of 5,894 (2006: 22,560; 2005: nil) and nil (2006: 16,825; 2005: nil) and vestings during the year of 38,793 (2006: 44,110; 2005: nil) and 11,000 (2006: 17,875; 2005: nil) respectively. Following the sale of the UK wireless infrastructure operations it was agreed that the outstanding share equivalents vested in full on completion of the disposal.

31. Share capital (continued)

Movement in options to subscribe for ordinary shares under the Company's various options schemes for the three years ended 31 March 2007 is shown below and includes those options related to shares issued to employee benefit trusts:

	Sharesave scheme options		Executive Plan options		Total options millions
	Weighted average price £	millions	Weighted average price £	millions	
At 31 March 2004	3.32	31.7	4.84	12.0	43.7
Granted	3.83	4.8	–	–	4.8
Lapsed – expired	3.36	(1.5)	5.02	(1.1)	(2.6)
Exercised	3.37	(3.8)	3.90	(0.5)	(4.3)
At 31 March 2005	3.35	31.2	4.86	10.4	41.6
Granted	4.34	5.6	–	–	5.6
Lapsed – expired	3.33	(4.1)	4.32	(0.9)	(5.0)
Exercised	3.25	(12.8)	4.04	(2.3)	(15.1)
At 31 March 2006	3.68	19.9	5.01	7.2	27.1
Granted	5.58	4.2	–	–	4.2
Lapsed – expired	3.82	(0.9)	5.48	(1.9)	(2.8)
Exercised	3.43	(1.9)	5.00	(2.1)	(4.0)
At 31 March 2007	4.07	21.3	4.74	3.2	24.5

Included within options outstanding at 31 March 2007, 31 March 2006 and 31 March 2005 were the following options that were exercisable:

At 31 March 2007	3.17	4.1	4.63	2.4	6.5
At 31 March 2006	3.24	0.5	5.03	7.1	7.6
At 31 March 2005	3.25	0.3	4.99	6.3	6.6

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2007 was 3 years and 1 month. These options have exercise prices between £3.15 and £5.58.

The weighted average share price at the exercise dates was as follows:

	2007 £	2006 £	2005 £
Sharesave scheme options	6.50	5.89	4.49
Executive Plan options	6.68	5.50	4.65

Options outstanding and exercisable and their weighted average exercise prices for the respective ranges of exercise prices and years at 31 March 2007 are as follows:

	Weighted average exercise price of exercisable options £	Number exercisable millions	Weighted average exercise price of outstanding options £	Number outstanding millions	Exercise price per share pence	Normal dates of exercise years
Executive Plan	2.81	0.2	2.81	0.2	258.0 – 280.5	2001 – 2008
	3.82	0.3	3.82	0.3	375.8 – 490.0	2002 – 2009
	5.34	0.4	5.34	0.4	424.0 – 566.5	2003 – 2010
	5.28	0.1	5.31	0.8	526.0 – 623.0	2004 – 2011
	4.71	1.4	4.71	1.4	434.3 – 481.5	2006 – 2013
	4.05	–	4.05	0.1	405.0	2007 – 2014
	4.63	2.4	4.74	3.2		

Cash of £16m (2006: £54m; 2005: £13m) was received on exercise of all share options during the year. The tax benefits realised from stock options exercised during the year was £5m (2006: £5m; 2005: £nil).

The aggregate intrinsic value of all options outstanding and exercisable at 31 March 2007 amounted to £115m and £29m respectively.

Share-based payment charges

Under IFRS, a charge is made to the income statement based on the fair value of grants in accordance with IFRS 2 'Share-based Payment'. All share awards are equity settled.

The charge to the income statement for the year ended 31 March 2007 was £15m (2006: £17m; 2005: £16m). The related tax (charge)/benefit recognised in the income statement was £(9)m (2006: £2m; 2005: £7m).

31. Share capital (continued)**Awards under share option plans**

The average share prices at the date of options being granted during each of the three financial years ended 31 March were as follows:

	2007	2006	2005
Where the exercise price is less than the market price at the date of grant	746.0p	569.0p	496.0p

The average exercise prices of the options granted during each of the three financial years ended 31 March were as follows:

	2007	2006	2005
Where the exercise price is less than the market price at the date of grant	558.0p	434.0p	383.0p

The average fair values of the options granted during each of the three financial years ended 31 March were estimated as follows:

	2007	2006	2005
Where the exercise price is less than the market price at the date of grant	166.8p	128.0p	90.4p

The fair values of the options granted were estimated using the following principal assumptions:

	2007	2006	2005
Dividend yield (%)	4.5	4.5	5.5-5.8
Volatility (%)	15.6-18.9	15.6-18.9	15.4
Risk-free investment rate (%)	4.2	4.2	4.5
Average life (years)	3.9	4.3	4.0

The fair values of awards under the Sharesave scheme have been calculated using the Black-Scholes European model for awards made prior to 1 April 2006. This is considered appropriate given the short exercise window of sharesave options. The fair value of awards made in 2007 have been calculated by reference to the prior year's Black-Scholes European model calculation.

Volatility has been derived based on the following:

- (i) implied volatility in traded options over the Company's shares;
- (ii) historical volatility of the Company's shares from October 2002 (the date of the business combination with Lattice Group plc); and
- (iii) implied volatility of comparator companies where options in their shares are traded.

Volatility is assumed to revert from its current implied level to its long run mean, based on historical volatility under (ii) above.

Awards under other share scheme plans

The average share prices and fair values at the date share awards were granted during each of the three financial years ended 31 March were as follows:

	2007	2006	2005
Average share price	594.0p	535.6p	431.7p
Average fair value	403.1p	358.0p	210.6p

The fair values of the awards granted were estimated using the following principal assumptions:

	2007	2006	2005
Dividend yield (%)	4.4	4.4	5.3-5.7
Volatility (%)	19.9	19.9	15.4
Risk-free investment rate (%)	4.1	4.1	4.5-5.2

Fair values have been calculated using a Monte Carlo simulation model for awards with total shareholder return performance conditions made prior to 1 April 2006. The fair value of awards made in 2007 has been calculated by reference to the prior year's Monte Carlo simulation model calculation. Fair values of awards with performance conditions based on earnings per share have been calculated using the share price at date of grant less the present value of dividends foregone during the performance period.

For other share scheme awards, where the primary vesting condition is that employees complete a specified number of years service, the fair value has been calculated as the share price at date of grant, adjusted to recognise the extent to which participants do not receive dividends over the vesting period.

Volatility for share awards has been calculated on the same basis as used for share options, as described above.

32. Reconciliation of movements in total equity

	Called-up share capital £m	Share premium account £m	Retained earnings £m	Translation reserve £m	Cash flow hedge reserve £m	Available- for-sale investment reserve £m	Other reserves £m	Total shareholders' equity £m	Minority interests £m	Total equity £m
At 1 April 2004	309	1,280	4,642	–	–	–	(5,131)	1,100	10	1,110
Net income/(expense) recognised										
directly in equity	–	–	187	(6)	–	–	–	181	–	181
Profit for the year	–	–	1,424	–	–	–	–	1,424	–	1,424
Equity dividends	–	–	(628)	–	–	–	–	(628)	–	(628)
Issue of ordinary share capital	–	9	–	–	–	–	–	9	–	9
Movement in shares held by										
employee share trusts	–	–	5	–	–	–	–	5	–	5
Share-based payment	–	–	16	–	–	–	–	16	–	16
Tax on share-based payment	–	–	4	–	–	–	–	4	–	4
At 31 March 2005	309	1,289	5,650	(6)	–	–	(5,131)	2,111	10	2,121
Adoption of IAS 39	–	–	(91)	(7)	51	4	–	(43)	–	(43)
At 1 April 2005	309	1,289	5,559	(13)	51	4	(5,131)	2,068	10	2,078
Net income/(expense) recognised										
directly in equity	–	–	121	140	(14)	2	–	249	1	250
Profit for the year	–	–	3,848	–	–	–	–	3,848	2	3,850
Equity dividends	–	–	(745)	–	–	–	–	(745)	–	(745)
Return of capital to shareholders										
through B share scheme	–	–	(2,009)	–	–	–	–	(2,009)	–	(2,009)
Issue of ordinary share capital	1	27	–	–	–	–	–	28	–	28
Other movements in minority										
interests	–	–	–	–	–	–	–	–	(2)	(2)
Movement in shares held in										
employee share trusts	–	–	19	–	–	–	–	19	–	19
Share-based payment	–	–	17	–	–	–	–	17	–	17
Tax on share-based payment	–	–	7	–	–	–	–	7	–	7
At 31 March 2006	310	1,316	6,817	127	37	6	(5,131)	3,482	11	3,493
Net income/(expense) recognised										
directly in equity	–	–	295	(175)	(11)	(5)	–	104	(1)	103
Profit for the year	–	–	1,394	–	–	–	–	1,394	2	1,396
Equity dividends	–	–	(730)	–	–	–	–	(730)	–	(730)
Issue of ordinary share capital	–	16	–	–	–	–	–	16	–	16
Repurchase of shares	(2)	–	(169)	–	–	–	2	(169)	–	(169)
Other movements in minority										
interests	–	–	–	–	–	–	–	–	(1)	(1)
Share-based payment	–	–	15	–	–	–	–	15	–	15
Tax on share-based payment	–	–	13	–	–	–	–	13	–	13
At 31 March 2007	308	1,332	7,635	(48)	26	1	(5,129)	4,125	11	4,136

As at 31 March 2007 and 31 March 2006 the Company and its subsidiary undertakings had nil own shares included in retained earnings. As at 31 March 2005, own shares were included in the retained earnings reserve related to seven million 10p ordinary shares in National Grid plc, held by employee share trusts for the purpose of satisfying certain obligations under various share option schemes operated by National Grid. The carrying value of £29m (market value £33m) represented the exercise amounts receivable in respect of those shares that were issued at market value by the Company and the cost in respect of those shares purchased in the open market. Funding was provided to the trusts by subsidiary undertakings. The trusts waived their rights to dividends on those shares.

Other reserves primarily represent the difference between the carrying value of subsidiary undertakings, investments and their respective capital structures following the Lattice demerger from BG Group plc and the 1999 Lattice refinancing of £(5,745)m. The reserve also included merger differences of £221m and £359m together with unrealised gains of £32m on transfer of fixed assets to a former joint venture which subsequently became a subsidiary undertaking.

Gains and losses recognised in the cash flow hedge reserve on interest rate swap contracts as of 31 March 2007 will be continuously transferred to the income statement until the borrowings are repaid (note 27).

The amount of the cash flow hedge reserve due to be released from reserves to the income statement within the next year is £10m, with the remaining amount due to be released with the same maturity profile as borrowings in note 27.

33. Consolidated cash flow statement

a) Cash flow from operating activities – discontinued operations

	2007 £m	2006 £m	2005 £m
Operating profit	62	111	465
Adjustments for:			
Exceptional items	55	20	87
Depreciation and amortisation	72	77	213
Share-based payment charge	-	3	4
Changes in working capital, provisions and pensions	(8)	(47)	(50)
Cash flow relating to exceptional items	-	(26)	(81)
Cash flow relating to discontinued operations	181	138	638

b) Reconciliation of net cash flow to movement in net debt

	2007 £m	2006 £m	2005 £m
Movement in cash and cash equivalents	175	1,181	8
Increase/(decrease) in financial investments	1,725	(25)	59
(Increase)/decrease in borrowings and derivatives	(3,045)	2,304	(1,052)
Cash paid to shareholders under B share scheme	26	1,957	-
Net interest paid (i)	597	704	n/a
Change in net debt resulting from cash flows	(522)	6,121	(985)
Exchange adjustments (i)	-	-	112
Changes in fair value of financial assets and liabilities and exchange movements (i)	331	(299)	n/a
Issue of B shares	-	(2,009)	-
Net interest charge (i)	(655)	(660)	n/a
Acquisition of subsidiary undertaking	(48)	-	-
Amounts reclassified to businesses held for sale	(42)	-	-
Other non-cash movements	(2)	(17)	(28)
Movement in net debt (net of related derivative financial instruments) in the year	(938)	3,136	(901)
Net debt at start of year	(10,850)	(13,638)	(12,737)
Impact of adoption of IAS 32 and IAS 39 (i)	-	(348)	-
Net debt (net of related derivative financial instruments) at end of year	(11,788)	(10,850)	(13,638)

(i) The adoption of IAS 39 resulted in changes to the carrying value of borrowings and financial investments as at 1 April 2005.

c) Analysis of changes in net debt

	At 1 April 2004 £m	Cash flow £m	Exchange adjustments £m	Other non-cash movements £m	At 31 March 2005 £m
Cash and cash equivalents	273	-	(1)	-	272
Bank overdrafts	(26)	8	-	-	(18)
Financial investments	247	8	(1)	-	254
Borrowings	343	59	(4)	-	398
	(13,327)	(1,052)	117	(28)	(14,290)
	(12,737)	(985)	112	(28)	(13,638)

	At 1 April 2005 £m	Impact of adoption of IAS 32 and IAS 39 (i) £m	Cash flow £m	Fair value gains and losses £m	Issue of B shares £m	Interest charges £m	Other non-cash movements £m	At 31 March 2006 £m
Cash and cash equivalents	272	-	1,166	14	-	-	-	1,452
Bank overdrafts	(18)	-	15	-	-	-	-	(3)
Financial investments (ii)	254	-	1,181	14	-	-	-	1,449
Borrowings (ii)	398	3	(155)	3	-	135	-	384
Derivatives (ii)	(14,290)	(894)	5,037	(207)	(2,009)	(746)	(17)	(13,126)
	-	543	58	(109)	-	(49)	-	443
	(13,638)	(348)	6,121	(299)	(2,009)	(660)	(17)	(10,850)

	At 1 April 2006 £m	Cash flow £m	Fair value gains and losses £m	Interest charges £m	Other non-cash movements £m	At 31 March 2007 £m
Cash and cash equivalents	1,452	178	(14)	-	(23)	1,593
Bank overdrafts	(3)	(3)	-	-	-	(6)
Financial investments (ii)	1,449	175	(14)	-	(23)	1,587
Borrowings (ii)	384	1,509	(9)	215	(1)	2,098
Derivatives (ii)	(13,126)	(2,233)	511	(833)	(30)	(15,711)
	443	27	(157)	(37)	(38)	238
	(10,850)	(522)	331	(655)	(92)	(11,788)

(i) There are no comparatives for net debt-related derivative assets and liabilities at 31 March 2005 as National Grid adopted IAS 39 with effect from 1 April 2005 consistent with the requirements of IFRS 1. The adoption of IAS 39 also resulted in changes to the carrying value of borrowings and financial investments as at 1 April 2005.

(ii) Includes interest.

34. Related party transactions

The following information is provided in accordance with IAS 24, Related Party Disclosures, as being material transactions with related parties during the year. These transactions are with joint ventures and a pension plan and were in the normal course of business and are summarised below:

	2007 £m	2006 £m	2005 £m
Sales: Services supplied to a pension plan	4	4	4
Purchases: Services received from joint ventures	26	32	24

At 31 March 2007, there were amounts receivable and payable from and to related parties amounting to £nil (2006: £nil; 2005: £1m) and £2m (2006: £1m; 2005: £1m) respectively, which are due on normal commercial terms.

Details of investments in principal subsidiary undertakings and joint ventures are disclosed in note 36 and information relating to pension fund arrangements is disclosed in note 8. Details of Directors and key management remuneration is set out in note 6 and the Directors' remuneration report.

35. Commitments and contingencies

a) Future capital expenditure

	2007 £m	2006 £m
Contracted for but not provided	1,554	1,343

b) Lease commitments

Total commitments under non-cancellable operating leases were as follows:

	2007 £m	2006 £m
In one year or less	80	87
In more than one year, but not more than two years	76	80
In more than two years, but not more than three years	72	75
In more than three years, but not more than four years	68	71
In more than four years, but not more than five years	64	67
In more than five years	440	451
	800	831

c) Power commitments

At 31 March 2007, there were obligations to purchase energy under long-term contracts. The following table analyses these commitments, excluding commodity contracts carried at fair value (notes 28 and 29):

	2007 £m	2006 £m
In one year or less	1,233	1,391
In more than one year, but not more than two years	642	821
In more than two years, but not more than three years	476	641
In more than three years, but not more than four years	186	494
In more than four years, but not more than five years	141	14
In more than five years	1,053	1,314
	3,731	4,675

In addition, power commitments under commodity contracts recorded at fair value and incorporated in Other non-current liabilities were £389m (2006: £778m).

d) KeySpan

We have agreed to purchase KeySpan Corporation, a US utility company for \$7.3bn (£3.7bn), conditional on regulatory approval.

e) Other commitments, contingencies and guarantees

The value of other commitments, contingencies and guarantees at 31 March 2007 amounted to £537m (2006: £334m), including guarantees amounting to £229m (2006: £149m) and commitments largely relating to gas purchasing and property remediation of £198m (2006: £114m). The value of other commitments and contingencies relating to businesses held for sale was £62m.

Details of the guarantees entered into by the Company or its subsidiary undertakings at 31 March 2007 are shown below:

- (i) a guarantee of £50m of the obligations of a subsidiary undertaking to make payments in respect of any liabilities under a meter operating contract that runs until May 2008;
- (ii) an uncapped guarantee, for which the maximum liability is estimated at £40m, to The Crown Estates in support of the transfer of the interconnector between France and England to National Grid Interconnectors Limited as part of the Licence to Assign Lease. This is ongoing;
- (iii) a guarantee in support of the payment obligations of a subsidiary undertaking in respect of a combined heat and power plant which will increase to approximately £40m in February 2010. This reduces following commissioning, expected to be in February 2010, by £2m per annum until it expires in 2027;

35. Commitments and contingencies (continued)

e) Other commitments, contingencies and guarantees (continued)

- (iv) guarantees of £20m relating to certain property obligations of subsidiary undertakings. The bulk of these expire by December 2025;
- (v) guarantees in respect of a former associate amounting to £14m, the bulk of which relates to its obligations to supply telecommunications services. These are open-ended;
- (vi) a guarantee of the payment obligations of a subsidiary undertaking in respect of a power connection agreement amounting to a maximum potential payout of £14m subject to a cap of £7m per annum. This runs until December 2024;
- (vii) indemnities estimated to be up to a maximum of £14m given to the trustees of a defined contribution pension scheme. These are open-ended;
- (viii) a guarantee of the payment obligations of a subsidiary undertaking in respect of a nitrogen supply agreement amounting to a maximum potential payout of £12m subject to a cap of £1m per annum. This runs until November 2019; and
- (ix) other guarantees amounting to £25m arising in the normal course of business and entered into on normal commercial terms. These guarantees run for varying lengths of time.

Subsequent to 31 March 2007, we issued letters of support to third parties currently amounting to approximately £193m in total relating to the BritNed electricity interconnector project. In addition, we entered into a guarantee in favour of a third party of approximately £260m with respect to the construction contract for Phase III of the Grain LNG import terminal.

f) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £32m (2006: £26m).

g) Litigation and claims

National Grid, together with the Environment Agency, sought judicial review to clarify the legal position with regard to the remediation of a site in Bawtry, Yorkshire, a former gas site which was not part of the assets that formed part of the gas privatisation in 1986 and therefore had never been owned by National Grid. On 17 May 2006, the High Court found in favour of the Environment Agency. However, the judgement concluded that the matters raised in the proceedings were of considerable general importance and permission to apply for leave to appeal directly to the House of Lords was granted.

A hearing before the House of Lords has been set for 21 and 22 May 2007 and a judgement is expected in the summer of 2007.

We remain convinced of our case that National Grid has no legal liability with respect to the site in Bawtry, nor for other former UK gas sites which did not form part of the assets we acquired at the time of privatisation, and believe that our position will be upheld by the House of Lords.

At this stage we are unable to estimate reliably the impact of an adverse decision.

36. Subsidiary undertakings and joint ventures

Principal subsidiary undertakings

The principal subsidiary undertakings included in the consolidated accounts at 31 March 2007 are listed below. These undertakings are wholly-owned and, unless otherwise indicated, are incorporated in Great Britain.

	Principal activity
National Grid Gas plc (i)	Gas transportation
National Grid Electricity Transmission plc (i)	Transmission of electricity in England and Wales
New England Power Company (Incorporated in the US) (i)	Transmission of electricity
Massachusetts Electric Company (Incorporated in the US) (i)	Distribution of electricity
The Narragansett Electric Company (Incorporated in the US) (i)	Distribution of electricity
Niagara Mohawk Power Corporation (Incorporated in the US) (i)	Distribution and transmission of electricity and gas
National Grid Wireless No 2 Limited (i) (iii)	Telecommunications infrastructure
National Grid Wireless Limited (i) (iii)	Telecommunications and broadcast infrastructure
NGG Finance plc (ii)	Financing
British Transco International Finance B.V. (Incorporated in The Netherlands) (i)	Financing
National Grid Property Limited (i)	Property
National Grid Holdings One plc (ii)	Holding company
Lattice Group plc (i)	Holding company
National Grid USA (Incorporated in the US) (i)	Holding company
Niagara Mohawk Holdings Inc. (Incorporated in the US) (i)	Holding company
National Grid Commercial Holdings Limited (i)	Holding company
National Grid Gas Holdings plc (i)	Holding company
National Grid (US) Holdings Limited (ii)	Holding company
National Grid Holdings Limited (i)	Holding company

(i) Issued ordinary share capital held by subsidiary undertakings.

(ii) Issued ordinary share capital held by National Grid plc.

(iii) Included within wireless infrastructure operations in the UK which was sold on 3 April 2007.

Principal joint venture

At 31 March 2006, the joint venture investment in 38.5% of the ordinary shares of Copperbelt Energy Corporation plc, a company involved in the transmission, distribution and supply of electricity in Zambia, was classified as an asset held for sale and the sale completion was made on 27 October 2006.

A full list of all subsidiary and associated undertakings is available from the Company Secretary and General Counsel of the Company.

37. Subsequent events

On 3 April 2007, our wireless infrastructure operations in the UK were disposed of for cash proceeds of £2.5bn. In April 2007, we also agreed to the sale of our US wireless infrastructure operations with completion expected in the autumn of 2007 for proceeds of approximately \$290m.

38. Differences between IFRS and US generally accepted accounting principles

National Grid prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, which differ in certain respects from generally accepted accounting principles in the United States (US GAAP). IFRS as adopted by the European Union is materially the same as IFRS published by the International Accounting Standards Board (IASB).

The most significant difference between IFRS and US GAAP as it relates to National Grid is that the business combination with Lattice Group plc was accounted for as a merger (pooling of interests) under the then prevailing accounting standards generally accepted in the UK (UK GAAP). This accounting treatment of the transaction and its resulting account balances were retained at 1 April 2004, the date of transition to IFRS. Under US GAAP, this transaction was accounted for as an acquisition (purchase accounting) of Lattice Group plc. Consequently, under IFRS, the accounts represent the combined accounts of National Grid plc and Lattice Group plc on an historical cost basis for all periods presented. Under US GAAP, the accounts presented include Lattice Group plc and subsidiaries at fair value at the date of acquisition.

Condensed income statements, statements of comprehensive income and changes in shareholders' equity and balance sheets in accordance with US GAAP disclosure requirements are presented in note 39. The balance sheets at 31 March 2006 and 31 March 2007 include the impact of the fair value of the acquired assets and liabilities of Lattice Group plc prepared under US GAAP at the date of acquisition. The effect of US GAAP adjustments on the profit for the financial year attributable to equity shareholders and shareholders' equity is set out below.

Reconciliation of profit from IFRS to US GAAP

The following is a summary of the material adjustments to profit that would have been required if US GAAP had been applied instead of IFRS:

	Notes	2007 £m	2006* £m	2005* £m
Profit for the year attributable to equity shareholders under IFRS		1,394	3,848	1,424
Adjustments to conform with US GAAP				
Purchase accounting	(a)	(124)	(127)	(176)
US regulatory accounting	(b)	(474)	(269)	(246)
Pensions and other post-retirement benefits	(c)	(94)	(56)	(21)
Financial instruments	(d)	160	(108)	254
Severance and onerous lease costs	(e)	2	(63)	62
Revenue recognition	(f)	5	(48)	5
Discounting of provisions	(i)	3	(14)	–
Sale and leaseback	(k)	(19)	–	–
Current tax	(l)	15	–	–
Deferred taxation	(m)	295	208	19
Other	(n)	15	(1)	2
Discontinued operations	(a), (c), (d), (g), (h)	(32)	(2,349)	(51)
Discontinued operations – deferred taxation	(m)	–	286	16
		(248)	(2,541)	(136)
Net income under US GAAP		1,146	1,307	1,288

*Reclassified as a result of businesses qualifying as discontinued operations in 2006/07. The 2005 comparatives have been restated due to the change in methodology for calculating net periodic pension charge, as described in note 38 (c)

Reconciliation of shareholders' equity from IFRS to US GAAP

The following is a summary of the material adjustments to shareholders' equity that would have been required if US GAAP had been applied instead of IFRS:

	Notes	2007 £m	2006 £m
Total shareholders' equity under IFRS		4,125	3,482
Adjustments to conform with US GAAP			
Purchase accounting – property, plant and equipment	(a)	2,038	2,162
Purchase accounting – goodwill	(g)	2,648	2,689
US regulatory accounting	(b)	2,209	2,702
Pensions and other post-retirement benefits	(c)	–	886
Financial instruments	(d)	10	119
Revenue recognition	(f)	(37)	(42)
Intangible assets	(h)	26	28
Provisions	(i)	(142)	(154)
Non-reversal of impairments	(j)	(23)	(39)
Sale and leaseback	(k)	(19)	–
Deferred taxation	(m)	(1,477)	(2,090)
Other	(n)	(28)	4
		5,205	6,265
Shareholders' equity under US GAAP		9,330	9,747

38. Differences between IFRS and US generally accepted accounting principles (continued)

The principal differences between IFRS and US GAAP, as applied in preparing the accounts under US GAAP, are set out below:

a) Purchase accounting – property, plant and equipment

In accordance with IFRS 1, business combinations that occurred prior to 31 March 2004 have not been restated. The business combination with Lattice Group plc has therefore not been adjusted from the amount calculated under the Company's previous basis of accounting under UK GAAP and continues to be accounted for as a merger (pooling of interests) under IFRS. However, under US GAAP the business combination was accounted for using purchase accounting. As a consequence, fair value adjustments have been recognised under US GAAP in relation to property, plant and equipment, which are being depreciated over the related assets' useful economic lives. As a result, goodwill arising on the purchase has been recognised under US GAAP.

The impact of this adjustment has been to decrease other operating income by £8m (2006: £29m; 2005: £31m) due to the fair value impact on the net book value of property, plant and equipment disposed, increase the depreciation charge by £116m (2006: £98m; 2005: £138m), and increase other charges by £nil (2006: £nil; 2005: £7m).

Purchase accounting adjustments and goodwill associated with the businesses, which were disposed during 2005/06 have been recycled to net income and recognised as a reduction in the gain on disposal compared with that recorded under IFRS. These adjustments are reported within discontinued operations.

b) US regulatory accounting

Statement of Financial Accounting Standard (SFAS) 71 'Accounting for the Effects of Certain Types of Regulation' establishes US GAAP for utilities whose regulators have the power to approve and/or regulate rates that may be charged to customers. Provided that through the regulatory process the utility is substantially assured of recovering its allowable costs by the collection of revenue from its customers, such costs not yet recovered are deferred as regulatory assets. Such recoverable assets, which would be recognised as regulatory assets under US GAAP, are not recognised as assets under IFRS on the basis that they do not meet the criteria for recognition as an asset, intangible or other, under IFRS and are therefore expensed. Under US GAAP, these costs are amortised over the period indicated in the rate agreements with the regulators.

Regulatory liabilities are recorded for revenues collected for payment of future costs or for future return to customers. Under IFRS, these amounts are recognised as revenue when receivable.

The principal impacts of this adjustment on the income statement are a decrease to revenue of £21m (2006: £89m increase; 2005: £37m increase), an increase in purchases of electricity of £288m (2006: £116m; 2005: £182m) and an increase in other charges (principally regulatory asset amortisation) of £182m (2006: £271m; 2005: £96m). In the balance sheet, the principal impacts are to report current regulatory assets of £305m (2006: £246m) and non-current regulatory assets of £2,575m (2006: £2,805m), increase property, plant and equipment by £265m (2006: £222m), and increase other non-current liabilities by £873m (2006: £381m).

The following table details the various material components and amounts of regulatory assets net of related regulatory liabilities and the impact of US regulatory accounting:

	Net impact of US regulatory accounting	
	2007 £m	2006 £m
Stranded costs and CTC (i) related	1,092	1,355
Purchased power and deferrals	67	124
Derivative instruments	263	478
Environmental, remediation and decommissioning	350	418
Pensions and post-retirement benefits	499	265
Other	(62)	62
	2,209	2,702

(i) Contract Termination Charge and Competitive Transmission Charge (collectively referred to as CTC).

c) Pensions and other post-retirement benefits

The Company has adopted SFAS 158 'Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans, an amendment of FASB statements No. 87, 106 and 132(R)' (SFAS 158).

The incremental effect of applying SFAS 158 is set out below:

	Before application of SFAS 158 £m	Adjustments £m	After application of SFAS 158 £m
Intangible assets	41	(41)	–
Regulatory assets	20	274	294
Post-retirement benefits	(1,026)	(196)	(1,222)
Deferred tax	339	14	353
Accumulated comprehensive loss	(626)	51	(575)

Net losses of £87m included in accumulated comprehensive loss are expected to be recognised as a component of net periodic cost in the year ending 31 March 2008, of which £13m is in respect of prior service costs.

The effect of SFAS 158 was to increase assets by £233m, increase liabilities by £182m and increase equity by £51m.

38. Differences between IFRS and US generally accepted accounting principles (continued)

c) Pensions and other post-retirement benefits (continued)

Under IFRS, actuarial gains and losses are recognised in the statement of recognised income and expense in the year in which they occur. Under US GAAP, amortisation of unrecognised actuarial gains and losses that fall outside a specified corridor are recognised within the income statement.

Interest costs associated with pension and other post-retirement benefit obligations are presented within finance costs under IFRS as opposed to within net periodic pension costs under US GAAP.

Under IFRS, curtailment or settlement gains and losses are included in full in the income statement. Under US GAAP, these gains and losses are recognised in the income statement to the extent that they exceed unrecognised losses.

In 2007 the method of calculating the market related value in one pension plan has been changed. Previously gains or losses on assets in the plan were deferred and recognised over a five year period. The fair value method is now used to determine the market related value. The Company believes it is preferable to change to the fair value method of determining the market related value of plan assets for this plan because it promotes consistency with its other pension plans in measuring the net periodic pension costs. This, in turn, will help provide a measure of net periodic pension cost that is more comparable and understandable to users.

In respect of certain plans in the United States, the Company continues to adopt a market related value which defers gains or losses over a five year period. This is consistent with the rate plans agreed with the regulators of the subsidiaries participating in plans. The recognition of pension costs therefore reflects the underlying economic environment of those subsidiaries.

The change in the method for determining the market related value has increased income from continuing operations and net income for the year ended 31 March 2007 by £15m (2006: £nil; 2005: £16m reduction in net income) and basic and diluted earnings per share by 0.6p (2006: nil; 2005: 0.5p reduction in earnings per share) and 0.5p (2006: nil; 2005: 0.5p reduction in earnings per share) respectively. As at 31 March 2004, retained earnings and other comprehensive loss were reduced by £37m. The reduction in accumulated other comprehensive loss reflects a reduction in the additional minimum pension liability. As at 31 March 2005 and 2006 retained earnings and other comprehensive loss were reduced by £53m.

The pensions and other post-retirement benefits US GAAP adjustment reported in the tables on page 151 impacts on the following lines in the consolidated income statement: increasing depreciation by £1m (2006: £1m; 2005: £nil) for depreciation on capitalised pension costs; increasing payroll costs by £36m (2006: £67m; 2005: £49m); decreasing other charges by £nil (2006: £nil; 2005: £27m); and increasing net finance costs by £57m (2006: decrease of £12m; 2005: decrease of £1m). On the balance sheet, the adjustment principally affects the reported pensions post-retirement and other liabilities.

The net periodic charge for pensions and other post-retirement benefits is as follows:

	Pensions			Other post-retirement benefits		
	2007 £m	2006* £m	2005* £m	2007 £m	2006 £m	2005 £m
Continuing operations						
Defined contribution scheme cost	3	2	2	-	-	-
<i>Defined benefit schemes</i>						
Service cost	113	111	107	15	16	12
Interest cost	803	802	828	63	63	56
Expected return on plan assets	(882)	(847)	(847)	(41)	(41)	(40)
Amortisation of prior service cost	6	5	6	7	6	3
Amortisation of previously unrecognised actuarial losses	54	58	55	23	-	20
	97	131	151	67	44	51
Release of pension provision	(2)	(2)	(2)	-	-	-
	95	129	149	67	44	51
Discontinued operations						
Service cost	2	7	28	-	-	-
Interest cost	2	2	1	-	-	-
Expected return on plan assets	(2)	(2)	(1)	-	-	-
	2	7	28	-	-	-

*Comparatives have been restated to include impact of change in method of valuing plan assets. They have also been restated to reclassify amounts relating to discontinued operations

The additional cost/(gain) incurred in respect of severance cases computed in accordance with SFAS 88 'Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits' is as follows:

	2007 £m	2006 £m	2005 £m
Cost of termination benefits and curtailments – continuing operations	42	32	30
Gain on termination benefits and curtailments – discontinued operations	-	(41)	-
	42	(9)	30

38. Differences between IFRS and US generally accepted accounting principles (continued)**c) Pensions and other post-retirement benefits (continued)**

The principal financial assumptions used for the SFAS 87 calculations of net periodic charge, based on a measurement date of 31 March 2006 in respect of the US and UK defined benefit schemes are shown below:

	US			UK		
	2007 %	2006 %	2005 %	2007 %	2006 %	2005 %
Discount rate	6.0	5.8	5.8	4.9	5.1	5.5
Expected return on assets	7.8-8.3	7.0-8.3	8.3	5.8-6.4	5.8-6.4	6.2-6.7
General salary increases	3.9-4.3	3.9-4.3	3.3-5.3	3.9	3.9	3.9
Pension increases	nil	nil	nil	3.0	3.0	3.0

The assumptions used for other post-retirement costs relate solely to US schemes. These assumptions were that the discount rate used would be 6% (2006: 5.8%; 2005: 5.75%) and that medical costs would increase by 10% (2006: 10%; 2005: 10%), decreasing to 5% (2006: 5%; 2005: 5%) by 2011 and remain at 5% (2006: 5%; 2005: 5%) thereafter.

A reconciliation of the funded status of the pension and other post-retirement schemes to the net accrued benefit liability that was included in the consolidated balance sheet prepared under US GAAP is as follows:

	Pensions		Other post-retirement benefits	
	2007 £m	2006 £m	2007 £m	2006 £m
Projected benefit obligation at 31 March (i)	(16,113)	(16,603)	(1,126)	(1,223)
Fair value of plan assets at 31 March	15,486	15,358	531	568
Excess of projected benefit obligation over plan assets	(627)	(1,245)	(595)	(655)
Unrecognised net actuarial loss	-	755	-	335
Unrecognised prior service cost	-	56	-	69
Net accrued benefit liability – before minimum liability adjustment	(627)	(434)	(595)	(251)
Additional minimum liability adjustment	-	(396)	-	-
Net accrued benefit liability	(627)	(830)	(595)	(251)
(i) The projected benefit obligation of pensions at 31 March 2007 includes £83m (2006: £96m) in respect of unfunded obligations.				
Non-current liabilities (ii)	(675)	(1,026)	(595)	(251)
Assets (pre-paid costs)	48	196	-	-
Net accrued benefit liability (ii)	(627)	(830)	(595)	(251)

(ii) The difference between pension and other post-retirement non-current liabilities shown above and the amounts reflected in the balance sheet as 'Pensions and other post-retirement obligations' in note 39 primarily represents other post-employment benefits.

Following adoption of SFAS 158, no amount is recognised as an additional minimum liability as at 31 March 2007. A regulatory asset of £294m has been recognised in relation to the post-retirements benefit liabilities.

At 31 March 2006, as required under SFAS 87, an intangible asset of £56m was recognised in relation to the additional minimum liability, being equal to the unrecognised prior service cost. A regulatory asset of £46m was also created. The remaining additional minimum liability of £294m was included in other comprehensive income.

The principal financial assumptions used for the SFAS 87 calculations of the projected benefit obligation, based on a measurement date of 31 March 2007, in respect of the US and UK defined benefit schemes are shown below:

	US			UK		
	2007 %	2006 %	2005 %	2007 %	2006 %	2005 %
Discount rate	5.8	6.0	5.8	5.4	4.9	5.4
General salary increases	3.9-4.3	3.9-4.3	3.9-4.3	4.2	3.9	3.9
Pension increases	nil	nil	nil	3.25	2.95	3.0

38. Differences between IFRS and US generally accepted accounting principles (continued)**c) Pensions and other post-retirement benefits (continued)**

The accumulated benefit obligation for pensions was £15,342m at 31 March 2007 (2006: £16,180m), including £3,040m in respect of schemes that had a deficit of assets compared to accumulated benefit obligations. The total associated assets of these schemes were £2,610m at 31 March 2007. The Company has followed approach two of Emerging Issues Task Force (EITF) Abstract 88-1 in calculating the accumulated benefit obligation. Changes in the projected benefit obligation and changes in the fair value of plan assets are shown below:

	Pensions		Other post-retirement benefits	
	2007 £m	2006 £m	2007 £m	2006 £m
Projected benefit obligation at start of year	16,603	15,758	1,223	1,068
Service cost	115	118	15	16
Interest cost	805	804	63	63
Plan participants' contributions	14	14	-	-
Plan amendment – prior service cost	-	-	-	-
Terminations	23	49	-	-
Curtailments	4	(157)	-	-
Actuarial (gain)/loss	(464)	1,301	4	40
Benefits paid	(758)	(775)	(62)	(59)
Settlements (i)	(87)	(619)	-	-
Acquisition of subsidiary undertakings	89	-	25	-
Transfers	1	(17)	-	-
Reclassified as liabilities of businesses held for sale	(48)	-	-	-
Exchange adjustments	(184)	127	(142)	95
Projected benefit obligation at end of year	16,113	16,603	1,126	1,223
Fair value of plan assets at start of year	15,358	14,086	568	488
Actual return on assets	796	2,370	53	65
Employer contributions	276	191	28	30
Plan participants' contributions	14	14	-	-
Benefits paid	(758)	(774)	(58)	(59)
Settlements (i)	(87)	(609)	-	-
Acquisition of subsidiary undertakings	82	-	7	-
Transfers	-	(15)	-	-
Reclassified as liabilities of businesses held for sale	(46)	-	-	-
Exchange adjustments	(149)	95	(67)	44
Fair value of plan assets at end of year	15,486	15,358	531	568

(i) For the year ended 31 March 2007, settlements shown above of £87m were classified as benefits paid under IFRS (see note 8).

As at 31 March 2007 the following benefit payments, which reflect future service as appropriate, are expected to be paid:

Year ended 31 March	Pensions £m	Other post-retirement benefits £m
2008	765	60
2009	779	65
2010	795	67
2011	812	70
2012	831	72
2013-2017	4,643	377

In the UK, the trustees for each plan are responsible for setting the long-term strategy after consultation with the Company and its professional advisers. The trustees' objectives are to invest in assets of appropriate liquidity, which, together with future contributions from employers and members, would expect to: generate income and capital growth to meet the cost of benefits from the plans; limit the risk; and minimise the long-term cost. In the US, pension plan investments are managed to minimise the long-term cost of operating the plan, with a reasonable level of risk.

Risk tolerance is determined as a result of periodic asset/liability studies that analyse plan liabilities and funded status and results in the determination of the allocation of assets.

Equity investments, fixed income and index-linked portfolios are broadly diversified. Investments are also held in property, private equity and timber with the objective of enhancing long-term returns while improving diversification. Investment risk and return are reviewed by investment committees on a quarterly basis.

Expected subsidy receipts in respect of healthcare benefits are as follows:

	£m
2008	4
2009	4
2010	4
2011	4
2012	5
2013-2017	25

38. Differences between IFRS and US generally accepted accounting principles (continued)

d) Financial instruments

On 1 April 2005, the Company adopted IAS 39 in its consolidated financial statements and as a consequence derivatives are now recognised in the balance sheet at their fair value, similar to the requirements of SFAS 133 'Accounting for Derivative Instruments and Hedging Activities' (SFAS 133). In accordance with IAS 39, the Company has adopted hedge accounting in its consolidated financial statements and has designated hedges as either fair value, cash flow or foreign currency exposures of net investments in foreign operations. Although similar in nature to SFAS 133 there are differences between the requirements of IAS 39 and SFAS 133, in particular SFAS 133 does not include the transitional provisions of IAS 39 that permitted hedges to be recognised as effective on 1 April 2005. Accordingly, certain derivatives qualify for hedge accounting under IFRS but not under US GAAP. Where hedges that meet the requirements of IAS 39 also meet the requirements of SFAS 133 they are accounted for as hedges under US GAAP, otherwise the fair value adjustments of the hedges are recognised in the US GAAP income statement and hence are included as reconciling differences.

Under US GAAP, as required by SFAS 133, all derivative financial instruments, including derivatives embedded within other contracts, are required to be recognised in the balance sheet as either assets or liabilities and measured at fair value. SFAS 133 permits hedge accounting in specific circumstances, where the hedge is designated and documented as one of three types: fair value; cash flow; or foreign currency exposures of net investments in foreign operations. Provided that it can be demonstrated that the hedge is highly effective and the relevant hedging criteria have been met, then in respect of fair value hedges, both the change in fair value of the derivative and hedged item are reflected in net income in the period. For cash flow hedges and hedges of foreign currency exposures of net investments in foreign operations, changes in fair value are reflected through other comprehensive income. In the event that the conditions for hedge accounting are not met, changes in the fair value of derivatives are reflected in net income.

Prior to 31 March 2005, the Company did not apply hedge accounting for the purposes of SFAS 133 except for certain hedges of net investments in foreign operations. Excluding the hedges of net investments that were designated and qualified as hedges under SFAS 133, the reconciliation to net income for the year ended 31 March 2005 reflected the changes in fair value of derivative financial instruments that were given hedge accounting under IFRS. There was no reconciling adjustment for the hedges of net investments for which the Company had adopted hedge accounting under SFAS 133, as realised and unrealised gains and losses were taken to other comprehensive income under US GAAP.

Contracts that qualify as normal purchases and normal sales and are designated as such are excluded from the requirements of SFAS 133. In line with the treatment under IFRS, the realised gains and losses on these contracts are reflected in the income statement at the contract settlement date.

The financial instruments US GAAP adjustment affect the reported net finance cost in the income statement. On the balance sheet, this adjustment represents the reclassification of reported derivative financial assets and liabilities (both current and non-current), with an associated decrease in reported current borrowings of £nil (2006: £7m) and non-current borrowings of £10m (2006: £112m).

e) Severance and onerous lease costs

Under IFRS, severance costs in respect of voluntary severance arrangements are provided for when it is determined that a constructive or legal obligation has arisen from a restructuring programme, where it is probable that it will result in the outflow of economic benefits and the costs involved can be estimated with reasonable accuracy. Under US GAAP, such severance costs are recognised when the employees accept the severance offer. Accordingly, timing differences between IFRS and US GAAP arise on the recognition of such costs.

Similarly, under IFRS future costs related to property leases have been accrued for in connection with vacating certain premises. Under US GAAP a liability was recognised when the 'cease use' date was reached, resulting in a timing difference between IFRS and US GAAP on the recognition of such costs.

f) Revenue recognition

Under US GAAP, revenue is recognised in the period that the service is provided up to the maximum revenue allowed under the terms of the relevant regulatory regime for businesses outside of the scope of SFAS 71. Under IFRS, any such revenue received or receivable in excess of the maximum revenue allowed for the period, under the terms of the relevant regulatory regime, is recognised as income, even where prices will be reduced in a future period.

38. Differences between IFRS and US generally accepted accounting principles (continued)

g) Goodwill

Under IFRS, the business combination with Lattice Group plc has been accounted for on the same basis as previous GAAP (UK GAAP) as a merger (pooling of interest) while under US GAAP, this transaction was accounted for as an acquisition (purchase accounting) of Lattice Group plc. As acquisitions made prior to 1 April 2004 were accounted for under UK GAAP, and were not reopened on transition to IFRS, differences in measurement also exist between US GAAP and IFRS. As a result, the US GAAP fair value of net assets of subsidiary undertakings acquired differs from the fair value of net assets as determined under IFRS. In addition, until 31 March 2004 goodwill was amortised under previous GAAP (UK GAAP) whereas under US GAAP amortisation of goodwill ceased on adoption of SFAS 141 'Business Combinations'. The balance sheet adjustment includes a reduction to goodwill of £31m in respect of businesses held for sale as at 31 March 2007.

h) Intangible assets

Under IFRS, in a business combination, intangible assets that meet certain criteria are recognised as assets, separate from goodwill, at fair value. Under US GAAP, these criteria are similar, however the creation of the intangibles includes the recognition of notional tax benefits. All of this adjustment relates to assets of businesses held for sale as at 31 March 2007.

i) Provisions

IFRS requires the time value of money to be taken into account when making a provision. US GAAP, however, only permits a provision to be discounted where the amount of the liability and the timing of payments are fixed or reliably determinable or where the obligation is a fair value obligation. Amounts associated with the unwinding of discounts on provisions are shown within interest expense under IFRS.

j) Impairments

During the financial year ended 31 March 1990, an impairment provision was recorded in respect of certain property, plant and equipment. As required under IFRS, part of this impairment provision was subsequently released and shareholders' equity credited. Under US GAAP, this partial release is not permitted. During 2005/06 an impairment in respect of a joint venture was reversed under IFRS, whereas under US GAAP such reversal was not permitted which subsequently resulted in a higher gain on disposal of the joint venture in 2006/07.

k) Sale and leaseback

Under IFRS, where an asset is sold and then leased back and where the resultant lease is an operating lease, the gain on disposal is recognised immediately, provided that the sale price is established at fair value. Under US GAAP this gain is deferred and recognised over the related rental period.

l) Current tax

Under US GAAP, in accordance with EITF 93-7 'Uncertainties related to Income Taxes in a Purchase Business Combination', an adjustment to pre-acquisition tax positions has resulted in a corresponding adjustment to goodwill. Under IFRS, no adjustment to goodwill is made and the tax adjustment is taken to net income.

m) Deferred taxation

The deferred taxation adjustment principally reflects the tax effect of the other measurement and recognition differences between IFRS and US GAAP.

The corporate tax charge on continuing operations under US GAAP is analysed between current taxes and deferred taxes as follows:

	2007 £m	2006 £m	2005 £m
Current taxes (credit)/charge	(17)	406	14
Deferred taxes charge/(credit)	149	(85)	285
Tax charge	132	321	299

The net deferred tax liability under US GAAP is analysed as follows:

	2007 £m	2006 £m
Deferred taxation liabilities:		
Excess of book value over taxation value of fixed assets	3,906	3,778
Other temporary differences	972	1,494
	4,878	5,272
Deferred taxation assets:		
Other temporary differences (i)	(1,018)	(1,252)
	3,860	4,020
Analysed as follows:		
Current	(60)	(43)
Non-current	3,920	4,063
	3,860	4,020

(i) Deferred taxation assets at 31 March 2007 were stated net of a £422m valuation allowance adjustment in respect of capital losses, non-trade deficits, trading losses and pre-trading expenditure (2006: £530m; 2005: £493m).

38. Differences between IFRS and US generally accepted accounting principles (continued)

n) Other

Other differences between IFRS and US GAAP are not individually material and relate to differences arising from the recognition of amortisation expense on certain assets, timing differences related to recognition of provisions, share-based payment charges and other interest income.

Other US GAAP disclosures

Non-GAAP measures

In preparing the accounts in accordance with the Companies Act 1985 and IFRS, certain information is presented that could be viewed as 'non-GAAP' under regulations issued by the US Securities and Exchange Commission if our primary financial statements were reported under US GAAP. We consider that the use of such measures is in conformity and expressly permitted by IAS 1 'Presentation of Financial Statements'. Our accounting policy on page 106 describes the use of these measures. Non-GAAP measures are not included in our condensed US GAAP statements.

Other presentational differences between IFRS and US GAAP

Under IFRS, assets in the balance sheet are presented in ascending order of liquidity and the balance sheet is analysed between net assets and shareholders' funds. Under US GAAP, assets are presented in descending order of liquidity and the balance sheet is analysed between total assets and liabilities and shareholders' equity as used in the presentation in note 39.

- i) Capital contributions – Capital contributions are received for certain qualifying construction projects. Under IFRS, these contributions are recorded as deferred income (within other liabilities), whereas under US GAAP, these contributions are recorded as a reduction of £1,107m (2006: £1,049m) against the assets' cost.
- ii) Emission rights – Under IFRS, emission allowances are recorded as intangible assets and a provision is recorded for emission costs incurred. Under US GAAP, the value of the emission allowances is reclassified to reduce the recorded provision, resulting in a net liability presentation.
- iii) Deferred tax assets and liabilities – Under IFRS, deferred tax assets and liabilities are presented separately as non-current assets and non-current liabilities. Under US GAAP, deferred tax assets and liabilities are recorded as current or non-current based on the classification of the related asset or liability. Deferred tax assets and liabilities not related to an asset or liability are classified as current or non-current according to the expected reversal date. Current deferred tax assets and liabilities and non-current deferred tax assets and liabilities are offset if they relate to a particular tax paying component of an enterprise and are within a particular tax jurisdiction.
- iv) Accrued interest on borrowings – Accrued interest on borrowings is classified within borrowings under IFRS and accrued liabilities under US GAAP.
- v) Cumulative preference shares – These non-equity instruments are presented within borrowings under IFRS, but shown separately from shareholders' equity and liabilities under US GAAP.
- vi) Capital leases – Certain leases which qualify as finance (capital) leases under IFRS are treated as operating leases under US GAAP. This results in a reduction to property, plant and equipment and borrowings for US GAAP reporting.
- vii) Assets held for sale – Under IFRS, assets and liabilities of businesses held for sale are presented separately from current and non-current assets and liabilities. Under US GAAP, these amounts are presented within current assets and current liabilities respectively.
- viii) Earnings per share (EPS) – Under US GAAP, earnings per share are required to be adjusted retroactively as a result of the 43 for 49 share consolidation related to the B share scheme, accounted for as a share consolidation and a return of capital. Under IFRS, the B share scheme is accounted for as an in-substance share repurchase at fair value, with EPS being impacted prospectively from the transaction date and no restatement of prior periods, in accordance with IAS 33 'Earnings per share'.

Restricted net assets

National Grid USA and its public utility subsidiaries, all consolidated subsidiaries of the Company, are subject to restrictions on the payment of dividends by administrative order and contract. Orders by the Federal Energy Regulatory Commission and applicable state regulatory commissions limit the payment of dividends as follows. The subsidiaries may pay dividends in an amount up to cumulative retained earnings, including pre-acquisition retained earnings. Other orders by federal and state commissions require National Grid USA and its public utility subsidiaries to maintain a ratio of at least 30% equity to capital, and debt covenants in effect require that this ratio be maintained at a level of at least 35%. At 31 March 2007, £2.9bn of net assets were restricted, representing 31% of the Company's consolidated net assets under US GAAP at that date.

38. Differences between IFRS and US generally accepted accounting principles (continued)**n) Other (continued)****New US Accounting Standards adopted during 2006/07****SFAS 158**

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 158 'Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans, an amendment of FASB statements No. 87, 106 and 132(R)' (SFAS 158). This standard requires recognition of a net liability or asset and an offsetting adjustment to accumulated other comprehensive income to report the funded status of defined benefit pension and other post-retirement benefit plans. SFAS 158 requires prospective application, recognition and disclosure requirements effective for the year ended 31 March 2007. The Company adopted SFAS 158 on 31 March 2007. This has had the effect of substantially reducing (but not completely eliminating) the difference in shareholders' equity between IFRS and US GAAP as at 31 March 2007. The difference in net income between IFRS and US GAAP in future periods is likely to remain substantially unchanged.

SFAS 123(R)

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004) 'Share-Based Payment' (SFAS 123(R)), which is a revision of FASB Statement No. 123 'Accounting for Stock-Based Compensation' (SFAS 123). SFAS 123(R) supersedes APB Opinion No. 25 'Accounting for Stock Issued to Employees', and amends FASB Statement No. 95 'Statement of Cash Flows'. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognised in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. The Company adopted SFAS 123(R) as of 1 April 2006.

SFAS 123(R) permits adoption of the requirements using one of two methods: a 'modified prospective' method where the requirements are applied to all share-based payments granted after the effective date of the pronouncement; or a 'modified retrospective' method which allows entities to restate prior periods based on the amounts previously recognised under SFAS 123 for the purposes of pro forma disclosures. The Company adopted SFAS 123(R) using the modified prospective method.

The Company adopted the fair-value based method of accounting for share-based payments using the 'retroactive restatement method' described in FASB Statement No. 148 'Accounting for Stock-Based Compensation – Transition and Disclosure'. The Company continues to use the Black-Scholes European option pricing model and, for awards based on total shareholder returns, a Monte Carlo simulation model, to estimate the value of stock options granted to employees upon adoption of SFAS 123(R). The adoption of SFAS 123(R) has not had a material impact on its accounts.

SFAS 151

The FASB issued SFAS No. 151 'Inventory Costs – an amendment of ARB No. 43' (SFAS 151). SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) as current period charges. SFAS 151 is effective for fiscal periods beginning after 15 June 2005. The adoption of SFAS 151 has not had a material effect on the Company's accounts.

SFAS 153

In December 2004, as part of the FASB's short-term convergence project with the International Accounting Standards Board, the FASB issued FASB Statement No. 153 'Exchanges of Non-Monetary Assets' (SFAS 153), which is an amendment to APB Opinion No. 29 'Accounting for Non-Monetary Transactions' (APB 29). APB 29 provided an exemption to its general principle of measuring such transactions at fair value where the exchange related to similar productive assets. The exemption permitted the exchange to be valued at the recorded amount of the assets relinquished. SFAS 153 removes this exemption so that all non-monetary transactions (apart from those without commercial substance) are recorded at fair value. The Company adopted SFAS 153 prospectively for all transactions taking place from 1 April 2006. The adoption of SFAS 153 has not had a material impact on its accounts.

SFAS 154

In May 2005, the FASB issued SFAS No. 154 'Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3' (SFAS 154). SFAS 154 requires retrospective application of prior periods' financial statements for changes in accounting principle. SFAS 154 applies to accounting periods beginning after 15 December 2005. The adoption of SFAS 154 has not had a material effect on the Company's accounts.

38. Differences between IFRS and US generally accepted accounting principles (continued)

n) Other (continued)

Recent US pronouncements not yet adopted**SFAS 155**

In February 2006, the FASB issued SFAS No. 155 'Accounting for Certain Hybrid Financial Instruments – an amendment of SFAS No. 133 and SFAS No. 140' (SFAS 155). SFAS 155 provides clarification on specific points related to derivative accounting. It provides a fair value measurement option for certain hybrid financial instruments that contain embedded derivatives that would otherwise require bifurcation. It also requires that beneficial interests in securitised financial assets be analysed to determine whether they are freestanding derivatives or whether they are hybrid instruments that contain embedded derivatives requiring bifurcation. SFAS 155 is effective for fiscal years beginning after 15 September 2006. The Company does not believe that the adoption of SFAS 155 will have a material effect on its accounts.

SFAS 157

In September 2006, the FASB issued SFAS No. 157 'Fair Value Measurements' (SFAS 157). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities when other pronouncements require or permit fair value measurements, but does not require any new fair value measurements. The statement defines fair value, establishes a framework for measuring fair value under US GAAP and expands disclosures about fair value measurements. The Company does not believe that the adoption of SFAS 157 will have a material effect on its accounts.

SFAS 159

In February 2007, the FASB issued SFAS No. 159 'The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115' (SFAS 159). SFAS 159 permits an entity, at specified election dates, to choose to measure certain financial instruments and other items at fair value. The objective of SFAS 159 is to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. SFAS 159 also contains rules concerning the presentation of items measured at fair value and corresponding disclosures in the notes to the financial statements. The application of SFAS 159 is mandatory for fiscal years that begin after 15 November 2007. The Company is currently evaluating the potential effects on its accounts of applying SFAS 159.

FIN 48

In July 2006, the FASB issued Financial Interpretation No. 48 'Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109' (FIN 48), which specifies how tax benefits for uncertain tax positions are to be recognised, measured and derecognised in financial statements. FIN 48 requires certain disclosures of uncertain tax matters, specifies how reserves for uncertain tax provisions should be classified in the balance sheet and provides transition and interim-period guidance. FIN 48 is effective for years beginning after 15 December 2006. The Company is currently evaluating the potential effects on its accounts of applying FIN 48.

39. Condensed US GAAP financial information

Condensed US GAAP financial information is presented to show more clearly the operating and financial position that would have been reported under US GAAP as follows:

Condensed consolidated US GAAP income statement

	2007 National Grid (IFRS) £m	2007 US GAAP adjustments £m	2007 National Grid (US GAAP) £m
Revenue	8,695	(9)	8,686
Other operating income	83	(14)	69
Operating costs			
Depreciation and amortisation	(871)	(145)	(1,016)
Payroll costs	(820)	4	(816)
Purchases of electricity	(1,593)	(294)	(1,887)
Purchases of gas	(544)	5	(539)
Rates and property taxes	(472)	1	(471)
Electricity transmission services scheme direct costs	(558)	(7)	(565)
Payments to Scottish electricity transmission network owners	(237)	-	(237)
Expense relating to impairment of receivables	(63)	-	(63)
Other operating charges	(1,107)	(192)	(1,299)
	(6,265)	(628)	(6,893)
Operating profit	2,513	(651)	1,862
Net finance costs	(764)	126	(638)
Share of post-tax results of joint ventures	2	(2)	-
Profit before taxation	1,751	(527)	1,224
Taxation	(441)	309	(132)
Profit for the year	1,310	(218)	1,092
Minority interests	(2)	-	(2)
Interest in equity accounted affiliates (net of tax of £nil)	-	2	2
Net income from continuing operations attributable to equity shareholders	1,308	(216)	1,092
Net income from discontinued operations (net of tax of £11m charge)	86	(32)	54
Net income for the year attributable to equity shareholders	1,394	(248)	1,146
Basic earnings per share under US GAAP (pence) – continuing operations			40.2p
Diluted earnings per share under US GAAP (pence) – continuing operations			39.9p
Basic earnings per ADS under US GAAP (pence) – continuing operations			201.0p
Diluted earnings per ADS under US GAAP (pence) – continuing operations			199.5p
Basic earnings per share under US GAAP (pence) – discontinued operations			2.0p
Diluted earnings per share under US GAAP (pence) – discontinued operations			2.0p
Basic earnings per ADS under US GAAP (pence) – discontinued operations			10.0p
Diluted earnings per ADS under US GAAP (pence) – discontinued operations			10.0p
Basic earnings per share under US GAAP (pence)			42.2p
Diluted earnings per share under US GAAP (pence)			41.9p
Basic earnings per ADS under US GAAP (pence)			211.0p
Diluted earnings per ADS under US GAAP (pence)			209.5p
Weighted average number of shares in issue (million) – for basic EPS			2,719
Weighted average number of shares in issue (million) – for diluted EPS			2,737

39. Condensed US GAAP financial information (continued)

Condensed consolidated US GAAP income statement (continued)

	2006 National Grid (IFRS) £m*	2006 US GAAP adjustments £m*	2006 National Grid (US GAAP) £m*
Revenue	8,868	23	8,891
Other operating income	80	(30)	50
Operating costs			
Depreciation and amortisation	(888)	(120)	(1,008)
Payroll costs	(854)	(41)	(895)
Purchases of electricity	(1,977)	(116)	(2,093)
Purchases of gas	(566)	3	(563)
Rates and property taxes	(437)	(2)	(439)
Electricity transmission services scheme direct costs	(536)	–	(536)
Payments to Scottish electricity transmission network owners	(259)	–	(259)
Expense relating to impairment of receivables	(24)	–	(24)
Other operating charges	(1,033)	(342)	(1,375)
	(6,574)	(618)	(7,192)
Operating profit	2,374	(625)	1,749
Net finance costs	(659)	(66)	(725)
Share of post-tax results of joint ventures	3	(3)	–
Profit before taxation	1,718	(694)	1,024
Taxation	(535)	214	(321)
Profit for the year	1,183	(480)	703
Minority interests	(2)	(1)	(3)
Interest in equity accounted affiliates (net of tax of £nil)	–	3	3
Net income from continuing operations attributable to equity shareholders	1,181	(478)	703
Net income from discontinued operations (net of tax of £210m credit)	2,667	(2,063)	604
Net income for the year attributable to equity shareholders	3,848	(2,541)	1,307
Basic earnings per share under US GAAP (pence) – continuing operations			25.9p
Diluted earnings per share under US GAAP (pence) – continuing operations			25.8p
Basic earnings per ADS under US GAAP (pence) – continuing operations			129.5p
Diluted earnings per ADS under US GAAP (pence) – continuing operations			129.0p
Basic earnings per share under US GAAP (pence) – discontinued operations			22.3p
Diluted earnings per share under US GAAP (pence) – discontinued operations			22.2p
Basic earnings per ADS under US GAAP (pence) – discontinued operations			111.5p
Diluted earnings per ADS under US GAAP (pence) – discontinued operations			111.0p
Basic earnings per share under US GAAP (pence)			48.2p
Diluted earnings per share under US GAAP (pence)			48.0p
Basic earnings per ADS under US GAAP (pence)			241.0p
Diluted earnings per ADS under US GAAP (pence)			240.0p
Weighted average number of shares in issue (million) – for basic EPS			2,710
Weighted average number of shares in issue (million) – for diluted EPS			2,724

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

39. Condensed US GAAP financial information (continued)

Condensed consolidated US GAAP income statement (continued)

	2005 National Grid (IFRS) £m*	2005 US GAAP adjustments £m*	2005 National Grid (US GAAP) £m*
Revenue	7,174	34	7,208
Other operating income	67	(31)	36
Operating costs			
Depreciation and amortisation	(782)	(132)	(914)
Payroll costs	(886)	31	(855)
Purchases of electricity	(1,489)	(182)	(1,671)
Purchases of gas	(357)	–	(357)
Rates and property taxes	(403)	–	(403)
Electricity transmission services scheme direct costs	(301)	–	(301)
Payments to Scottish electricity transmission network owners	–	–	–
Expense relating to impairment of receivables	(41)	–	(41)
Other operating charges	(869)	(30)	(899)
	(5,128)	(313)	(5,441)
Operating profit	2,113	(310)	1,803
Net finance costs	(704)	246	(458)
Share of post-tax results of joint ventures	3	(3)	–
Profit before taxation	1,412	(67)	1,345
Taxation	(306)	7	(299)
Profit for the year	1,106	(60)	1,046
Minority interests	–	(2)	(2)
Interest in equity accounted affiliates (net of tax of £2m)	–	(2)	(2)
Net income from continuing operations attributable to equity shareholders	1,106	(64)	1,042
Net income from discontinued operations (net of tax of £137m charge)	318	(72)	246
Net income for the year attributable to equity shareholders	1,424	(136)	1,288
Basic earnings per share under US GAAP (pence) – continuing operations			38.5p
Diluted earnings per share under US GAAP (pence) – continuing operations			38.3p
Basic earnings per ADS under US GAAP (pence) – continuing operations			192.5p
Diluted earnings per ADS under US GAAP (pence) – continuing operations			191.5p
Basic earnings per share under US GAAP (pence) – discontinued operations			9.1p
Diluted earnings per share under US GAAP (pence) – discontinued operations			9.0p
Basic earnings per ADS under US GAAP (pence) – discontinued operations			45.5p
Diluted earnings per ADS under US GAAP (pence) – discontinued operations			45.0p
Basic earnings per share under US GAAP (pence)			47.6p
Diluted earnings per share under US GAAP (pence)			47.3p
Basic earnings per ADS under US GAAP (pence)			238.0p
Diluted earnings per ADS under US GAAP (pence)			236.5p
Weighted average number of shares in issue (million) – for basic EPS			2,705
Weighted average number of shares in issue (million) – for diluted EPS			2,719

*The method adopted to calculate the market related value of post-retirement plan assets has been amended to achieve greater consistency between pension plans. Consequently, prior year comparatives have been adjusted. Comparatives have also been adjusted to reclassify amounts relating to discontinued operations

Consolidated statement of comprehensive income and changes in shareholders' equity under US GAAP

	2007 £m	2006 £m	2005 £m
Net income	1,146	1,307	1,288
Additional minimum pension liability (net of tax of £28m, £82m and £23m)	(51)	168	49
Exchange adjustments (i)	(686)	368	(80)
Mark-to-market of financial instruments (net of tax of £5m, £nil and £43m)	5	3	111
Comprehensive income	414	1,846	1,368
Dividends	(730)	(745)	(628)
Shares issued	16	28	9
Share-based payment (net of tax of £9m)	1	17	16
Return of capital to shareholders through B share scheme	–	(2,009)	–
Repurchase of shares	(169)	–	–
Movement in treasury stock	–	19	5
Adjustment to initially apply SFAS 158 (including tax of £14m)	51	–	–
Shareholders' equity at 1 April	9,747	10,591	9,821
Shareholders' equity at 31 March	9,330	9,747	10,591

(i) Included within exchange adjustments is £37m relating to gains on net investment hedges during the year (2006: £91m loss; 2005: £nil).

39. Condensed US GAAP financial information (continued)

Condensed consolidated US GAAP balance sheet

	2007 £m	2006 £m
Assets		
Current assets		
Cash and cash equivalents	1,606	1,466
Marketable securities	2,098	384
Accounts and notes receivable	638	838
Inventories	106	108
Regulatory assets	305	246
Prepaid expenses and other current assets	879	963
Assets of businesses held for sale	1,963	–
Total current assets	7,595	4,005
Property, plant and equipment	20,068	20,235
Goodwill	4,159	4,831
Other intangible assets	127	390
Investments	137	160
Regulatory assets	2,575	2,805
Other receivables	465	526
Total assets	35,126	32,952
Liabilities and shareholders' equity		
Current liabilities		
Bank overdrafts	6	3
Accounts payable	2,180	2,366
Short-term borrowings (i)	783	2,565
Accrued income taxes	71	419
Other accrued liabilities (i)	363	257
Liabilities of businesses held for sale	458	–
Total current liabilities	3,861	5,610
Long-term borrowings	14,586	10,059
Pensions and other post-retirement benefits	1,329	1,348
Deferred income taxes	3,920	4,063
Other liabilities	2,063	2,084
Total liabilities	25,759	23,164
Minority interest – equity	11	11
Cumulative preference stock issued by subsidiary undertakings	26	30
Shareholders' equity		
Common stock (par value £0.1139 per share; shares authorised 4,388m; shares issued 2007: 2,701m; 2006: 2,720m)	308	310
Additional paid in capital	7,863	7,837
Other reserves (ii)	359	359
Retained earnings (iii)	2,107	1,867
Accumulated comprehensive loss (iii)	(1,307)	(626)
Shareholders' equity	9,330	9,747
Total liabilities and shareholders' equity	35,126	32,952

Accumulated comprehensive loss can be analysed as follows:

	2007 £m	2006 £m
Cumulative translation adjustment	(1,139)	(453)
Additional minimum pension liability (iii)	–	(294)
Post-retirement benefit liabilities not yet recognised in net periodic pension cost (iv)	(337)	–
Unrealised gains on derivatives	23	9
Unrealised gains on available-for-sale investments	3	7
Taxation	139	101
Other	4	4
	(1,307)	(626)

- (i) Accrued interest of £269m at 31 March 2006 has been reclassified from short-term borrowings to accounts payable. IFRS requires accrued interest to be presented within borrowings while US GAAP requires accrued interest to be presented separately from borrowings.
- (ii) Other reserves relates to a group reconstruction, resulting in a difference between the capital structure of the new parent company and the capital structure of the former holding company.
- (iii) The method adopted to calculate the market related value of post-retirement plan assets has been amended to achieve greater consistency between pension plans. Consequently, prior year comparatives have been adjusted.
- (iv) Post-retirement benefit liabilities not yet recognised in net periodic pension cost comprises prior service cost of £102m and unrecognised losses of £529m, offset by a regulatory asset of £294m.
- (v) Comparative amounts have been reclassified to present derivative financial instruments separately from related borrowings.

39. Condensed US GAAP financial information (continued)

Segmental information under US GAAP

Management assesses segmental performance on an IFRS basis and this segmental information is presented in note 2. Segments have been determined in accordance with SFAS 131 'Disclosures about Segments of an Enterprise and Related Information' and segmental financial information in note 2 has been presented in accordance with the disclosure requirements of US GAAP.

Goodwill

	UK electricity and gas transmission £m	US electricity transmission £m	UK gas distribution £m	US gas distribution £m	US electricity distribution £m	US stranded cost recoveries £m	Wireless infrastructure £m	Other activities £m	Total £m
1 April 2005	756	337	2,990	112	1,198	–	592	74	6,059
Exchange adjustments	–	29	–	10	106	–	5	–	150
Disposals	–	–	(1,369)	–	–	–	–	–	(1,369)
Adjustments to provisional fair value	–	–	–	–	–	–	(9)	–	(9)
1 April 2006	756	366	1,621	122	1,304	–	588	74	4,831
Exchange adjustments	–	(43)	–	(21)	(162)	–	–	–	(226)
Additions	–	–	–	128	–	–	13	–	141
Disposals	–	–	–	–	–	–	–	–	–
Adjustments to fair values	–	4	–	2	8	–	–	–	14
Impairment charge	–	–	–	–	–	–	(63)	–	(63)
Reclassified as held for sale	–	–	–	–	–	–	(538)	–	(538)
31 March 2007	756	327	1,621	231	1,150	–	–	74	4,159

40. National Grid Gas plc additional US GAAP disclosures

The following condensed consolidating financial information, comprising income statements, balance sheets and cash flow statements, is given in respect of National Grid Gas plc (Subsidiary guarantor), which became joint full and unconditional guarantor on 11 May 2004 with National Grid plc (Parent guarantor) of the 6.625% Guaranteed Notes due 2018 issued in June 1998 by British Transco Finance Inc. (then known as British Gas Finance Inc.) (Issuer of notes). National Grid Gas plc and British Transco Finance Inc. are wholly-owned subsidiaries of National Grid plc.

The following financial information for National Grid plc, National Grid Gas plc and British Transco Finance Inc. on a condensed consolidating basis is intended to provide investors with meaningful and comparable financial information and is provided pursuant to Rule 3-10 of Regulation S-X in lieu of the separate financial statements of each subsidiary issuer of public debt securities.

In addition, the financial information for National Grid plc is provided pursuant to Rule 4-08(e) of Regulation S-X. This parent company-only financial information should be read in conjunction with the Company's financial statements and footnotes presented in our 2006/07 Annual Report and Accounts.

Summary income statements are presented, on a consolidating basis, for the three years ended 31 March 2007. Summary income statements of National Grid plc and National Grid Gas plc are presented under US GAAP measurement principles, as modified by the inclusion of the results of subsidiary undertakings on the basis of equity accounting principles.

The summary balance sheets of National Grid plc and National Grid Gas plc include the investments in subsidiaries recorded under the equity method for the purposes of presenting condensed consolidating financial information under US GAAP. The US GAAP summary balance sheets present these investments within 'Investments'.

The consolidation adjustments column includes the necessary amounts to eliminate the inter-company balances and transactions between National Grid plc, National Grid Gas plc, British Transco Finance Inc. and other subsidiaries.

40. National Grid Gas plc additional US GAAP disclosures (continued)

Summary income statement for the year ended 31 March 2007 – US GAAP

	Parent	Issuer of	Subsidiary	Other	Consolidation	National
	guarantor	notes	guarantor			
	National	British	National	subsidiaries	adjustments	Grid
	Grid	Transco	Grid Gas	£m	£m	consolidated
	plc	Finance Inc.	plc			£m
	£m	£m	£m			£m
Revenue	–	–	2,248	6,756	(318)	8,686
Other operating income	–	–	6	63	–	69
Operating costs						
Depreciation and amortisation	–	–	(505)	(511)	–	(1,016)
Payroll costs	–	–	(226)	(590)	–	(816)
Purchases of electricity	–	–	–	(1,887)	–	(1,887)
Purchases of gas	–	–	(113)	(426)	–	(539)
Rates and property taxes	–	–	(211)	(260)	–	(471)
Electricity transmission services scheme direct costs	–	–	–	(565)	–	(565)
Payments to Scottish electricity transmission network owners	–	–	–	(237)	–	(237)
Expense relating to impairment of receivables	–	–	1	(64)	–	(63)
Other operating charges	(2)	–	(532)	(1,088)	323	(1,299)
	(2)	–	(1,586)	(5,628)	323	(6,893)
Operating profit	(2)	–	668	1,191	5	1,862
Net finance costs	15	–	(304)	(349)	–	(638)
Dividends receivable	–	–	–	1,850	(1,850)	–
Profit before taxation	13	–	364	2,692	(1,845)	1,224
Taxation	8	–	(210)	70	–	(132)
Profit for the year	21	–	154	2,762	(1,845)	1,092
Minority interests	–	–	–	(2)	–	(2)
Interest in equity accounted affiliates	1,071	–	12	2	(1,083)	2
Net income from continuing operations attributable to equity shareholders	1,092	–	166	2,762	(2,928)	1,092
Net income from discontinued operations	54	–	13	32	(45)	54
Net income for the year attributable to equity shareholders	1,146	–⁽ⁱ⁾	179	2,794	(2,973)	1,146

(i) Net income for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

Summary income statement for the year ended 31 March 2006 – US GAAP

	Parent	Issuer of	Subsidiary	Other	Consolidation	National
	guarantor	notes	guarantor			
	National	British	National	subsidiaries	adjustments	Grid
	Grid	Transco	Grid Gas	£m*	£m*	consolidated
	plc	Finance Inc.	plc			£m*
	£m*	£m*	£m*			£m*
Revenue	1	–	2,261	6,992	(363)	8,891
Other operating income	–	–	4	46	–	50
Operating costs						
Depreciation and amortisation	–	–	(492)	(516)	–	(1,008)
Payroll costs	–	–	(282)	(613)	–	(895)
Purchases of electricity	–	–	–	(2,093)	–	(2,093)
Purchases of gas	–	–	(148)	(415)	–	(563)
Rates and property taxes	–	–	(180)	(259)	–	(439)
Electricity transmission services scheme direct costs	–	–	–	(536)	–	(536)
Payments to Scottish electricity transmission network owners	–	–	–	(259)	–	(259)
Expense relating to impairment of receivables	–	–	–	(24)	–	(24)
Other operating charges	–	–	(977)	(1,193)	795	(1,375)
	–	–	(2,079)	(5,908)	795	(7,192)
Operating profit	1	–	186	1,130	432	1,749
Net finance costs	(29)	–	(215)	(481)	–	(725)
Dividends receivable	–	–	–	310	(310)	–
Profit before taxation	(28)	–	(29)	959	122	1,024
Taxation	42	–	(64)	(299)	–	(321)
Profit for the year	14	–	(93)	660	122	703
Minority interests	–	–	–	(3)	–	(3)
Interest in equity accounted affiliates	689	–	452	3	(1,141)	3
Net income from continuing operations attributable to equity shareholders	703	–	359	660	(1,019)	703
Net income from discontinued operations	604	–	546	70	(616)	604
Net income for the year attributable to equity shareholders	1,307	–⁽ⁱ⁾	905	730	(1,635)	1,307

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

(i) Net income for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

40. National Grid Gas plc additional US GAAP disclosures (continued)**Summary income statement for the year ended 31 March 2005 – US GAAP**

	Parent guarantor	Issuer of notes	Subsidiary guarantor			
	National Grid plc £m*	British Transco Finance Inc. £m*	National Grid Gas plc £m*	Other subsidiaries £m*	Consolidation adjustments £m*	National Grid consolidated £m*
Revenue	1	–	2,041	5,680	(514)	7,208
Other operating income	–	–	2	34	–	36
Operating costs						
Depreciation and amortisation	–	–	(497)	(417)	–	(914)
Payroll costs	(2)	–	(276)	(577)	–	(855)
Purchases of electricity	–	–	–	(1,671)	–	(1,671)
Purchases of gas	–	–	(85)	(272)	–	(357)
Rates and property taxes	–	–	(160)	(243)	–	(403)
Electricity transmission services scheme direct costs	–	–	–	(301)	–	(301)
Payments to Scottish electricity transmission network owners	–	–	–	–	–	–
Expense relating to impairment of receivables	–	–	4	(45)	–	(41)
Other operating charges	(29)	–	(3,276)	(944)	3,350	(899)
	(31)	–	(4,290)	(4,470)	3,350	(5,441)
Operating profit	(30)	–	(2,247)	1,244	2,836	1,803
Net finance costs	123	–	(443)	(144)	6	(458)
Dividends receivable	–	–	–	500	(500)	–
Profit before taxation	93	–	(2,690)	1,600	2,342	1,345
Taxation	(20)	–	(32)	(245)	(2)	(299)
Profit for the year	73	–	(2,722)	1,355	2,340	1,046
Minority interests	–	–	–	(2)	–	(2)
Interest in equity accounted affiliates	969	–	2,930	(2)	(3,899)	(2)
Net income from continuing operations attributable to equity shareholders	1,042	–	208	1,351	(1,559)	1,042
Net income from discontinued operations	246	–	267	(21)	(246)	246
Net income for the year attributable to equity shareholders	1,288	– (i)	475	1,330	(1,805)	1,288

*The method adopted to calculate the market related value of post-retirement plan assets has been amended to achieve greater consistency between pension plans. Consequently, prior year comparatives have been adjusted. Comparatives have also been adjusted to reclassify amounts relating to discontinued operations

(i) Net income for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

40. National Grid Gas plc additional US GAAP disclosures (continued)

Balance sheet as at 31 March 2007 – US GAAP

	Parent guarantor	Issuer of notes	Subsidiary guarantor			
	National Grid plc £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Assets						
Current assets						
Cash and cash equivalents	748	–	172	686	–	1,606
Marketable securities	282	–	305	1,511	–	2,098
Accounts and notes receivable	3	–	195	440	–	638
Inventories	–	–	28	78	–	106
Amounts owed by subsidiary undertakings	9,047	–	5,703	5,200	(19,950)	–
Regulatory assets	–	–	–	305	–	305
Prepaid expenses and other current assets	119	–	42	718	–	879
Assets of businesses held for sale	–	–	–	1,963	–	1,963
Total current assets	10,199	–	6,445	10,901	(19,950)	7,595
Property, plant and equipment	–	–	10,589	9,509	(30)	20,068
Goodwill	–	–	2,451	1,708	–	4,159
Intangible assets	–	–	41	86	–	127
Investments	6,700	–	67	16,299	(22,929)	137
Amounts owed by subsidiary undertakings	–	156	–	–	(156)	–
Regulatory assets	–	–	–	2,575	–	2,575
Other receivables	195	–	67	203	–	465
Total assets	17,094	156	19,660	41,281	(43,065)	35,126
Liabilities and shareholders' equity						
Current liabilities						
Bank overdrafts	–	–	6	–	–	6
Accounts payable	–	–	587	1,593	–	2,180
Short-term borrowings	359	3	346	75	–	783
Accrued income taxes	–	–	40	31	–	71
Amounts owed to subsidiary undertakings	2,776	–	2,424	14,750	(19,950)	–
Other accrued liabilities	52	–	82	306	(77)	363
Liabilities of businesses held for sale	–	–	–	458	–	458
Total current liabilities	3,187	3	3,485	17,213	(20,027)	3,861
Long-term borrowings	4,513	153	3,214	6,706	–	14,586
Amounts owed to subsidiary undertakings	–	–	–	156	(156)	–
Post-retirement benefits	–	–	–	1,338	(9)	1,329
Deferred income taxes	10	–	2,153	1,757	–	3,920
Other liabilities	54	–	1,169	840	–	2,063
Total liabilities	7,764	156	10,021	28,010	(20,192)	25,759
Shareholders' equity						
Minority interest – equity	–	–	–	11	–	11
Cumulative preference stock issued by subsidiary undertakings	–	–	–	26	–	26
Common stock	308	–	45	541	(586)	308
Additional paid in capital	7,863	–	9,680	9,336	(19,016)	7,863
Other reserves	359	–	–	–	–	359
Retained earnings	2,107	–	(17)	4,686	(4,669)	2,107
Accumulated comprehensive loss	(1,307)	–	(69)	(1,329)	1,398	(1,307)
Shareholders' equity	9,330	–	9,639	13,234	(22,873)	9,330
Total liabilities and shareholders' equity	17,094	156	19,660	41,281	(43,065)	35,126

40. National Grid Gas plc additional US GAAP disclosures (continued)

Balance sheet as at 31 March 2006 – US GAAP

	Parent guarantor	Issuer of notes	Subsidiary guarantor			
	National Grid plc £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Assets						
Current assets						
Cash and cash equivalents	1,046	1	221	212	(14)	1,466
Marketable securities	–	–	35	349	–	384
Accounts and notes receivable	16	3	171	648	–	838
Inventories	–	–	23	85	–	108
Amounts owed by subsidiary undertakings	7,093	–	5,722	4,529	(17,344)	–
Regulatory assets	–	–	–	246	–	246
Prepaid expenses and other current assets	64	–	101	798	–	963
Total current assets	8,219	4	6,273	6,867	(17,358)	4,005
Property, plant and equipment	–	–	8,983	11,287	(35)	20,235
Goodwill	–	–	2,377	2,454	–	4,831
Intangible assets	–	–	33	357	–	390
Investments	5,209	–	52	16,323	(21,424)	160
Amounts owed by subsidiary undertakings	–	157	–	–	(157)	–
Regulatory assets	–	–	–	2,805	–	2,805
Other receivables	79	–	91	356	–	526
Total assets	13,507	161	17,809	40,449	(38,974)	32,952
Liabilities and shareholders' equity						
Current liabilities						
Bank overdrafts	14	–	–	3	(14)	3
Accounts payable	–	–	436	1,930	–	2,366
Short-term borrowings	114	4	689	1,758	–	2,565
Accrued income taxes	–	–	70	349	–	419
Amounts owed to subsidiary undertakings	1,813	–	920	14,611	(17,344)	–
Other accrued liabilities	63	–	111	160	(77)	257
Total current liabilities	2,004	4	2,226	18,811	(17,435)	5,610
Long-term borrowings	1,741	157	2,005	6,156	–	10,059
Amounts owed to subsidiary undertakings	–	–	–	157	(157)	–
Post-retirement benefits	–	–	–	1,348	–	1,348
Deferred income taxes	15	–	2,151	1,897	–	4,063
Other liabilities	–	–	226	1,858	–	2,084
Total liabilities	3,760	161	6,608	30,227	(17,592)	23,164
Minority interest – equity	–	–	–	11	–	11
Cumulative preference stock issued by subsidiary undertakings	–	–	–	30	–	30
Shareholders' equity						
Common stock	310	–	45	541	(586)	310
Additional paid in capital	7,837	–	9,680	8,072	(17,752)	7,837
Other reserves	359	–	–	–	–	359
Retained earnings	1,867	–	1,476	2,194	(3,670)	1,867
Accumulated comprehensive loss	(626)	–	–	(626)	626	(626)
Treasury stock	–	–	–	–	–	–
Shareholders' equity	9,747	–	11,201	10,181	(21,382)	9,747
Total liabilities and shareholders' equity	13,507	161	17,809	40,449	(38,974)	32,952

40. National Grid Gas plc additional US GAAP disclosures (continued)

Cash flow statements – US GAAP

	Parent guarantor	Issuer of notes	Subsidiary guarantor			
	National Grid plc £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Year ended 31 March 2007						
Net cash provided by/(used in) operating activities – continuing operations	221	–	1,341	3,288	(2,071)	2,779
Net cash used in operating activities – discontinued operations	–	–	–	178	–	178
Net cash provided by/(used in) operating activities	221	–	1,341	3,466	(2,071)	2,957
Net cash used in investing activities – continuing operations	(1,545)	–	(1,429)	(2,462)	1,264	(4,172)
Net cash provided by/(used in) investing activities – discontinued operations	–	–	27	(132)	–	(105)
Net cash used in investing activities	(1,545)	–	(1,402)	(2,594)	1,264	(4,277)
Net cash provided by/(used in) financing activities	1,040	(1)	6	(358)	807	1,494
(Decrease)/increase in cash and cash equivalents in the year	(284)	(1)	(55)	514	–	174
Year ended 31 March 2006*						
Net cash (used in)/provided by operating activities – continuing operations	(9)	1	1,501	1,428	(802)	2,119
Net cash (used in)/provided by operating activities – discontinued operations	–	–	(57)	158	–	101
Net cash (used in)/provided by operating activities	(9)	1	1,444	1,586	(802)	2,220
Net cash used in investing activities – continuing operations	–	–	(681)	(940)	–	(1,621)
Net cash provided by/(used in) investing activities – discontinued operations	–	–	5,635	(94)	–	5,541
Net cash provided by/(used in) investing activities	–	–	4,954	(1,034)	–	3,920
Net cash provided by/(used in) financing activities	937	–	(6,181)	(517)	788	(4,973)
Increase in cash and cash equivalents in the year	928	1	217	35	(14)	1,167
Year ended 31 March 2005*						
Net cash provided by/(used in) operating activities – continuing operations	1,108	(1)	3,594	1,754	(4,522)	1,933
Net cash provided by operating activities – discontinued operations	–	–	449	101	–	550
Net cash provided by/(used in) operating activities	1,108	(1)	4,043	1,855	(4,522)	2,483
Net cash used in investing activities – continuing operations	(273)	–	(5,126)	(717)	4,763	(1,353)
Net cash used in investing activities – discontinued operations	–	–	(323)	(1,249)	–	(1,572)
Net cash used in investing activities	(273)	–	(5,449)	(1,966)	4,763	(2,925)
Net cash (used in)/provided by financing activities	(723)	–	1,336	68	(241)	440
Increase/(decrease) in cash and cash equivalents in the year	112	(1)	(70)	(43)	–	(2)

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

Cash dividends were received by National Grid plc from consolidated subsidiaries amounting to £220m during the year ended 31 March 2007 (2006: £nil; 2005: £1,139m).