Group Accounting Policies

for the year ended 31 March 2006

(a) Basis of preparation of Group financial statements

These Group 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 2006 and in accordance with applicable United Kingdom law and Article 4 of the IAS Regulation. The 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, 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 Group 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.

These Group financial statements are presented in pounds sterling.

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.

IFRS transitional arrangements

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

(i) The Group has elected to adopt International Accounting Standard (IAS) 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' with effect from 1 April 2005, with no restatement of comparative information for the year to 31 March 2005. Accounting policy notes (o) and (p) explain the basis of accounting for financial instruments before and after 1 April 2005.

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

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

Other choices made on the adoption of IFRS:

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

(ii) The Group has elected to account for existing joint ventures using the equity method. See Group Accounting Policies – (b) Basis of consolidation on page 94.

(iii) For pensions accounting, the Group has elected to recognise all actuarial gains and losses each year in the statement of recognised income and expense. See Group Accounting Policies – (m) Pensions and other post-retirement benefits on page 97.

(iv) For share-based payments, all active grants were recognised retrospectively. This is consistent with the treatment the Group had applied in prior years under UK GAAP in accordance with Financial Reporting Standard (FRS) 20. See Group Accounting Policies – (r) Share-based payments on page 99.

New IFRS accounting standards and interpretations adopted in 2005/06

In preparing these financial statements, the Group has complied with all IFRSs applicable for periods beginning on or after 1 January 2005.

In addition the Group has adopted the following amendments to standards:

Amendment to IAS 1 'Presentation of Financial Statements'
The amendment requires new disclosures about entities' management of their capital resources and compliance with capital requirements.

Amendment to IAS 19 'Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures'
The principal impact of adopting the amendment is that actuarial gains and losses in respect of the Group's defined benefit schemes are recognised in the statement of recognised income and expense and additional disclosures regarding the schemes have been provided.

Amendment to IAS 39 'Financial Instruments: Recognition and Measurement: Cash Flow Hedge Accounting of Forecast Intragroup Transactions'
In consolidated financial statements, the amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item provided that the transaction is denominated in a currency other than the functional

currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

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

New IFRS accounting standards and interpretations not yet adopted

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'. Implementation of this Interpretation is not expected to have a material impact on the Group's results or assets and liabilities.

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. The Group has no such funds and therefore adoption of IFRIC 5 would have no impact on the Group.

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. Implementation of this Interpretation is not expected to have a material impact on the Group's results or assets and liabilities.

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. Implementation of this Interpretation is not expected to have a material impact on the Group's results or assets and liabilities.

(b) Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and its subsidiaries (Group undertakings), together with the Group's 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 Group's 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 Group jointly controls with its fellow venturers.

Losses in excess of the Group's interest in joint ventures are not recognised, except where the Group has 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 Group 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 Group 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 Group undertaking 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 Group adopted UK GAAP for hedge accounting 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 the operations that have a functional currency different from the Group's presentation currency 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 Group's translation reserve.

(d) Goodwill

Goodwill arising on a business combination represents the excess of the cost of acquisition over the Group's 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 for categories of intangibles	Years
Software	3 to 5
Telecommunication licences	10 to 25
Acquired customer relationships	10 to 25

(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 the Group'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 below:

Depreciation periods for category of assets	Years
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 towers/infrastructure	20 to 55
Freehold and leasehold buildings	up to 65
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 Group estimates the recoverable amount of the cash-generating unit to which that asset belongs.

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, where material, are disclosed separately.

(h) Taxation

Current tax

Current tax asset 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 Group 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 Group intends to settle its 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 and non-current assets held for sale

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

Non-current assets (and disposal groups) 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 disposal groups classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its 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.

(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) Revenues

Revenues primarily represent 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 that the Group incurred prior to the divestiture of generation assets beginning in the late 1990s and the Group is recovering these costs 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.

Revenues include an assessment of energy and transportation services supplied to customers between the date of the last meter reading and the year end, exclude inter-business and inter-company transactions, and are stated net of value added tax and similar sales based taxes.

Where revenues received or receivable exceed 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 the Group enters into a transaction that eliminates all further legal or constructive obligations for benefits under a scheme.

Curtailments are recognised when the group is committed 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 into. An equity instrument is any contract that evidences a residual interest in the assets of the Group 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 the Group will not be able to collect all amounts due under the original payment terms. 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, but 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 which 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 the proceeds received, net of direct issue costs plus accrued interest less any repayments, and subsequently stated at amortised cost. 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. Prior to 1 April 2005, accrued interest is presented as part of current liabilities and not combined with the principal amounts payable.

Derivative financial instruments are recognised initially at fair value, and are subsequently also measured 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.

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.

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.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the assets. Regular way transactions require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

(p) Hedge accounting and derivative financial instruments
The Group enters into both derivative financial instruments (derivatives) and non-derivative financial instruments in order to manage its 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 the Group's underlying business activities and the financing of those activities.

With effect from 1 April 2005, derivatives are carried in the balance sheet at their fair value. Commodity contracts that meet the definition of a derivative and which are not used for normal purchase normal sale requirements are also carried at fair value.

From 1 April 2005, the accounting policy for hedge accounting is described below. Disclosures on the impact of implementing IAS 39 at 1 April 2005 are set out in note 2.

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 equal and opposite amount is recorded as an adjustment to the carrying value of hedged items, with a corresponding entry in the income statement, to the extent that the change 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 Group's net investment in overseas operations (net investment hedges) are recorded directly in equity, with any ineffective portion recognised immediately in the income statement. Amounts deferred in equity in respect of net investment hedges are subsequently recognised in the income statement in the event of the disposal of the overseas operations concerned.

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 within 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. 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 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 and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Prior to 1 April 2005, the Group adopted UK GAAP for hedge accounting and for derivatives. 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 comparative balance sheet and income statement for the year ended 31 March 2005 have not been restated to reflect either the adoption of IAS 39 or IAS 32.

(q) Restructuring costs

Costs arising from Group restructuring programmes primarily relate to redundancy costs. Redundancy costs are charged to the income statement in the year in which the Group becomes irrevocably committed to incurring the costs and the main features of the restructuring plan have been announced to affected employees.

(r) Share-based payments

The Group issues equity-settled share-based payments to certain employees.

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 the Group's estimate of shares that will eventually vest.

(s) Exceptional items and remeasurements

Exceptional items are credits or charges relating to non-recurring transactions that are material, by virtue of their size or nature, and therefore relevant to understanding the Group's financial performance and are shown separately to provide a better indication of the underlying results of the Group.

Remeasurements are gains or losses arising from movements in the carrying value of commodity contracts and of financial instruments, principally derivatives, which provide economic hedges but do not achieve hedge accounting or are ineffective under IAS 39, and are shown separately to provide a better indication of the underlying results of the Group.

(t) Other operating income

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

(u) Emission allowances

Emission allowances are recorded as an intangible asset within current assets and are initially recorded at deemed cost. For allocations of emission allowances granted to the Group by the UK Government, 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 Group's obligation to deliver emission allowances and charges are recognised in the income statement in the period in which carbon dioxide emissions are made.

(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) 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 and/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:

- The categorisation of certain items as exceptional and the definition of adjusted earnings – notes 6 and 14.
- The exemptions adopted under IFRS including, in particular, those relating to business combinations – Group Accounting Policies (a) Basis of preparation of Group financial statements.

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:

- Impairment of goodwill – Group Accounting Policies (d) Goodwill and note 15.
- Review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – Group 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 costs – note 9.
- Valuation of financial instruments and derivatives – note 23.
- Revenue recognition and assessment of unbilled revenue – Group Accounting Policies (l) Revenues.
- Recoverability of deferred tax assets – Group Accounting Policies (h) Taxation and note 20.
- Environmental liabilities – note 30.

Group Income Statement

for the years ended 31 March

	Notes	**2006 £m**	2005 (i) £m
Group revenue	3(a)	**9,193**	7,382
Other operating income	4	**80**	70
Operating costs	5	**(6,834)**	(5,310)
Operating profit			
Before exceptional items and remeasurements	3(b)	**2,527**	2,443
Exceptional items and remeasurements	6	**(88)**	(301)
Total operating profit	3(b)	**2,439**	2,142
Interest income and similar income	10	**1,038**	946
Interest expense and other finance costs			
Before exceptional items and remeasurements	6	**(1,644)**	(1,652)
Exceptional items and remeasurements	6,10	**(57)**	–
	10	**(1,701)**	(1,652)
Share of post-tax results of joint ventures	3(c)	**3**	3
Profit before taxation			
Before exceptional items and remeasurements		**1,924**	1,740
Exceptional items and remeasurements		**(145)**	(301)
Total profit before taxation		**1,779**	1,439
Taxation			
Before exceptional items and remeasurements	11	**(597)**	(437)
Exceptional items and remeasurements	6,11	**35**	118
Total taxation	11	**(562)**	(319)
Profit from continuing operations after taxation			
Before exceptional items and remeasurements		**1,327**	1,303
Exceptional items and remeasurements	6	**(110)**	(183)
Profit for the year from continuing operations		**1,217**	1,120
Profit for the year from discontinued operations			
Before exceptional items	12	**43**	352
Exceptional items	12	**2,590**	(48)
	12	**2,633**	304
Profit for the year		**3,850**	1,424
Attributable to:			
Equity shareholders of the parent		**3,848**	1,424
Minority interests		**2**	–
		3,850	1,424
Earnings per share from continuing operations			
Basic	14	**42.8p**	36.3p
Diluted	14	**42.6p**	36.2p
Earnings per share			
Basic	14	**135.6p**	46.2p
Diluted	14	**135.0p**	46.0p

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

The notes on pages 104 to 165 form part of the Group Financial Statements.

Group Balance Sheet

at 31 March

	Notes	2006 £m	2005 (i) £m
Non-current assets			
Goodwill	15	**2,142**	2,031
Other intangible assets	17	**321**	358
Property, plant and equipment	18	**18,935**	22,645
Investments in joint ventures	19	**12**	17
Deferred tax assets	20	**159**	318
Other receivables	21	**38**	96
Financial investments	22	**148**	131
Derivative financial assets	23	**351**	–
Total non-current assets		**22,106**	25,596
Current assets			
Other intangible assets	17	**41**	–
Inventories	24	**108**	101
Trade and other receivables	25	**1,519**	1,193
Financial investments	22	**384**	398
Derivative financial assets	23	**314**	–
Cash and cash equivalents	26	**1,452**	272
Total current assets		**3,818**	1,964
Total assets	3(d)	**25,924**	27,560
Current liabilities			
Bank overdrafts	26	**(3)**	(18)
Borrowings	27	**(2,839)**	(3,243)
Derivative financial liabilities	23	**(92)**	–
Trade and other payables	28	**(2,095)**	(2,337)
Current tax liabilities		**(419)**	(103)
Provisions	30	**(235)**	(273)
Total current liabilities		**(5,683)**	(5,974)
Non-current liabilities			
Borrowings	27	**(10,287)**	(11,047)
Derivative financial liabilities	23	**(130)**	–
Other non-current liabilities	29	**(1,719)**	(2,429)
Deferred tax liabilities	20	**(2,161)**	(3,189)
Pensions and other post-retirement benefit obligations	9	**(1,915)**	(2,282)
Provisions	30	**(536)**	(518)
Total non-current liabilities		**(16,748)**	(19,465)
Total liabilities	3(d)	**(22,431)**	(25,439)
Net assets		**3,493**	2,121
Equity			
Called up share capital	31	**310**	309
Share premium account	32	**1,316**	1,289
Retained earnings	32	**6,817**	5,650
Translation reserve	32	**127**	(6)
Cash flow hedge reserve	32	**37**	–
Available-for-sale investment reserve	32	**6**	–
Other reserves	32	**(5,131)**	(5,131)
Total parent company shareholders' equity		**3,482**	2,111
Minority interests	32	**11**	10
Total equity		**3,493**	2,121

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

These financial statements comprising the Group Income Statement, Group Balance Sheet, Group Statement of Recognised Income and Expense, Group Cash Flow Statement and the related notes 1 to 39, were approved by the Board of Directors on 17 May 2006 and were signed on its behalf by:

Sir John Parker Chairman
Steve Lucas Group Finance Director

Group Statement of Recognised Income and Expense

for the years ended 31 March

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

(i) Refer to note 1 for the basis of preparation of the comparatives presented under International Financial Reporting Standards.
(ii) The Group has adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' prospectively with effect from 1 April 2005, in accordance with the transition provisions of IFRS 1. An analysis of the impact that the adoption of IAS 39 had on the Group's reserves is provided in note 32. The impact of IAS 39 attributable to minority interests was £nil.

Group Cash Flow Statement

for the years ended 31 March

	Notes	2006 £m	2005 (i) £m
Cash flows from operating activities			
Total operating profit		**2,439**	2,142
Adjustments for:			
Exceptional items and remeasurements		**88**	301
Depreciation and amortisation		**952**	819
Share-based payment charge		**15**	12
Changes in working capital		**(212)**	(105)
Changes in provisions		**9**	(119)
Changes in pensions and other post-retirement benefit obligations		**(42)**	(19)
Cash flows relating to exceptional items		**(118)**	(120)
Cash flows generated from continuing operations		**3,131**	2,911
Cash flows relating to discontinued operations	33(a)	**(20)**	547
Cash generated from operations		**3,111**	3,458
Tax paid – continuing operations		**(103)**	(52)
Tax paid – discontinued operations		**(37)**	(98)
Net cash inflow from operating activities		**2,971**	3,308
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**–**	(1,122)
Sale of investments in joint ventures		**8**	8
Purchases of intangible assets		**(16)**	(79)
Purchases of property, plant and equipment		**(1,750)**	(1,427)
Disposals of property, plant and equipment		**18**	22
Purchases of financial investments		**(2,870)**	(113)
Sales of financial investments		**2,895**	54
Dividends received from joint ventures		**2**	5
Cash flows used in continuing operations investing activities		**(1,713)**	(2,652)
Cash flows relating to discontinued operations – disposal proceeds		**5,750**	–
Cash flows relating to discontinued operations – other investing activities		**(115)**	(323)
Net cash inflow from/(used in) investing activities		**3,922**	(2,975)
Cash flows from financing activities			
Proceeds from issue of share capital		**54**	13
Proceeds from loans received		**1,026**	998
Repayment of loans		**(1,714)**	(868)
Net movements in short-term borrowings and derivatives		**(1,616)**	922
Interest received		**130**	75
Interest paid		**(834)**	(837)
Exceptional finance costs on the repayment of debt		**(49)**	–
Dividends paid to shareholders		**(745)**	(628)
Cash paid to shareholders under B share scheme		**(1,957)**	–
Purchase of treasury shares		**(7)**	–
Net cash used in financing activities		**(5,712)**	(325)
Net increase in cash and cash equivalents		**1,181**	8
Exchange movements		**14**	(1)
Net cash and cash equivalents at start of year (ii)		**254**	247
Net cash and cash equivalents at end of year (ii)	26	**1,449**	254

(i) Refer to note 1 for the basis of preparation of the comparatives presented under International Financial Reporting Standards.
(ii) Net of bank overdrafts.

Notes to the Accounts

1. Adoption of International Financial Reporting Standards (IFRS)

With effect from 1 April 2005, National Grid plc is required to report its consolidated financial statements in accordance with IFRS as adopted by the EU.

The tables below present the impact of conversion from UK generally accepted accounting principles (UK GAAP) to IFRS on the primary statements. The transition date chosen for the adoption of IFRS is 1 April 2004, and only one year of IFRS comparatives are included in these financial statements for the year ended 31 March 2006.

As permitted by International Financial Reporting Standard No. 1 'First-time Adoption of IFRS' (IFRS 1), the comparative balance sheet at 31 March 2005 and income statement for the year ended 31 March 2005 have not been restated to reflect the adoption of IAS 39 and IAS 32 on 1 April 2005. Summary disclosures on the impact of the adoption of IAS 39 and IAS 32 as at 1 April 2005 are included in note 2.

A comparative balance sheet at 31 March 2005 and an income statement, cash flow statement and statement of recognised income and expense for the year ended 31 March 2005 were originally set out in the Group's IFRS conversion statement for the year ended 31 March 2005, which was published on 29 July 2005. The financial information in respect of the year ended 31 March 2005 included in this Annual Report and Accounts has been derived from the Group's IFRS conversion statement for the year ended 31 March 2005.

As noted in the IFRS conversion statement, the comparative results and financial position under IFRS were subject to change as there was not yet a significant established practice from which to draw conclusions on the application and interpretation of IFRS.

During the year ended 31 March 2006, a reassessment of the IFRS adjustment for regulatory assets has resulted in an increase in net assets under IFRS at 1 April 2004 and 31 March 2005 of £26m compared with the value attributed to net assets as presented in the IFRS conversion statement. There was no impact on the income statement for the year ended 31 March 2005.

In August 2005, the provisional fair values applied on the acquisition of the UK operations of Crown Castle International Corp. were reviewed and a number of adjustments were made to those provisional fair values as a result of better information becoming available. As required by IFRS 3 'Business Combinations', the balance sheet presented for March 2005 has been re-presented to reflect these fair value adjustments. The overall impact on the carrying value of net assets was £nil: goodwill increased by £10m; property, plant and equipment decreased by £8m; deferred tax liabilities decreased by £4m; and non-current provisions increased by £6m. There was no impact on the income statement for the year ended 31 March 2005.

A past service pension cost of £41m (£24m net of tax) that arose in the second half of 2004/05, which was included within the IFRS conversion statement in operating profit before exceptional items and remeasurements, has been reclassified as an exceptional item as reported in note 6.

a) Impact of adoption of IFRS on net assets at 1 April 2004 (date of adoption of IFRS)

The following is a summary of the IFRS measurement and presentation adjustments as they affected net assets at 1 April 2004 (the date of adoption of IFRS), which arise as a consequence of applying IFRS measurement principles as compared with UK GAAP.

At 1 April 2004	Notes	**£m**
Net assets under UK GAAP		**1,271**
IFRS measurement adjustments		
Replacement expenditure	1(c)(i)	2,778
Derecognition of regulatory assets	1(c)(ii)	(1,791)
Pensions and other post-retirement benefits	1(c)(v)	(1,382)
Deferred taxation	1(c)(vi)	(84)
Proposed final dividend	1(c)(vii)	366
Other adjustments	1(c)(viii)	(10)
		(123)
IFRS presentation adjustments		
Non-equity minority interests	1(d)(i)	(38)
Net assets under IFRS		**1,110**

Amounts shown above are net of any related deferred tax on the underlying IFRS adjustment.

1. Adoption of IFRS (continued)

b) Reconciliation of profit for the year and net assets under UK GAAP to IFRS

The following tables show the effect of IFRS measurement and presentation adjustments on profit for the year and net assets measured under UK GAAP as a consequence of applying IFRS measurement principles as compared with UK GAAP:

For the year ended 31 March 2005	Notes	£m
Profit for the year before minority interests under UK GAAP		**907**
IFRS measurement adjustments		
Replacement expenditure – gross	1(c)(i)	344
Replacement expenditure – depreciation	1(c)(i)	(108)
Derecognition of regulatory assets	1(c)(ii)	151
Goodwill amortisation	1(c)(iii)	109
Amortisation of intangible assets other than goodwill	1(c)(iv)	(4)
Pensions and other post-retirement benefits	1(c)(v)	41
Deferred taxation	1(c)(vi)	(11)
Other adjustments	1(c)(viii)	(6)
		516
IFRS presentation adjustments		
Non-equity minority interests	1(d)(i)	(2)
Share of results of joint ventures	1(d)(ii)	3
		1
Profit for the year under IFRS		**1,424**
Less: profit for the year under IFRS – discontinued operations		(304)
Profit for the year under IFRS – continuing operations		**1,120**

Amounts shown above are net of any related deferred tax on the underlying IFRS adjustment.

At 31 March 2005	Notes	£m
Net assets under UK GAAP		**1,391**
IFRS measurement adjustments		
Replacement expenditure	1(c)(i)	3,014
Derecognition of regulatory assets	1(c)(ii)	(1,587)
Goodwill	1(c)(iii)	28
Intangible assets other than goodwill	1(c)(iv)	99
Pensions and other post-retirement benefits	1(c)(v)	(1,149)
Deferred taxation	1(c)(vi)	(95)
Proposed final dividend	1(c)(vii)	469
Other adjustments	1(c)(viii)	(27)
		752
IFRS presentation adjustments		
Non-equity minority interests	1(d)(i)	(22)
Net assets under IFRS		**2,121**

Amounts shown above are net of any related deferred tax on the underlying IFRS adjustment.

1. Adoption of IFRS (continued)

c) IFRS measurement adjustments

The following relate to the measurement adjustments included in the income statement and balance sheet.

(i) Replacement expenditure (repex)

Repex represents the cost of planned replacement of gas mains and services and is undertaken to maintain the safety of the networks. Under UK GAAP, the gas distribution pipeline network is treated as a single infrastructure asset for accounting purposes and repex is recorded as an expense as it represents a repair to that single infrastructure asset and repex does not have the effect of enhancing the economic benefits of the pipeline network as a whole. Under IFRS, the individual assets and components within the gas distribution pipeline network are recorded separately, and hence repex is treated as the replacement or restoration of those individual assets or components.

The adjustment to net assets reflects the aggregate of the cumulative capitalisation of repex incurred, net of cumulative depreciation, the derecognition of previously replaced gas mains and services, and the effect on cumulative depreciation of depreciating gas mains and services at an individual asset or component level, rather than at a distribution pipeline network level.

(ii) Derecognition of regulatory assets

Regulatory assets arise when a US-based public utility, authorised by its regulator, defers to its balance sheet certain costs or revenues that will be recovered from or passed on to customers through future rate changes. These assets were recognised in the balance sheet under UK GAAP as they met the definition of an asset as set out in FRS 5 'Reporting the Substance of Transactions'. Under IFRS, regulatory assets are not permitted to be recognised in the balance sheet as they do not meet the definition of an asset under the different definition that is set out in IAS 1. In addition, the International Financial Reporting Interpretations Committee has expressed the opinion that the recognition criteria of US Statement of Financial Accounting Standard (SFAS) 71 is not fully consistent with IFRS recognition criteria. Under IFRS, costs are charged to the income statement when incurred and recoveries from customers are recognised when receivable.

(iii) Goodwill and goodwill amortisation

In accordance with IFRS 1, the Group has not restated any business combinations that occurred prior to 31 March 2004 and goodwill at 1 April 2004, which mainly related to US businesses, has therefore not been adjusted from the amount calculated under UK GAAP.

Goodwill arising on the acquisition of the UK operations of Crown Castle International Corp. during the year ended 31 March 2005 has been remeasured under IFRS, resulting in a reduction in goodwill of £80m, principally relating to the recognition of intangible assets partially offset by higher deferred tax liabilities recognised on the acquisition under IFRS.

In addition, an adjustment has been recorded in respect of goodwill amortisation of £109m. Under UK GAAP, goodwill is amortised over a period of 20 years, while under IFRS goodwill amortisation ceased from 1 April 2004 onwards. IFRS instead requires that goodwill is reviewed for impairment on an annual basis or when indicators of impairment are identified.

(iv) Intangible assets other than goodwill and related amortisation

In a business combination, IFRS requires fair values to be attributed to intangible assets that are not recognised under UK GAAP together with associated deferred tax balances. A corresponding reduction in goodwill arises as a consequence. The acquisition of the UK operations of Crown Castle International Corp. during the year ended 31 March 2005 resulted in the recognition under IFRS of certain intangibles, amounting to £188m at the date of acquisition, which are being amortised on a straight-line basis over periods ranging from 10 to 25 years.

(v) Pensions and other post-retirement benefits

Under UK GAAP, the Group's pensions and other post-retirement benefits were accounted for under SSAP 24 prior to the date of transition. Under IFRS, these benefits are accounted for under IAS 19, with the Group recognising all of its net pension and other post-retirement benefit obligations in the balance sheet at 1 April 2004 with a corresponding adjustment to opening reserves. There are also differences in the measurement of the annual pension expense under IAS 19 compared with SSAP 24.

(vi) Deferred taxation

Under UK GAAP, deferred tax is recognised in respect of timing differences. Under IFRS, deferred tax is recognised in respect of temporary differences, being the differences between the book recorded value and the tax base of assets and liabilities. The adoption of IFRS resulted in a total reduction in the net deferred tax liability of £165m, which includes the tax effect of the other IFRS adjustments, which are shown net of tax in the reconciliations above.

(vii) Proposed final dividend

Under UK GAAP, final ordinary dividends are recorded as a liability in the year in respect of which they are proposed by the Board of Directors for approval by the shareholders. Under IFRS, dividends are not provided for until approved.

(viii) Other measurement adjustments

Other differences on transition from UK GAAP to IFRS for the year ended 31 March 2005 are not individually material and relate to recognition of finance lease obligations and the related finance lease assets, certain intangible assets and the timing of recognition of provisions.

1. Adoption of IFRS (continued)

d) IFRS presentation adjustments

The following notes relate to the presentation adjustments included in the income statement and balance sheet.

(i) Non-equity minority interests

In the income statement, under UK GAAP, dividends paid to non-equity minority interests are included within 'Loss for the year attributable to minority interests'. Under IFRS, this amount is included within 'Net finance costs'.

Under UK GAAP, non-equity minority interests are shown separately from shareholders' equity within capital and reserves. Under IFRS this amount is included within liabilities, resulting in lower net assets.

(ii) Share of results of joint ventures

Under UK GAAP, the Group's share of the joint ventures' operating profits, interest and tax are classified within their respective income statement captions. IFRS instead requires that, where equity accounting is adopted, the post-tax share of results from joint ventures is separately disclosed as a single line-item in the income statement.

(iii) Gains on disposal of property, plant and equipment

Under UK GAAP, gains and losses on disposal of properties by our property management business are included within exceptional items, even though these are considered to be part of the normal recurring operating activities of the Group. Under IFRS, such gains and losses are included within other operating income.

(iv) Profit on disposal of joint venture

Under UK GAAP, the profit on disposal of a joint venture has been disclosed as a non-operating exceptional item. Under IFRS, this profit has been disclosed within the single line-item 'profit for the year from discontinued operations' in the income statement.

(v) Cash and cash equivalents

Under UK GAAP, cash excludes short-term highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant change in value. Under IFRS, such investments are included within cash and cash equivalents.

(vi) Software

Under UK GAAP, software is capitalised together with the related hardware within property, plant and equipment. Under IFRS, software is classified within intangible assets.

(vii) Short-term provisions

Under UK GAAP, provisions are presented on the balance sheet separately from creditors and include both current and non-current provisions. Under IFRS, the current portion of provisions is included within current liabilities.

(viii) Cumulative translation differences

Exchange adjustments arising on the retranslation of overseas subsidiaries' net assets on consolidation are recorded directly in equity within the reserve for cumulative translation differences. As permitted by IFRS 1, this was set at nil on 1 April 2004. This adjustment reflects the reclassification of UK GAAP translation differences from retained earnings into the cumulative translation differences reserve during the year ended 31 March 2005.

e) Impact of adoption of IFRS on cash flow statement

The principal changes to the Group cash flow statement for the year ended 31 March 2005 on adoption of IFRS are summarised below.

Income taxes of £150m paid during the year ended 31 March 2005 are classified as part of operating cash flows under IFRS, but were classified as a separate category of the cash flow under UK GAAP.

Replacement expenditure of £474m, which was previously written off to the income statement under UK GAAP, is now capitalised under IFRS. Therefore, this expenditure is classified as investing activities in the IFRS cash flow statement, but was previously classified as operating cash flow under UK GAAP.

Profits on disposal of property, plant and equipment of £70m which were previously classified as investing activities under UK GAAP, are now presented within operating cash flow, in line with the treatment in the income statement under IFRS.

In accordance with IAS 7 'Cash flow statements', cash equivalents include certain short-term highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant change in value. These were previously shown within cash flows from the management of liquid resources, as they did not fall within the definition of cash according to UK GAAP.

1. Adoption of IFRS (continued)

f) Reconciliation of summary financial statements for the year ended 31 March 2005 from UK GAAP to IFRS

	As previously presented under UK GAAP (i) £m	IFRS measurement changes £m	IFRS presentation changes £m	IFRS discontinued operations £m	**IFRS £m**
Summary Group Income Statement for the year ended 31 March 2005					
Group revenue	8,521	(37)	–	(1,102)	**7,382**
Other operating income	n/a	–	70	–	**70**
Operating costs	(6,676)	700	–	666	**(5,310)**
Operating profit	1,845	663	70	(436)	**2,142**
Share of joint ventures operating profit	7	–	(7)	–	**n/a**
Non-operating exceptional items	83	–	(83)	–	**n/a**
Net finance costs	(783)	69	8	–	**(706)**
Share of post-tax results of joint ventures	n/a	–	3	–	**3**
Profit before taxation	1,152	732	(9)	(436)	**1,439**
Taxation	(245)	(216)	2	140	**(319)**
Profit for the year from continuing operations	907	516	(7)	(296)	**1,120**
Profit for the year from discontinued operations	n/a	–	8	296	**304**
Minority interests	1	–	(1)	–	**n/a**
Profit for the year	908	516	–	–	**1,424**
Summary Group Balance Sheet as at 31 March 2005					
Non-current assets	22,395	3,201	–	–	**25,596**
Current assets	2,316	(352)	–	–	**1,964**
Total assets	24,711	2,849	–	–	**27,560**
Current liabilities	(6,148)	447	(273)	–	**(5,974)**
Non-current liabilities	(17,172)	(2,544)	251	–	**(19,465)**
Total liabilities	(23,320)	(2,097)	(22)	–	**(25,439)**
Net assets	1,391	752	(22)	–	**2,121**
Equity					
Called up share capital	309	–	–	–	**309**
Share premium account	1,289	–	–	–	**1,289**
Retained earnings	4,892	685	73	–	**5,650**
Other reserves	(5,131)	67	(73)	–	**(5,137)**
Total shareholders' equity	1,359	752	–	–	**2,111**
Minority interests	32	–	(22)	–	**10**
Total equity	1,391	752	(22)	–	**2,121**
Summary Group Cash Flow Statement for the year ended 31 March 2005					
Cash generated from operations					
Cash flows from operating activities – continuing operations	2,909	479	70	(547)	**2,911**
Cash flows from operating activities – discontinued operations	n/a	–	–	547	**547**
Tax paid – continuing operations	(150)	–	–	98	**(52)**
Tax paid – discontinued operations	n/a	–	–	(98)	**(98)**
Net cash inflow from operations	2,759	479	70	–	**3,308**
Cash flows from investing activities					
Cash flows from investing activities – continuing operations	(2,441)	(475)	(59)	323	**(2,652)**
Cash flows from investing activities – discontinued operations	n/a	–	–	(323)	**(323)**
Net cash used in investing activities	(2,441)	(475)	(59)	–	**(2,975)**
Net cash flows from financing activities	(305)	(4)	(16)	–	**(325)**
Net increase in cash and cash equivalents	13	–	(5)	–	**8**

(i) Represents UK GAAP measurement principles, but presented in IFRS formats for comparability.

2. Adoption of IAS 39 and IAS 32 and presentation of net debt at 1 April 2005

a) Adoption of IAS 39 and IAS 32

On 1 April 2005, the Group adopted IAS 39 and IAS 32. IAS 39 requires certain financial instruments to be recorded in the balance sheet at fair value rather than historical cost. Note 23 contains the disclosures required by IAS 39, IAS 32 and IFRS 7.

The principal effect of the adoption of these standards at 1 April 2005 is to record derivative financial instruments and available-for-sale investments in the balance sheet at their fair value, while deferred gains and losses relating to items qualifying for hedge accounting are derecognised and instead recorded in equity (for cash flow hedges and net investment hedges) or by adjusting the carrying value of the hedged financial instrument (for fair value hedges).

As permitted by IFRS 1, the balance sheet at 31 March 2005 and the income statement for the year ended 31 March 2005 have not been restated to reflect the adoption of IAS 39 and IAS 32 on 1 April 2005.

b) Effect of IAS 39 on net debt and net assets

	At 31 March 2005 £m	IAS 39 transition adjustment at 1 April 2005 (i) (ii) (iii) (iv) £m	IAS 39 reclass-ifications at 1 April 2005 (v) £m	IFRS post-IAS 39 at 1 April 2005 £m
Cash and cash equivalents	**272**	–	–	**272**
Bank overdrafts	**(18)**	–	–	**(18)**
Net cash and cash equivalents	**254**	–	–	**254**
Financial investments	**398**	3	–	**401**
Borrowings	**(14,290)**	(580)	(314)	**(15,184)**
	(13,638)	(577)	(314)	**(14,529)**
Derivative financial assets	**–**	633	92	**725**
Derivative financial liabilities	**–**	(178)	(4)	**(182)**
Net debt	**(13,638)**	(122)	(226)	**(13,986)**
Accrued interest	**(255)**	29	226	**–**
Deferred gains and losses	**(39)**	39	–	**–**
Available-for-sale investments	**131**	4	–	**135**
Commodity contract assets	**–**	63	–	**63**
Commodity contract liabilities	**(327)**	(193)	–	**(520)**
Purchased power obligations	**(144)**	130	–	**(14)**
Other assets and liabilities	**16,393**	7	–	**16,400**
Net assets	**2,121**	(43)	–	**2,078**

(i) On the adoption of IAS 39, derivative financial assets and liabilities are recognised on the balance sheet, with corresponding adjustments to retained earnings or to other reserves within equity (in respect of derivatives qualifying as cash flow hedges or net investment hedges) or to the carrying value of debt (in respect of derivatives qualifying as fair value hedges). The impact on other assets and liabilities principally relates to the deferred tax effect of these adjustments.
(ii) Up to 31 March 2005, deferred gains and losses relating to hedged financial instruments were carried forward in the balance sheet and reflected in the income statement in line with those hedged financial instruments. Under IAS 39, deferred gains and losses relating to qualifying hedge relationships are recorded in equity (for cash flow hedges and net investment hedges) or by adjusting the carrying value of the hedged financial instrument (for fair value hedges) or in the income statement if hedge accounting is not achieved.
(iii) On the adoption of IAS 39, available-for-sale investments (being financial investments not held for financial management purposes) and financial investments have been adjusted by £4m and £3m respectively. Under UK GAAP and IFRS at 31 March 2005, these are carried at cost, while under IAS 39 these are carried at fair value.
(iv) Up to 31 March 2005, index-linked swap contracts were carried at fair value. Under IAS 39, these commodity contracts are treated as derivative financial instruments and are also carried at fair value. In addition, assets and liabilities arising from certain other commodity contract assets and liabilities not previously recognised as at 31 March 2005 are recorded on the balance sheet as at 1 April 2005, offset by a reduction in purchased power obligations.
(v) Up to 31 March 2005, accrued interest was presented separately within creditors from the financial instruments to which it relates. Under IAS 32 and IAS 39 the carrying value of borrowings and derivative financial assets and liabilities includes the related accrued interest balance.

3. Segmental analysis

Segmental information is presented in accordance with the management responsibilities and economic characteristics, including consideration of risks and returns, of the Group's business activities.

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

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

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

3. Segmental analysis (continued)

Our UK liquefied natural gas storage activities and the Scottish and French interconnectors are both included within UK electricity and gas transmission. These were previously reported in the Group UK GAAP accounts for the year ended 31 March 2005 within Other activities. This change in segmental presentation follows a change in the organisational and management structure within the Group and the change in regulatory arrangements for the Scottish interconnector following the introduction of the British Electricity Trading and Transmission Arrangements (BETTA). The impact of this change on segment results has been reflected in the tables below. The impact of this change on the UK electricity and gas transmission segment results for the year ended 31 March 2005 was to increase revenue by £65m and operating profit by £42m, increase total assets by £191m and total liabilities by £16m, increase capital expenditure by £7m and increase depreciation and amortisation by £10m. Within Other activities, revenue was decreased by £110m and operating profit by £42m, total assets and total liabilities decreased by £191m and £16m respectively, capital expenditure decreased by £7m and depreciation and amortisation decreased by £10m. Intra-group revenue eliminations were reduced by £45m. There was no difference between the impact on operating profit before exceptional items and remeasurements and that for operating profit after exceptional items and remeasurements.

Discontinued operations comprise the operations of the four UK gas distribution networks that the Group sold on 1 June 2005 and the results of Citelec, an Argentinian joint venture sold in August 2004. The results for discontinued operations are disclosed in note 12.

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

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

a) Group revenue

	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						
UK electricity and gas transmission	**2,710**	**15**	**2,695**	1,995	10	1,985
US electricity transmission	**310**	**48**	**262**	284	45	239
UK gas distribution	**1,222**	**86**	**1,136**	1,113	135	978
US electricity and gas distribution	**3,711**	**2**	**3,709**	3,087	2	3,085
US stranded cost recoveries	**511**	**–**	**511**	409	–	409
Wireless infrastructure	**325**	**–**	**325**	208	–	208
Other activities	**701**	**146**	**555**	734	256	478
	9,490	**297**	**9,193**	7,830	448	7,382
Geographical segments						
UK			**4,671**			3,621
US			**4,522**			3,761
			9,193			7,382

The table above represents revenue from continuing operations only, as disclosed in the Group Income Statement as 'Group revenue'. Revenue from discontinued operations for the year ended 31 March 2006 was £168m (2005: £1,102m). See note 12 for additional disclosures on discontinued operations.

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

Approximately 9% (2005: 9%) of Group revenue for the year ended 31 March 2006 amounting to approximately £0.9bn (2005: £0.7bn) derives from a single customer, the Centrica Group. The majority of this revenue is in the UK gas distribution segment with lesser amounts in Other activities and the UK electricity and gas transmission segment.

3. Segmental analysis (continued)

b) Operating profit

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Business segments				
UK electricity and gas transmission	**844**	859	**843**	857
US electricity transmission	**127**	126	**127**	119
UK gas distribution	**483**	424	**432**	333
US electricity and gas distribution	**364**	375	**364**	258
US stranded cost recoveries	**489**	465	**440**	427
Wireless infrastructure	**75**	42	**70**	29
Other activities	**145**	152	**163**	119
	2,527	2,443	**2,439**	2,142
Geographical segments				
UK	**1,549**	1,473	**1,489**	1,335
US	**983**	970	**934**	807
Rest of the World	**(5)**	–	**16**	–
	2,527	2,443	**2,439**	2,142

The table above represents operating profit from continuing operations only, as disclosed in the Group 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 2006 was £61m (2005: £510m). Operating profit after exceptional items and remeasurements for discontinued operations for the year ended 31 March 2006 was £46m (2005: £436m). See note 12 for additional disclosures on discontinued operations.

c) Share of post-tax results of joint ventures

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

d) Total assets and total liabilities

	Total assets		Total liabilities	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Business segments				
Group undertakings – continuing operations				
UK electricity and gas transmission	**7,181**	6,635	**(1,447)**	(1,837)
US electricity transmission	**1,653**	1,545	**(40)**	(99)
UK gas distribution	**5,091**	4,766	**(1,154)**	(1,152)
US electricity and gas distribution	**5,756**	5,001	**(1,761)**	(1,734)
US stranded cost recoveries	**104**	63	**(665)**	(618)
Wireless infrastructure	**1,571**	1,579	**(293)**	(267)
Other activities	**1,896**	1,628	**(1,106)**	(748)
	23,252	21,217	**(6,466)**	(6,455)
Group undertakings – discontinued operations	**–**	5,300	**–**	(1,115)
Group undertakings	**23,252**	26,517	**(6,466)**	(7,570)
Joint ventures – continuing operations (electricity activities)	**12**	17	**–**	–
Unallocated	**2,660**	1,026	**(15,965)**	(17,869)
	25,924	27,560	**(22,431)**	(25,439)
Geographical segments				
UK	**15,227**	19,504	**(3,948)**	(5,072)
US	**7,659**	6,750	**(2,488)**	(2,467)
Rest of the World	**378**	280	**(30)**	(31)
Unallocated	**2,660**	1,026	**(15,965)**	(17,869)
	25,924	27,560	**(22,431)**	(25,439)

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

3. Segmental analysis (continued)

e) Other segmental information

	Capital expenditure		Depreciation and amortisation	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Business segments				
Continuing operations				
UK electricity and gas transmission	**890**	529	**377**	296
US electricity transmission	**91**	74	**45**	41
UK gas distribution	**444**	359	**161**	163
US electricity and gas distribution	**244**	234	**145**	135
Wireless infrastructure	**43**	19	**64**	37
Other activities	**350**	303	**160**	147
	2,062	1,518	**952**	819
Discontinued operations	**87**	387	**13**	176
Group undertakings	**2,149**	1,905	**965**	995
Geographical segments				
UK	**1,738**	1,455	**771**	816
US	**340**	312	**194**	179
Rest of the World	**71**	138	**–**	–
	2,149	1,905	**965**	995

Capital expenditure comprises additions to property, plant and equipment and other intangible assets amounting to £2,093m (2005: £1,827m) and £56m (2005: £78m) respectively.

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

4. Other operating income

Other operating income represents income on disposal of property, plant and equipment, principally properties disposed of by the Group's property management business.

5. Operating costs

	Before exceptional items and remeasurements		Exceptional items and remeasurements		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Depreciation of property, plant and equipment	**895**	774	**–**	–	**895**	774
Amortisation of intangible assets	**57**	45	**–**	–	**57**	45
Payroll costs (note 7(a))	**844**	828	**48**	91	**892**	919
Other operating charges:						
Purchases of electricity	**1,928**	1,458	**49**	38	**1,977**	1,496
Purchases of gas	**566**	357	**–**	–	**566**	357
Rates and property taxes	**443**	406	**–**	–	**443**	406
Electricity transmission services scheme direct costs	**536**	301	**–**	–	**536**	301
Payments to Scottish network owners under BETTA	**259**	–	**–**	–	**259**	–
Other operating charges	**1,218**	840	**(9)**	172	**1,209**	1,012
	4,950	3,362	**40**	210	**4,990**	3,572
	6,746	5,009	**88**	301	**6,834**	5,310

	2006 £m	2005 £m
Operating costs include:		
Research expenditure	**7**	9
Operating lease rentals		
Plant and machinery	**36**	20
Other	**84**	63
Auditors' remuneration		
Statutory audit services		
Annual audit	**4**	5
Regulatory reporting	**1**	1
Further audit related services	**–**	1
Tax compliance services	**–**	1
Tax advisory services	**1**	1
Other non-audit services	**1**	–

6. Exceptional items and remeasurements

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

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

(i) Restructuring costs relate to planned cost reduction programmes in the UK (2005: UK and US) businesses. For the year ended 31 March 2006, restructuring costs included pension curtailment costs of £25m arising as a result of redundancies (2005: £22m).
(ii) Past service pension costs arose from the renegotiation of terms and conditions of service with certain employees in the US.
(iii) During the year ended 31 March 2005, a review of the environmental provisions was undertaken to take into account the impact of changes to UK regulations on waste disposal. This review, together with related revisions to the expected UK expenditure profile, resulted in a charge of £41m in 2005. Following a similar review in the US of environmental provisions, an additional exceptional charge of £60m was made for site restoration, which reflected the experience of restoring similar sites.
(iv) Reversal of a prior period 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 Group's existing rate plans in the US, commodity costs are fully recovered from customers, although the pattern of recovery may differ from the pattern of costs incurred. These movements are comprised of those impacting operating profit which 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 2006 represent 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 gains on derivative financial instruments comprise non-cash gains and losses 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.
(viii) The exceptional tax credit in 2005 includes: a credit of £22m associated with the prior period disposal of Energis, a former associate company; a £3m credit associated with the prior period write-down of investments; and a £12m charge relating to the settlement of the liabilities arising from operating the Group's Qualifying Employee Share Ownership Trust.

7. Payroll costs and employees

a) Payroll costs

	2006 £m	2005 £m
Wages and salaries	**891**	911
Social security costs	**63**	59
Other pension costs	**142**	147
Share-based payments	**15**	12
Severance costs	**23**	12
	1,134	1,141
Less: Amounts capitalised	**(242)**	(222)
	892	919

Payroll costs above represent continuing operations only. Payroll of discontinued operations for the year ended 31 March 2006 was £29m (2005: £132m).

7. Payroll costs and employees (continued)

b) Number of employees

	31 March 2006 Number	Average 2006 Number	Average 2005 Number
UK	**11,409**	**11,421**	11,784
US	**8,362**	**8,414**	8,663
Rest of the World	**12**	**8**	13
Continuing operations	**19,783**	**19,843**	20,460
Discontinued operations	**–**	**686**	4,147
	19,783	**20,529**	24,607

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 2006, 3,011 employees were employed in other businesses, of which 695 were in the Wireless infrastructure segment.

c) Key management compensation

	2006 £m	2005 £m
Salaries and short-term employee benefits	**7**	6
Post-employment benefits	**5**	4
Share-based payments	**2**	2
	14	12

The key management comprises the Board of Directors, including the Executive Directors and Non-executive Directors.

8. Directors' emoluments

Details of Directors' emoluments are contained in the auditable part of the Directors' Remuneration Report on pages 84 to 89, which form part of these accounts.

9. Pensions and other post-retirement benefits

Substantially all the Group's employees are members of defined benefit pension schemes.

In the UK the principal schemes are the National Grid UK Pension Scheme (formerly named the Lattice Group Pension Scheme), the National Grid Electricity Group of the Electricity Supply Pension Scheme and the National Grid Wireless Pension Scheme (formerly named the Crown Castle UK Pension Scheme).

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 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 2006 is currently being carried out by Watson Wyatt LLP. The last completed full actuarial valuation was as at 31 March 2003. The aggregate market value of the scheme's assets was £10,141m and the value of the assets represented approximately 92% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 March 2003 on an ongoing basis and allowing for projected increases in pensionable earnings.

The results of the actuarial valuation carried out at 31 March 2003 showed that based on long-term financial assumptions the contribution rate required to meet future benefit accrual was 23.7% of pensionable earnings (20.7% employers and 3% employees). This contribution rate is currently being reviewed. The ongoing contribution rate does not include an allowance for administration expenses. These contributions are renewed annually. From 1 April 2006 the rate used for the recovery of administration costs was 3% of salary. Employers are currently, therefore, paying a total contribution rate of 23.7%.

It has been agreed that no funding of the deficit identified in the 2003 actuarial valuation will need to be provided to the scheme until the outcome of the interim actuarial assessment at 31 March 2007 is known. At this point, the Group 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, the Group has arranged for banks to provide the trustees of the National Grid UK 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 Group undertaking, becoming insolvent or the Group failing to make agreed payments into the fund.

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

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 the Group's section. The Group's section of the scheme was closed to new entrants on 1 April 2006. It is subject to independent 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 Hewitt Bacon Woodrow at 31 March 2004. The aggregate market value of the scheme's assets was £1,110m and the value of the assets represented approximately 80.4% 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 when the next independent actuarial valuation is carried out, which will be no later than 31 March 2007.

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, the Group 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, the Group 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 Group undertaking, becoming insolvent or the Group failing to make agreed payments into the fund.

National Grid Wireless Pension Scheme

The National Grid Wireless Pension 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 scheme was closed to new entrants on 1 August 1997. The assets of the scheme are held in a separate trustee administered fund. It is subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contributions which, together with the specified contributions payable by 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 December 2005 is currently being carried out by Deloitte Total Reward and Benefits Limited. The last completed full actuarial valuation was as at 31 December 2002. The aggregate market value of the scheme's assets was £15m and the value of the assets represented approximately 84% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 December 2002 on an ongoing basis and allowing for projected increases in pensionable earnings.

The results of the actuarial valuation carried out at 31 December 2002 showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 25.9% of pensionable earnings (18.4% employers and 7.5% employees). This contribution rate is currently being reviewed.

US defined benefit pension schemes

Substantially all the Group's US employees are members of defined benefit plans. The assets of the plans are held in separate trustee administered funds. The latest full actuarial valuations of these plans were carried out by Hewitt Associates LLC at 1 April 2005. The aggregate market value of the assets relating to the Group's US defined plans at 31 March 2005 totalled US$1,961m and the actuarial value of the assets represented approximately 90% of the actuarial value of the benefits that had accrued to members, after allowing for future salary increases.

US healthcare and life insurance – retirees

In the US, the Group 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.

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

	Pensions		US other post-retirement benefits	
	2006 £m	2005 £m	**2006 £m**	2005 £m
The amounts recognised in the balance sheet are determined as follows:				
Present value of funded obligations	**(16,520)**	(15,679)	**(1,223)**	(1,068)
Fair value of plan assets	**15,341**	14,077	**568**	488
	(1,179)	(1,602)	**(655)**	(580)
Present value of unfunded obligations	**(96)**	(90)	**–**	–
Other post-employment liabilities	**–**	–	**(34)**	(34)
Unrecognised past service cost	**–**	–	**49**	50
Net liability in the balance sheet	**(1,275)**	(1,692)	**(640)**	(564)
Liabilities	**(1,275)**	(1,718)	**(640)**	(564)
Assets	**–**	26	**–**	–
Net liability	**(1,275)**	(1,692)	**(640)**	(564)
The amounts recognised in the income statement are as follows:				
Defined contribution scheme costs	**2**	2	**–**	–
Defined benefit scheme costs				
Current service cost	**114**	107	**16**	11
Past service cost	**–**	16	**6**	25
Curtailment (gain)/loss on redundancies	**(24)**	22	**–**	–
Special termination benefits on redundancies	**45**	–	**–**	–
Curtailment cost – augmentations	**5**	–	**–**	–
Total in payroll costs	**142**	147	**22**	36
Interest cost	**828**	825	**63**	56
Expected return on plan assets	**(862)**	(843)	**(41)**	(39)
Total in finance costs	**(34)**	(18)	**22**	17
Current service costs	**5**	27	**–**	–
Curtailment/settlement gain on sale of distribution networks	**(168)**	–	**–**	–
Total in discontinued operations	**(163)**	27	**–**	–
Actual return on plan assets	**2,359**	1,261	**65**	26

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

	Pensions		US other post-retirement benefits	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Changes in the present value of the defined benefit obligation				
Opening defined benefit obligation	**15,769**	15,403	**1,068**	1,002
Current service cost	**119**	134	**16**	11
Interest cost	**828**	825	**63**	56
Actuarial losses	**1,300**	147	**40**	5
Curtailment (gain)/loss on redundancies	**(24)**	22	**–**	–
Curtailment gain on sale of distribution networks	**(168)**	–	**–**	–
Settlement on sale of distribution networks	**(589)**	–	**–**	–
Net transfers and disposals	**(15)**	–	**–**	–
Gains on settlements	**(20)**	(1)	**–**	–
Special termination benefits	**45**	–	**–**	–
Curtailment cost – augmentations	**5**	–	**–**	–
Liabilities assumed in a business combination	**–**	31	**–**	–
Plan amendment	**–**	17	**–**	79
Employee contributions	**14**	17	**–**	–
Benefits paid	**(775)**	(783)	**(59)**	(52)
Exchange differences on foreign plans	**127**	(43)	**95**	(33)
Closing defined benefit obligation	**16,616**	15,769	**1,223**	1,068
Changes in the fair value of plan assets				
Opening fair value of plan assets	**14,077**	13,411	**488**	496
Expected return on plan assets	**862**	843	**41**	39
Actuarial gains/(losses)	**1,497**	418	**24**	(13)
Assets distributed on settlements and transfers	**(623)**	–	**–**	–
Employer contributions	**191**	184	**30**	32
Employee contributions	**14**	17	**–**	–
Assets acquired in a business combination	**–**	21	**–**	–
Benefits paid	**(774)**	(783)	**(59)**	(52)
Exchange differences on foreign plans	**97**	(34)	**44**	(14)
Closing fair value of plan assets	**15,341**	14,077	**568**	488
Expected contributions to defined benefit plans in the following year	**153**	164	**50**	50

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

	Pensions		US other post-retirement benefits	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Amounts recognised in statement of recognised income and expense				
Actuarial gain/(loss) during the year	**197**	271	**(16)**	(18)
Exchange differences	**(30)**	9	**(51)**	19
Total recognised for the year	**167**	280	**(67)**	1
Cumulative actuarial gain/(loss)	**468**	271	**(34)**	(18)

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	
	2006 %	2005 %	**2006 %**	2005 %	**2006 %**	2005 %
Equities	**40.7**	41.5	**66.4**	64.5	**69.0**	65.0
Corporate bonds	**19.2**	17.3	**32.0**	34.0	**30.6**	33.8
Gilts	**30.1**	31.9	**–**	–	**–**	–
Property	**8.5**	8.0	**0.2**	0.3	**–**	–
Other	**1.5**	1.3	**1.4**	1.2	**0.4**	1.2
Total	**100.0**	100.0	**100.0**	100.0	**100.0**	100.0
The principal actuarial assumptions used were:						
Discount rate (i)	**4.9**	5.4	**6.0**	5.8	**6.0**	5.8
Expected return on plan assets	**5.8**	6.2	**8.3**	8.3	**8.3**	8.3
Rate of increase in salaries (ii)	**3.9**	3.9	**4.1**	4.1	**–**	–
Rate of increase in pensions in payment and deferred pensions	**3.0**	3.0	**–**	–	**–**	–
Rate of increase in Retail Price Index or equivalent	**2.9**	2.9	**–**	–	**–**	–
Initial healthcare cost trend rate	**–**	–	**–**	–	**10.0**	10.0
Ultimate healthcare cost trend rate	**–**	–	**–**	–	**5.0**	5.0

(i) For the year ended 31 March 2006, a 0.1% reduction in the discount rate would increase the current service cost by £3m and reduce the interest on liabilities by £1m.
(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.

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 60% equities, 35% bonds and 5% property and other. The long-term target asset allocation for other post-retirement benefit schemes is 67% equities and 33% bonds.

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 long-term target asset allocation for the National Grid UK Pension Scheme is 40% equities, 52% bonds and 8% property and other. The long-term asset allocation for the Group's section of the Electricity Supply Pension Scheme is 63% equities, 30% bonds, 7% property and other.

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:

	2006 £m	2005 £m
Increase		
Effect on the aggregate of the service cost and interest cost	**15**	12
Effect on defined benefit obligation	**186**	156
Decrease		
Effect on the aggregate of the service cost and interest cost	**(12)**	(10)
Effect on defined benefit obligation	**(161)**	(136)

	2006 £m	2005 £m
Experience gains on liabilities	**192**	42
Experience gains on assets	**1,521**	405

10. Finance income and costs

	2006 £m	2005 £m
Pensions – expected return on scheme assets	**903**	882
Interest income on financial instruments held at amortised cost	**135**	64
Interest income and similar income	**1,038**	946
Pensions – interest on scheme liabilities	**(891)**	(881)
Interest expense on financial liabilities held at amortised cost	**(746)**	(820)
Exceptional debt redemption and B share issue costs	**(49)**	–
Interest on derivatives	**(49)**	–
Unwinding of discounts on provisions	**(18)**	(14)
Less: interest capitalised	**60**	63
Interest expense	**(1,693)**	(1,652)
Net (losses)/gains on derivative financial instruments:		
On derivatives designated as fair value hedges	**(10)**	–
On derivatives designated as cash flow hedges	**17**	–
On derivatives designated as net investment hedges	**(25)**	–
On undesignated forward rate risk relating to derivatives designated as net investment hedges	**36**	–
On derivatives not designated as hedges or ineligible for hedge accounting	**(12)**	–
Financial element of remeasurements on commodity contracts	**(14)**	–
Net losses on derivative financial instruments and commodity contracts	**(8)**	–
Interest expense and other finance costs	**(1,701)**	(1,652)
Net finance costs	**(663)**	(706)
Comprising:		
Interest income and similar income	**1,038**	946
Interest expense and other finance costs		
Before exceptional items and remeasurements	**(1,644)**	(1,652)
Exceptional items and remeasurements	**(57)**	–
	(663)	(706)

Interest income on financial instruments held at amortised cost comprises interest income from bank deposits and other financial assets £131m (2005: £59m) and interest receivable on finance leases £4m (2005: £5m).

Interest expense on financial liabilities held at amortised cost comprises interest on bank loans and overdrafts £33m (2005: £45m), interest on other borrowings £712m (2005: £772m) and interest on finance leases £1m (2005: £3m).

Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 5.9% (2005: 5.6%).

Interest expense and other finance costs include £49m (2005: £12m) relating to losses incurred on the repurchase of debt and B share issue costs during the year.

Ineffectiveness on fair value hedges includes a net loss of £11m from derivatives designated as fair value hedges and a net gain of £1m from the fair value adjustments to the carrying value of debt.

Net gains on derivatives designated as cash flow hedges includes net gains of £20m transferred from equity.

11. Taxation

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

	2006 £m	2005 £m
United Kingdom		
Corporation tax at 30%	**290**	31
Adjustment in respect of prior years (i)	**(5)**	(19)
Deferred tax	**1**	82
	286	94
Overseas		
Corporate tax	**125**	33
Adjustment in respect of prior years	**22**	(21)
Deferred tax	**129**	213
	276	225
Taxation	**562**	319
Comprising:		
Taxation – excluding exceptional items and remeasurements	**597**	437
Taxation – exceptional items and remeasurements (note 6)	**(35)**	(118)
	562	319

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

Taxation on items charged/(credited) to equity

	2006 £m	2005 £m
Deferred tax charge on available-for-sale investments	**1**	–
Deferred tax credit on revaluation of cash flow hedges	**(20)**	–
Deferred tax credit on employee share options	**(7)**	(4)
Deferred tax charge on actuarial gains	**62**	66
	36	62

The tax charge for the period is higher (2005: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Before exceptionals and remeasure-ments 2006 £m	After exceptionals and remeasure-ments 2006 £m	Before exceptionals and remeasure-ments 2005 £m	After exceptionals and remeasure-ments 2005 £m
Profit before taxation				
Before exceptional items and remeasurements	**1,924**	**1,924**	1,740	1,740
Exceptional items and remeasurements	**–**	**(145)**	–	(301)
Profit before taxation from continuing operations	**1,924**	**1,779**	1,740	1,439
Profit on continuing operations multiplied by rate of corporation tax in the UK of 30% (2005: 30%)	**577**	**534**	522	432
Effects of:				
Adjustments in respect of current income tax of previous years	**17**	**17**	(30)	(40)
Expenses not deductible for tax purposes	**90**	**114**	89	55
Non-taxable income	**(179)**	**(181)**	(174)	(124)
Adjustment in respect of foreign tax rates	**69**	**59**	37	22
Impact of employee share options	**(3)**	**(3)**	(2)	(2)
Other	**26**	**22**	(5)	(24)
Total taxation (continuing operations)	**597**	**562**	437	319
	%	**%**	%	%
At the effective income tax rate	**31.0**	**31.6**	25.1	22.2

Factors that may affect future tax charges

The Group has £nil (2005: £39m) non-trade deficits recognised and carried forward in the year.

12. Discontinued operations

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

Results of discontinued operations

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

(i) The operating exceptional item for the year ended 31 March 2006 related to a fine incurred in respect of a breach of the Health and Safety at Work Act arising from a gas explosion in Scotland in December 1999. Exceptional items for the year ended 31 March 2005 related to restructuring costs (£70m) and environmental costs (£4m).

(ii) The gain on disposal of the gas distribution networks resulted from proceeds of £5,760m comprising cash and cash equivalents, which is significantly in excess of the net book value of the net assets disposed of £3,155m.

13. Dividends

The following table shows the dividends paid to equity shareholders:

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

In addition, the Directors are proposing a final dividend for 2006 of 15.9p per share that will absorb £433m of shareholders' equity. It will be paid on 23 August 2006 to shareholders who are on the register of members on 9 June 2006.

14. 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 underlying performance of the Group. Further details of exceptional items and remeasurements can be found in note 6 to the accounts.

a) Basic earnings per share

	Profit for the year 2006 £m	Earnings per share 2006 pence	Profit for the year 2005 £m	Earnings per share 2005 pence
Adjusted earnings – continuing operations	**1,325**	**46.7**	1,303	42.3
Exceptional operating items	**(39)**	**(1.4)**	(263)	(8.5)
Exceptional finance costs	**(49)**	**(1.7)**	–	–
Tax on exceptional items	**27**	**0.9**	103	3.3
Remeasurements	**(57)**	**(2.0)**	(38)	(1.2)
Tax on remeasurements	**8**	**0.3**	15	0.4
Earnings per share – continuing operations	**1,215**	**42.8**	1,120	36.3
Adjusted earnings – discontinued operations	**43**	**1.5**	352	11.4
Gain on disposal of gas distribution networks (net of tax)	**2,605**	**91.8**	–	–
Other exceptional items (net of tax)	**(15)**	**(0.5)**	(48)	(1.5)
Earnings per share – discontinued operations	**2,633**	**92.8**	304	9.9
Basic earnings per share	**3,848**	**135.6**	1,424	46.2

	2006 millions	2005 millions
Weighted average number of shares – basic	**2,837**	3,082

b) Diluted earnings per share

	Profit for the year 2006 £m	Earnings per share 2006 pence	Profit for the year 2005 £m	Earnings per share 2005 pence
Adjusted diluted earnings – continuing operations	**1,325**	**46.5**	1,303	42.1
Exceptional operating items	**(39)**	**(1.4)**	(263)	(8.5)
Exceptional finance costs	**(49)**	**(1.7)**	–	–
Tax on exceptional items	**27**	**0.9**	103	3.3
Remeasurements	**(57)**	**(2.0)**	(38)	(1.2)
Tax on remeasurements	**8**	**0.3**	15	0.5
Diluted earnings per share – continuing operations	**1,215**	**42.6**	1,120	36.2
Adjusted diluted earnings – discontinued operations	**43**	**1.5**	352	11.4
Gain on disposal of gas distribution networks (net of tax)	**2,605**	**91.4**	–	–
Other exceptional items (net of tax)	**(15)**	**(0.5)**	(48)	(1.6)
Diluted earnings per share – discontinued operations	**2,633**	**92.4**	304	9.8
Diluted earnings per share	**3,848**	**135.0**	1,424	46.0

	2006 millions	2005 millions
Weighted average number of shares – diluted	**2,851**	3,096

c) Reconciliation of basic to diluted average number of shares

	2006 millions	2005 millions
Weighted average number of ordinary shares – basic	**2,837**	3,082
Effect of dilutive potential ordinary shares – employee share options	**14**	14
Weighted average number of ordinary shares – diluted	**2,851**	3,096

As at 31 March 2006, there were 2,367,011 outstanding share options in respect of the executive share schemes that were anti-dilutive instruments.

15. Goodwill

	£m
Cost at 1 April 2004	1,548
Exchange adjustments	(47)
Acquisition of Group undertakings	544
Cost at 31 March 2005	2,045
Exchange adjustments	111
Cost at 31 March 2006	2,156
Accumulated impairment losses at 1 April 2004	12
Impairment charge	2
Accumulated impairment losses at 31 March 2005 and 31 March 2006	14
Net book value at 31 March 2006	**2,142**
Net book value at 31 March 2005	2,031

Goodwill is reviewed annually for impairment. The amounts disclosed above as at 31 March 2006 include balances relating to our businesses in New England £882m (2005: £823m), New York £639m (2005: £592m) and National Grid Wireless £541m (2005: £541m).

Within the New England and New York businesses, goodwill is allocated to the individual subsidiary companies. These are defined as cash generating units for impairment testing purposes. Within National Grid Wireless goodwill is allocated to the three main business sectors (pylons, towers and managed sites), which are defined as cash generating units.

The recoverability of the goodwill relating to the New England and New York companies has been assessed by comparing the carrying value of these businesses 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 5.75%. 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 9.58%.

The recoverable amount of the goodwill relating to National Grid Wireless has been based on an assessment of the fair value of the business. 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.

16. Acquisitions

On 31 August 2004, the Group acquired the UK operations of Crown Castle International Corp. for a total consideration of £1,138m, including acquisition costs of £14m. This transaction has been recorded using the acquisition method of accounting.

In accordance with IFRS 3, a hindsight review of the fair value of the assets and liabilities acquired was undertaken in August 2005. Following this review, the amount of goodwill arising on this acquisition, being the difference between the purchase consideration and the fair value of the assets and liabilities acquired, was £541m.

The other acquisition that was carried out during the year ended 31 March 2005 was that of a telecommunications tower operation in the US. The book and fair value of assets acquired was £10m compared with total cash consideration of £13m, giving rise to goodwill of £3m.

The acquired businesses are presented within the Wireless infrastructure segment.

	Crown Castle acquisition				Other acquisition	
	Book value at acquisition £m	Accounting policy adjustments £m	Fair value adjustments £m	Final fair value £m	Book and fair value £m	Total fair value £m
Intangible assets	–	6	188	194	–	194
Property, plant and equipment	519	(10)	103	612	6	618
Inventories	3	–	–	3	–	3
Trade and other receivables	43	–	–	43	4	47
Cash and cash equivalents	29	–	–	29	–	29
Current liabilities	(152)	–	–	(152)	–	(152)
Deferred tax liabilities	(32)	4	(85)	(113)	–	(113)
Pensions and other post-retirement benefit obligations	–	(10)	–	(10)	–	(10)
Provisions	(2)	(1)	(6)	(9)	–	(9)
Net assets acquired	408	(11)	200	597	10	607
Goodwill arising on acquisition				541	3	544
Total consideration				1,138	13	1,151

The adjustments recorded to book value reflect accounting alignments to bring the accounting policies of the acquired businesses into line with those of the Group under IFRS, which resulted in a reduction of £4m to tangible fixed assets relating to the accounting for leasehold properties, £6m of software costs transferred from property, plant and equipment to intangible assets and an increase of £1m to provisions for liabilities and charges relating to decommissioning provisions. It also entailed the recognition of pensions and other post-retirement benefit obligations of £10m. Deferred tax on these transactions amounted to £4m.

Fair value adjustments primarily related to the revaluation of property, plant and equipment, recognition of intangible assets and net provisions to their fair value at the date of acquisition. Deferred tax liabilities on these transactions amounted to £85m.

The outflow of cash and cash equivalents on the acquisitions in 2005 was as follows:

	Crown Castle £m	Other acquisitions £m	Total £m
Cash consideration	1,138	13	1,151
Cash acquired	(29)	–	(29)
	1,109	13	1,122

17. Other intangible assets

	Customer relationships £m	Software £m	Other £m	Total £m
Cost at 1 April 2004	–	197	8	205
Exchange adjustments	–	–	–	–
Acquisition of Group undertakings	164	6	24	194
Additions	–	78	–	78
Disposals	–	(8)	–	(8)
Cost at 31 March 2005	164	273	32	469
Exchange adjustments	–	8	–	8
Additions	–	14	42	56
Disposals	–	(3)	–	(3)
Cost at 31 March 2006	164	292	74	530
Amortisation at 1 April 2004	–	68	7	75
Exchange adjustments	–	–	–	–
Amortisation charge for the year	6	38	1	45
Disposals	–	(9)	–	(9)
Amortisation at 31 March 2005	6	97	8	111
Exchange adjustments	–	3	–	3
Amortisation charge for the year	11	45	1	57
Disposals	–	(3)	–	(3)
Amortisation at 31 March 2006	17	142	9	168
Net book value at 31 March 2006	**147**	**150**	**65**	**362**
Net book value at 31 March 2005	158	176	24	358

Other consists of emissions allowances of £41m (2005: £nil) and licences of £24m (2005: £24m).

Other intangible assets have been analysed as current and non-current as follows:

	2006 £m	2005 £m
Current	**41**	–
Non-current	**321**	358
	362	358

Expected amortisation of intangible assets for the next five years is:	£m
2007	52
2008	55
2009	51
2010	48
2011	43

18. 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 2004	858	28,967	1,129	797	31,751
Exchange adjustments	(13)	(202)	(2)	(1)	(218)
Acquisition of Group undertakings	29	584	–	5	618
Additions	32	808	980	7	1,827
Disposals	(34)	(117)	–	(22)	(173)
Reclassifications	39	776	(838)	23	–
Cost at 31 March 2005	911	30,816	1,269	809	33,805
Exchange adjustments	35	555	12	1	603
Additions	65	588	1,339	101	2,093
Disposal of Group undertakings	(30)	(6,976)	(9)	(253)	(7,268)
Disposals	(25)	(128)	–	(18)	(171)
Reclassifications	18	847	(895)	37	7
Cost at 31 March 2006	974	25,702	1,716	677	29,069
Depreciation at 1 April 2004	276	9,634	–	526	10,436
Exchange adjustments	(3)	(73)	–	(1)	(77)
Depreciation charge for the year (i)	19	846	–	85	950
Impairment charge	2	–	–	–	2
Disposals	(12)	(121)	–	(18)	(151)
Depreciation at 31 March 2005	282	10,286	–	592	11,160
Exchange adjustments	7	200	–	–	207
Depreciation charge for the year (i)	17	816	–	75	908
Disposal of Group undertakings	(13)	(1,781)	–	(200)	(1,994)
Disposals	(9)	(121)	–	(17)	(147)
Depreciation at 31 March 2006	284	9,400	–	450	10,134
Net book value at 31 March 2006	**690**	**16,302**	**1,716**	**227**	**18,935**
Net book value at 31 March 2005	629	20,530	1,269	217	22,645

(i) Includes amounts in respect of discontinued operations of £13m (2005: £176m).

The net book value of land and buildings comprised:

	2006 £m	2005 £m
Freehold	**649**	590
Long leasehold (over 50 years)	**13**	12
Short leasehold (under 50 years)	**28**	27
	690	629

The cost of property, plant and equipment at 31 March 2006 included £504m (2005: £449m) relating to interest capitalised.

Included within trade and other payables and other non-current liabilities at 31 March 2006 are contributions to the cost of property, plant and equipment amounting to £31m (2005: £53m) and £1,018m (2005: £1,150m) respectively.

During the course of the year, some of our businesses have reviewed the useful lives of some of their assets. These changes have resulted in a net reduction in the depreciation charge of £17m.

The carrying value of property, plant and equipment which is carried at deemed cost within plant and machinery at the date of transition to IFRS on 1 April 2004 amounted to £152m.

19. Investments in joint ventures

	£m
At 1 April 2004	19
Disposals	5
Share of retained loss	(2)
Dividends received	(5)
At 31 March 2005	17
Exchange adjustments	2
Disposals	(2)
Share of retained profit	3
Dividends received	(2)
Impairment provision written back	13
Reclassification as asset held for sale	(19)
At 31 March 2006	**12**

The names of the principal Group undertakings and joint ventures are included in note 36.

20. Deferred tax assets and liabilities

The following are the major deferred tax assets and liabilities recognised by the Group, 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	Mark-to-market £m	Other net temporary differences £m	Total £m
Deferred tax assets at 1 April 2004	–	(8)	(684)	–	(1,087)	(1,779)
Deferred tax liabilities at 1 April 2004	3,939	–	127	–	77	4,143
At 1 April 2004	3,939	(8)	(557)	–	(1,010)	2,364
Exchange adjustments	(21)	–	9	–	29	17
Charged/(credited) to income statement	111	(6)	20	–	219	344
Charged/(credited) to equity	–	(4)	66	–	–	62
Acquisition of Group undertakings	69	–	–	–	44	113
Other	–	–	–	–	(29)	(29)
At 31 March 2005	4,098	(18)	(462)	–	(747)	2,871
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
Charged/(credited) to equity	–	(7)	62	(20)	1	36
Disposal of Group 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
	3,121	(28)	(397)	14	(708)	2,002

Deferred tax charged/(credited) to income statement includes £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:

	2006 £m	2005 £m
Deferred tax liabilities	**2,161**	3,189
Deferred tax assets	**(159)**	(318)
	2,002	2,871

At the balance sheet date there were no material current deferred tax assets or liabilities.

20. Deferred tax assets and liabilities (continued)

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:

	2006 £m	2005 £m
Capital losses	**338**	304
Non-trade deficits	**166**	166
Trading losses	**17**	17
Pre-trading expenditure	**9**	6

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 £546m. No liability is recognised in respect of the differences because the Group is 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.

21. Other non-current receivables

	2006 £m	2005 £m
Lease debtors	**23**	31
Prepayments	**7**	7
Other debtors	**8**	58
	38	96

22. Financial investments

	2006 £m	2005 £m
Non-current		
Available-for-sale investments	**83**	65
Loans and receivables	**6**	8
Other financial investments at fair value through the income statement	**59**	58
	148	131

	2006 £m	2005 £m
Current		
Available-for-sale investments	**254**	–
Loans and receivables	**130**	398
	384	398

Available-for-sale investments and other financial investments at fair value through the income statement are recorded at fair value as at 31 March 2006 and at cost as at 31 March 2005.

There is no significant interest rate or currency rate risk on financial investments.

23. Financial instruments

The Group's treasury policy, described on pages 57 to 59, includes details of the objectives, policies and strategies of the Group associated with financial instruments.

The Group's counterparty exposure under derivative financial contracts at 31 March 2006 was £524m (2005: £671m).

As at 31 March 2006, the Group had a number of exposures to individual counterparties. In accordance with Group Treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and adhered to, and no individual exposure is considered as significant in the context of the ordinary course of the Group's treasury management activity.

Collateral agreements exist with certain counterparties. The amount of cash posted with the Group and by the Group was £240m and £20m respectively as at 31 March 2006.

Book and fair values of financial instruments at 31 March

	2006		2005	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Borrowings	**(13,126)**	**(13,757)**	(14,290)	(15,646)
Cash and cash equivalents	**1,452**	**1,452**	272	272
Bank overdrafts	**(3)**	**(3)**	(18)	(18)
Financial investments				
Available-for-sale	**337**	**337**	65	69
Other financial investments through the income statement	**59**	**59**	58	58
Loans and receivables	**136**	**136**	406	406
Trade and other receivables				
Loans and receivables	**1,006**	**1,005**	709	709
Assets held for sale	**19**	**19**	–	–
Trade and other payables	**(1,906)**	**(1,891)**	(1,905)	(1,905)
Derivative financial assets	**665**	**665**	–	725
Derivative financial liabilities	**(222)**	**(222)**	–	(182)
Commodity contract liabilities	**(488)**	**(488)**	(471)	(471)

Market values, where available, have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates. Due to their short maturities, the fair value of short-term receivables and payables approximates to their book value.

23. Financial instruments (continued)

Currency and interest rate composition of financial liabilities

The following table sets out the carrying amount, by contractual maturity, of the Group's non-derivative financial instruments that are exposed to interest rate risks before taking into account currency and interest rate swaps:

At 31 March 2006

Fixed rate	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Liabilities							
Other bonds							
Sterling	(285)	(229)	(212)	(294)	(248)	(1,915)	(3,183)
Euro	(1,206)	(12)	(775)	(205)	–	(1,796)	(3,994)
US dollar	(392)	(121)	(37)	(363)	(3)	(621)	(1,537)
Other	(49)	–	(207)	(7)	(10)	(217)	(490)
Other loans							
Sterling	(55)	–	–	–	–	–	(55)
US dollar	–	–	–	–	–	(24)	(24)
Bank loans							
Sterling	(37)	–	–	–	–	–	(37)
Finance leases							
Sterling	(4)	(2)	(1)	(1)	–	–	(8)
	(2,028)	**(364)**	**(1,232)**	**(870)**	**(261)**	**(4,573)**	**(9,328)**

Floating rate	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Liabilities							
Other bonds							
Sterling (i)	(25)	–	(39)	(214)	–	(1,391)	(1,669)
Euro	–	(29)	–	–	–	–	(29)
US dollar	(13)	(6)	(11)	–	–	(588)	(618)
Other	(12)	–	–	–	(27)	(20)	(59)
Other loans							
Sterling	(70)	–	–	–	–	–	(70)
Bank loans							
Sterling	(64)	–	–	–	–	(550)	(614)
US dollar	(176)	–	–	–	–	–	(176)
Other	(441)	–	–	–	–	–	(441)
Finance leases							
US dollar	(10)	(5)	(6)	(6)	(6)	(89)	(122)
Bank overdraft							
Sterling	(3)	–	–	–	–	–	(3)
	(814)	**(40)**	**(56)**	**(220)**	**(33)**	**(2,638)**	**(3,801)**

(i) Includes bonds linked to the retail price index.

23. Financial instruments (continued)

Liquidity analysis

The following is an analysis of contractual cash flows payable by National Grid under financial liabilities by remaining contractual maturities at the balance sheet date:

	Due within 1 year			Due between 1 and 2 years		
	Fixed interest £m	Floating interest £m	Repayment £m	Fixed interest £m	Floating interest £m	Repayment £m
Non derivative financial liabilities						
Other bonds	(483)	(40)	(1,778)	(436)	(40)	(404)
Other loans	–	(10)	(55)	–	–	–
Bank loans	–	(39)	(736)	–	(27)	–
Finance lease liabilities	–	(6)	(14)	–	(6)	(5)
Other non-interest bearing liabilities	–	–	(1,582)	–	–	(324)
	(483)	(95)	(4,165)	(436)	(73)	(733)
Derivative liabilities (net)						
Cross currency interest rate swaps	(17)	(5)	(32)	(17)	–	(1)
Foreign exchange forward contracts	–	–	(3)	–	–	–
Interest rate swaps	(9)	(11)	–	(7)	(8)	–
Commodity contracts	–	–	(174)	–	–	(169)
	(26)	(16)	(209)	(24)	(8)	(170)
Derivative assets (net)						
Cross currency interest rate swaps	2	(4)	194	(5)	–	(4)
Foreign exchange forwards	–	–	2	–	–	1
Interest rate swaps	3	4	–	2	4	–
	5	–	196	(3)	4	(3)
Total at 31 March 2006	**(504)**	**(111)**	**(4,178)**	**(463)**	**(77)**	**(906)**

	Due between 2 and 3 years			Due 3 years and beyond		
	Fixed interest £m	Floating interest £m	Repayment £m	Fixed interest £m	Floating interest £m	Repayment £m
Non derivative financial liabilities						
Other bonds	(384)	(38)	(1,317)	(3,835)	(49)	(8,303)
Other loans	–	–	–	–	–	(94)
Bank loans	–	(27)	–	–	(111)	(551)
Finance lease liabilities	–	(6)	(6)	–	(6)	(105)
Other non-interest bearing liabilities	–	–	–	–	–	–
	(384)	(71)	(1,323)	(3,835)	(166)	(9,053)
Derivative liabilities (net)						
Cross currency interest rate swaps	(14)	–	1	(94)	–	(50)
Foreign exchange forwards	–	–	–	–	–	–
Interest rate swaps	4	(8)	–	(8)	(31)	–
Commodity contracts	–	–	(50)	–	–	(95)
	(10)	(8)	(49)	(102)	(31)	(145)
Derivative assets (net)						
Cross currency interest rate swaps	(2)	–	54	(22)	(7)	272
Foreign exchange forwards	–	–	–	–	–	–
Interest rate swaps	1	3	–	121	33	–
	(1)	3	54	99	26	272
Total at 31 March 2006	**(395)**	**(76)**	**(1,318)**	**(3,838)**	**(171)**	**(8,926)**

Sensitivity analysis at 31 March 2006

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 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 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 assets and liabilities of overseas subsidiaries (other than financial instruments).

23. Financial instruments (continued)

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 2006. As a consequence, this sensitivity analysis relates to the position as at 31 March 2006 and is not representative of the year then ended as all of these varied during the course of 2005/06.

The following assumptions were made in calculating the sensitivity analysis:

- the sensitivity to interest rates relates only to derivative financial instruments, as debt and 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 with no sensitivity assumed for RPI-linked debt;
- 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 fair value hedges from movements in interest rates have an immaterial effect on the income statement and equity due to compensating adjustments in the carrying value of debt;
- 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 designated using the spot rather than the forward translation method;
- changes in the carrying value of derivative financial instruments designated as net investments from 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; and
- 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 twelve month period for the accrued interest portion of the sensitivity calculations.

Using the above assumptions, the following table shows the illustrative effect on the income statement and equity that would result from movements in changes in UK and US interest rates and in the US dollar to sterling exchange rate.

	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 0.10%	14	14
US interest rates +/- 0.10%	6	2
US dollar exchange rate +/- 10%	52	228

Derivative financial instruments

The Group's hedging policies are set out on page 58. The Group has entered into a number of derivative financial instruments as detailed below, which are designated as follows:

Fair value hedges

The Group maintains interest rate and currency swap contracts as fair value hedges of the interest rate and currency risk on fixed rate debt issued by the Group. Change in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within interest expense and other finance costs. The gain or loss relating to the ineffective portion is recognised in the income statement within net (losses)/gains on derivative financial instruments. Changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised in the income statement within interest expense and other finance costs.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount is amortised to the income statement under the effective interest rate method.

23. Financial instruments (continued)

Cash flow hedges

The Group maintains interest rate swaps and cross currency swaps that qualify for hedge accounting as designated cash flow hedges relating to future interest payments on debt. The revaluation of these swaps is included in the cash flow hedge reserve and is recycled to the income statement as the interest charge relating to the debt is recorded.

The Group uses forward foreign currency contracts to hedge anticipated and committed future purchases. Where designated, these contracts qualify for hedge accounting and are designated as cash flow hedges. When the underlying purchase is recorded, the associated gains and losses deferred in equity are removed and included in the initial cost of the asset.

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. 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

The Group uses US dollar borrowings, cross currency swaps and forward currency contracts as instruments to hedge the net investment in the Group's US based subsidiaries.

The cross currency swaps and forward foreign currency contracts are hedge accounted using the spot to spot method. The foreign exchange gain/(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 (losses)/gains on translation of the net investment in the Group's US based subsidiaries.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Derivatives not in a formal hedge relationship

The Group's 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 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 net (losses)/gains on derivative financial instruments.

The maturity of derivative assets and liabilities measured at fair value at 31 March 2006 can be analysed as follows:

	Maturity within 1 year £m	Maturity 1-2 years £m	Maturity 2-3 years £m	Maturity 3-4 years £m	Maturity 4-5 years £m	Maturity over 5 years £m	Total fair value 2006 £m
Derivative financial assets							
Interest rate swaps	73	–	4	1	–	135	213
Cross currency swaps	238	3	52	17	1	138	449
Foreign exchange forward contracts	3	–	–	–	–	–	3
Total at 31 March 2006	**314**	**3**	**56**	**18**	**1**	**273**	**665**
Derivative financial liabilities							
Interest rate swaps	(42)	–	(4)	(5)	(1)	(31)	(83)
Cross currency swaps	(47)	(1)	(2)	(1)	–	(85)	(136)
Foreign exchange forward contracts	(3)	–	–	–	–	–	(3)
	(92)	(1)	(6)	(6)	(1)	(116)	(222)
Commodity contract liabilities	(174)	(169)	(50)	(15)	(13)	(67)	(488)
Total at 31 March 2006	**(266)**	**(170)**	**(56)**	**(21)**	**(14)**	**(183)**	**(710)**

The notional amounts of the above derivatives and commodity contract liabilities can be analysed as follows:

	Maturity within 1 year £m	Maturity 1-2 years £m	Maturity 2-3 years £m	Maturity 3-4 years £m	Maturity 4-5 years £m	Maturity over 5 years £m	Total fair value 2006 £m
Derivative financial assets							
Interest rate swaps	1,196	65	475	117	–	1,844	3,697
Cross currency swaps	1,254	35	1,109	189	26	2,322	4,935
Foreign exchange forward contracts	46	19	–	–	–	–	65
Total at 31 March 2006	**2,496**	**119**	**1,584**	**306**	**26**	**4,166**	**8,697**
Derivative financial liabilities							
Interest rate swaps	1,534	50	370	378	86	1,037	3,455
Cross currency swaps	864	7	160	8	10	1,087	2,136
Foreign exchange forward contracts	(47)	(11)	(20)	–	–	–	(78)
Total at 31 March 2006	**2,351**	**46**	**510**	**386**	**96**	**2,124**	**5,513**

23. Financial instruments (continued)

Commodity contract liabilities of £488m include electricity swaps with notional quantities totalling 9,223,107 MWh. Other commodity contract liabilities, relating to power purchase commitments over periods of two to twelve years, do not have specified notional quantities. Commodity contracts are described in more detail on pages 59 and 60.

	Assets		Liabilities	
At 31 March 2006	Fair value £m	Notional amount £m	Fair value £m	Notional amount £m
Fair value hedge derivative instruments				
Interest rate swaps	92	(1,408)	(9)	(908)
Cross currency swaps	146	(1,453)	(72)	(755)
Forward foreign currency contracts	–	–	–	–
	238	(2,861)	(81)	(1,663)
Cash flow hedge derivative instruments				
Interest rate swaps	80	(436)	(16)	(685)
Cross currency swaps	112	(1,745)	(22)	(804)
Forward foreign currency contracts	3	(78)	(3)	24
	195	(2,259)	(41)	(1,465)
Net investment hedge derivative instruments				
Interest rate swaps	19	(904)	(16)	(525)
Cross currency swaps	191	(1,735)	(40)	(565)
Forward foreign currency contracts	–	37	–	27
	210	(2,602)	(56)	(1,063)
Other derivative instruments				
Interest rate swaps	22	(949)	(42)	(1,337)
Cross currency swaps	–	(2)	(2)	(12)
Forward foreign currency contracts	–	(24)	–	27
Commodities instruments	–	–	(488)	(488)
	22	(975)	(532)	(1,810)
Total	**665**	**(8,697)**	**(710)**	**(6,001)**
Analysed as follows:				
Current	314	(2,496)	(266)	(2,351)
Non-current	351	(6,201)	(444)	(3,650)
	665	**(8,697)**	**(710)**	**(6,001)**

Gains and losses recognised in cash flow hedge reserve (note 32) on interest rate swap contracts as of 31 March 2006 will be continuously released to the income statement until the bank borrowings are repaid (note 27).

The amount of cash flow hedge reserve due to be released from reserves to the income statement within the next year is £20m, with the remaining amount due to be released with the same maturity profile as borrowings in note 27.

23. Financial instruments (continued)

Financial instruments disclosures for the year ended 31 March 2005

The following information for 2005 shows certain of the disclosures required by UK GAAP (FRS 13 'Derivatives and other Financial Instruments: Disclosures').

Gains and losses on hedges for year ended 31 March 2005

	Unrecognised gains £m	Unrecognised losses £m	Unrecognised net gain £m	Deferred gains £m	Deferred losses £m	Deferred net (loss)/gain £m
Gains/(losses) on hedges at 1 April 2004	430	(326)	104	131	(82)	49
(Gains)/losses arising in previous years recognised in the year	(25)	23	(2)	(19)	10	(9)
Gains/(losses) arising in previous years not recognised in the year	405	(303)	102	112	(72)	40
Gains/(losses) arising in the year	(64)	36	(28)	36	(8)	28
Gains/(losses) on hedges at 31 March 2005	341	(267)	74	148	(80)	68
Of which:						
Gains/(losses) expected to be recognised within one year	12	(7)	5	25	(14)	11
Gains/(losses) expected to be recognised after one year	329	(260)	69	123	(66)	57

Currency and interest rate composition of financial assets and liabilities at 31 March 2005

The currency and interest rate composition of the Group's financial assets are shown in the table below after taking into account currency and interest rate swaps:

				Fixed rate assets		
	Total £m	Non-interest bearing £m	Variable rate £m	Fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed years
At 31 March 2005						
Sterling	455	–	455	–	–	–
US dollars	189	–	189	–	–	–
Other currencies	26	–	26	–	–	–
Cash and investments	670	–	670	–	–	–
Other financial assets (sterling)	41	–	–	41	11.50	4.1
Other financial assets (US dollars)	72	27	9	36	5.18	13.2
	783	27	679	77	8.54	8.4

The notional amounts relating to financial instruments held to manage interest rate and currency profiles for interest rate swaps and forward rate agreements, foreign currency contracts and cross currency swaps at 31 March 2005 amounted to £7,420m and £8,017m respectively.

Cash and investments earned interest at local prevailing rates for maturity periods generally not exceeding 12 months, and included listed investments with a cost of £242m and market value of £245m. Other financial assets at 31 March 2005 related to a net investment in a finance lease of £41m, fixed asset investments of £36m, forward foreign currency contracts of £9m, equities of £16m and mutual funds of £11m.

			Fixed rate assets		
	Total £m	Variable rate £m	Fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed years
At 31 March 2005					
Sterling	9,639	6,656	2,983	6.31	9.4
US dollars	4,580	1,814	2,766	6.11	5.3
Borrowings	14,219	8,470	5,749	6.21	7.4
Other financial liabilities (sterling)	61	61	–	–	–
Other financial liabilities (US dollars)	501	479	22	4.11	–
	14,781	9,010	5,771	6.20	7.4

23. Financial instruments (continued)

Maturity of financial assets and liabilities at 31 March 2005

The maturity profile of the Group's financial assets and liabilities are shown in the table below after taking into account currency and interest rate swaps:

	Assets £m	Liabilities £m
Within one year	687	3,328
In more than one year, but not more than two years	12	2,171
In more than two years, but not more than three years	11	618
In more than three years, but not more than four years	12	1,316
In more than four years, but not more than five years	4	1,316
In more than five years	57	6,032
	783	14,781

At 31 March 2005 the weighted average interest rate on short-term borrowings of £3,256m was 4.6%.

Foreign exchange forward contracts held to manage the currency mix of the Group's borrowings portfolio comprising a £463m forward sale of US dollars have not been adjusted in the table above.

Other sterling financial liabilities at 31 March 2005 comprised onerous leases of £61m.

Other US dollar financial liabilities at 31 March 2005 comprised index-linked energy swap contracts of £327m, purchased power obligations of £144m, non-equity minority interests of £22m, onerous leases of £6m, forward currency contracts of £2m, and interest rate swaps of £nil which were shown at fair value as they are no longer considered a hedge.

Substantially all the variable rate borrowings are subject to interest rates which fluctuate with LIBOR for the appropriate currency at differing premiums or, in the case of certain US companies, are based on the market rate for tax-exempt commercial paper.

In calculating the weighted average number of years for which interest rates are fixed, swaps which are cancellable at the option of the swap provider are assumed to have a life based on the earliest date at which they can be cancelled.

24. Inventories

	2006 £m	2005 £m
Raw materials and consumables	**62**	60
Work in progress	**22**	27
Fuel stocks	**24**	14
	108	101

The Group consumed £58m of inventories during the year (2005: £56m). The above table includes £4m provision for obsolescence as at 31 March 2006 (2005: £5m).

25. Trade and other receivables

	2006 £m	2005 £m
Trade receivables	**838**	553
Other receivables	**137**	67
Prepayments and accrued income	**525**	573
Asset held for sale	**19**	–
	1,519	1,193

The carrying amounts of the Group's trade and other receivables are denominated in sterling £687m and US dollars £832m.

On 22 February 2006 a Group subsidiary undertaking entered into an agreement for the sale of the Group's interest in a joint venture, Copperbelt Energy Corporation plc. It is expected that this sale will be completed during 2006/07 and as a result the joint venture investment has been reclassified as an asset held for sale.

25. Trade and other receivables (continued)

Provision for impairment of receivables

	£m
At 1 April 2004	128
Exchange adjustments	(3)
Charge for the year	42
Uncollectable amounts written off net of recoveries	(34)
At 31 March 2005	133
Exchange adjustments	(9)
Charge for the year	24
Uncollectable amounts written off net of recoveries	(41)
At 31 March 2006	**107**

26. Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank and in hand	**46**	100
Short-term deposits	**1,406**	172
Cash and cash equivalents	**1,452**	272
Bank overdrafts	**(3)**	(18)
Net cash and cash equivalents	**1,449**	254

Net cash and cash equivalents at 31 March 2006 include £350m held in US dollars and £12m held in euros, converted into sterling at the Group's year end exchange rates.

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

27. Borrowings

The following table analyses the Group's total borrowings, excluding bank overdrafts:

	2006 £m	2005 £m
Current:		
Bank loans	**717**	402
Commercial paper	**–**	1,469
Other bonds	**1,983**	1,348
Finance leases	**14**	5
Other loans	**125**	19
	2,839	3,243
Non-current:		
Bank loans	**550**	910
Other bonds	**9,598**	10,043
Finance leases	**115**	62
Other loans	**24**	32
	10,287	11,047
Total borrowings	**13,126**	14,290

	2006 £m	2005 £m
Total borrowings are repayable as follows:		
In one year or less	**2,839**	3,243
In more than one year, but not more than two years	**404**	2,004
In more than two years, but not more than three years	**1,288**	467
In more than three years, but not more than four years	**1,090**	1,213
In more than four years, but not more than five years	**294**	1,293
In more than five years:		
by instalments	**131**	35
other than by instalments	**7,080**	6,035
	13,126	14,290

Charges over property, plant and other assets of the Group were provided as collateral over borrowings totalling £607m at 31 March 2006 (2005: £729m).

The notional amount outstanding of the Group's debt portfolio at 31 March 2006 was £13,230m (2005: £14,564m).

Included in current bank loans is £240m in respect of cash posted with the Group under collateral agreements.

27. Borrowings (continued)

The principal items included within Other bonds are listed below. Unless otherwise indicated, these instruments were outstanding at both 31 March 2006 and 31 March 2005.

Issuer	Description of instrument (notional amount)
British Transco Finance (No5) Limited (i)	GBP 115 million Floating Rate Instruments due 2006
British Transco Finance Inc.	USD 300 million 6.625% Fixed Rate Instruments due 2018
British Transco International Finance BV	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 (i)	GBP 240 million 8.0% Fixed Rate Instruments due 2006
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 (ii)	GBP 50 million 2.2280% Retail Price Index-Linked Instruments due 2035
National Grid Electricity Transmission plc (ii)	GBP 75 million 2.0353% Retail Price Index-Linked Instruments due 2035
National Grid Electricity Transmission plc (ii)	GBP 50 million 1.8204% Retail Price Index-Linked Instruments due 2035
National Grid plc (i)	EUR 200 million Floating Rate Instruments due 2005
National Grid plc (i)	EUR 500 million Floating Rate Instruments due 2006
National Grid plc	EUR 500 million 3.75% Fixed Rate Instruments due 2008
National Grid plc (ii)	EUR 750 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
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	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 110 million 6.625% Taxable First Mortgage Bonds due 2005
Niagara Mohawk Power Corporation (i)	USD 400 million 7.625% Senior Notes due 2005
Niagara Mohawk Power Corporation (i)	USD 150 million 9.75% Taxable First Mortgage Bonds due 2005
Niagara Mohawk Power Corporation	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	USD 115.71 million 7.2% Tax-Exempt First Mortgage Bonds due 2029 (iii)
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	EUR 650 million 5.25% Fixed Rate Instruments due 2006
National Grid Gas plc	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

(i) Matured during the year ended 31 March 2006
(ii) Issued during the year ended 31 March 2006
(iii) Refinanced and initially issued in auction rate mode during year ended 31 March 2005

The First Mortgage Bonds are secured against the assets of the Niagara Mohawk Power Corp.

27. Borrowings (continued)

Borrowing facilities

At 31 March 2006, the Group had bilateral committed credit facilities of £1,540m (2005: £1,985m), of which £1,540m (2005: £1,985m) were undrawn. The Group also had committed credit facilities from syndicates of banks of £1,543m at 31 March 2006 (2005: £1,437m), of which £1,304m (2005: £1,237m) were undrawn. An analysis of the maturity of these undrawn committed facilities is shown below:

Undrawn committed borrowing facilities

	2006 £m	2005 £m
Expiring:		
In one year or less	**963**	3,165
In more than one year, but not more than two years	**200**	57
In more than two years	**1,681**	–
	2,844	3,222

Of the unused facilities at 31 March 2006 £2,232m (2005: £2,805m) was held as back-up to commercial paper and similar borrowings. The remainder was available as additional back-up to commercial paper and for other general corporate purposes.

28. Trade and other payables

	2006 £m	2005 £m
Trade payables	**1,313**	1,111
Commodity contract liabilities	**174**	153
Social security and other taxes	**147**	219
Other payables	**269**	512
Deferred income	**192**	342
	2,095	2,337

Other payables at 31 March 2005 included interest payable of £255m. In 2006, interest payable is included in borrowings in accordance with IAS 39.

29. Other non-current liabilities

	2006 £m	2005 £m
Commodity contract liabilities	**314**	318
Other payables	**324**	282
Deferred income	**1,081**	1,829
	1,719	2,429

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, index-linked swap contracts 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.

30. Provisions

	Decommissioning £m	Environmental £m	Emissions £m	Restructuring £m	Other £m	Total provisions £m
At 1 April 2004	131	428	–	61	93	713
Exchange adjustments	(4)	(6)	–	–	–	(10)
Acquisition of a Group undertaking	1	–	–	–	8	9
Additions	–	107	4	142	7	260
Unwinding of discount	5	9	–	–	–	14
Unused amounts reversed	(2)	–	–	–	(4)	(6)
Utilised	(26)	(47)	–	(113)	(3)	(189)
At 31 March 2005	105	491	4	90	101	791
Exchange adjustments	9	19	–	–	–	28
Disposal of Group undertakings	–	(44)	–	–	(22)	(66)
Additions	18	3	19	35	70	145
Reclassification	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**

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

	2006 £m	2005 £m
Current	**235**	273
Non-current	**536**	518
	771	791

Decommissioning provision

The decommissioning provision of £127m at 31 March 2006 primarily represents the net present value of the estimated expenditure (discounted at a nominal rate of 5.5%) expected to be incurred in respect of the decommissioning of certain nuclear generating units. It also includes £16m relating to the decommissioning of Wireless infrastructure–related analogue signal assets and £8m relating to other asset retirement obligations. Expenditure is expected to be incurred between 2007 and 2012. Additions in the year include £1m in respect of a change in the discount rate.

Environmental provision

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

At 31 March 2006, £193m (2005: £262m) of the environmental provision represents the net present value of the estimated statutory decontamination costs of old gas manufacturing sites in the UK (discounted using a nominal rate of 5.25%). The anticipated timing of the cash flows for statutory decontamination cannot be predicted with certainty, but they are expected to be incurred over the period 2007 to 2057 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. The Group has made its 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 2006 relating to UK gas site decontamination is £239m (2005: £340m), being the undiscounted best estimate of the liability having regard to the uncertainties referred to above.

The environmental provision at 31 March 2006 also includes £227m (2005: £219m) which represents the net present value of estimated remediation expenditure in the US that has been discounted at a nominal rate of 5.75%. This expenditure is expected to be incurred between 2007 and 2043. 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 recoverable from rate payers under the terms of the Group's various rate agreements in the US.

The undiscounted amount of environmental provision relating to the Group's US-based sites amounts to £333m at 31 March 2006 (2005: £324m). The Group does 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.

The remainder of the environmental provision of £9m (2005: £10m) relates 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.

30. Provisions (continued)

The undiscounted amount of the total Group environmental provision at 31 March 2006 is £581m (2005: £674m).

Emissions provision

The provision for emission costs will be settled using emission allowances granted to the Group which are reported as an intangible asset.

Restructuring provision

At 31 March 2006, £34m of the total restructuring provision (2005: £36m) consists of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties. The expected payment dates for property restructuring costs remain uncertain. The remainder of the restructuring provision relates to business reorganisation costs in the UK, to be paid between 2007 and 2016.

Other provisions

Other provisions at 31 March 2006 include £51m (2005: £59m) of estimated liabilities in respect of past events insured by the Group's insurance 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 2006 also include £28m (2005: £nil) in respect of the sales of four UK gas distribution networks and were related to property transfer costs; £11m (2005: £11m) in respect of obligations associated with the impairment of investments in joint ventures; and £11m (2005: £8m) in National Grid Wireless principally in respect of radio wave emissions and cost-sharing on broadcast services.

31. Share capital

	Allotted, called up and fully paid	
	millions	£m
At 31 March 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**

(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.

The total consideration received by the Group and Company in respect of ordinary shares issued during the year ended 31 March 2006 was £28m (2005: £9m).

In June 2005, National Grid issued a Circular to Shareholders, dated 6 June 2005, outlining its £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 2006, the authorised share capital of the Group 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 Group was £500m (5,000m ordinary shares of 10 pence each).

At 31 March 2004, the authorised share capital of the Group was £500m (5,000m ordinary shares of 10 pence each and one £1 special rights non-voting redeemable preference share). During the year ended 31 March 2005 the one £1 special rights non-voting redeemable preference share was removed from the authorised share capital of the Group.

The special rights non-voting redeemable preference share of £1 in National Grid plc ('the Special Share'), held on behalf of the Crown, was issued by National Grid to the Secretary of State for Trade and Industry on 31 January 2002 as part of a scheme of arrangement. It was redeemed at par on 5 May 2004 and on 26 July 2004 an ordinary resolution was passed cancelling this share from inclusion in the authorised share capital of the Company. The Special Share did not carry any rights to vote at general meetings but entitled the holder to receive notice of and to attend and speak at such meetings. Certain matters, in particular the alteration of certain articles of association of the Company, required the prior written consent of the holder of the Special Share. The Special Share conferred no right to participate in the capital or profits of the Company, except that on a winding-up the holder of the Special Share was entitled to repayment of £1 in priority to other shareholders. Prior to 31 January 2002, the Secretary of State for Trade and Industry held a Special Share with equivalent rights in National Grid Holdings One plc. A similar Special Share in Lattice Group plc was held at 31 March 2002 by the Crown. This share was redeemed on 21 October 2002 as part of the Merger arrangements.

31. Share capital (continued)

Share option and award schemes

The Group operates two principal forms of share option scheme. They are an employee Sharesave scheme and an Executive Share Option Plan (the 'Executive Plan'). The details given below relate to the schemes operated by the Group and the Sharesave scheme formerly operated by Lattice. Following the Merger, most Lattice scheme options were converted into 0.375 National Grid plc options. The remaining Lattice scheme options lapsed on 29 April 2003.

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 Group's share option schemes may not exceed the number of shares representing 10% of the issued ordinary share capital from time to time.

The Sharesave scheme is savings-related where, under normal circumstances, share options are exercisable on completion of a three- 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.

The Executive Plan applies 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 returns 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 Company also operates a number of share award schemes including a Performance Share Plan (PSP), a Share Matching Plan and a Transitional Share Award and Special Share Award in relation to former Crown Castle UK employees.

Under the PSP, awards have been made to Executive Directors and approximately 350 senior employees who have significant influence over the Group's ability to meet its strategic objectives. Under the PSP, awards are conditional on the Group's Total Shareholder Return over a three-year period. Awards are delivered in National Grid plc shares. At 31 March 2006 the number of conditional awards of ordinary share equivalents outstanding under the PSP was 7,736,972 (2005: 5,864,904) of which nil (2005: nil) were exercisable. The number of conditional awards during the year ended 31 March 2006 was 2,320,464 (2005: 2,846,546) with lapses/forfeits during the year of 448,396 (2005: 436,700) and exercises of nil (2005: 2,997).

The Share Matching Plan applies to Executive Directors whereby a predetermined part of each Director's bonus entitlement is automatically deferred into National Grid plc shares and a matching award may be made under the Plan after a three-year period provided the Director is still employed by the Group. At 31 March 2006 the number of conditional awards of ordinary share equivalents outstanding under the Share Matching Plan was 435,583 (2005: 341,482) of which 45,384 (2005: 28,534) were exercisable. The number of conditional awards during the year ended 31 March 2006 was 149,232 (2005: 171,460) with lapses during the year of 1,489 (2005: nil) and exercises during the year of 53,642 (2005: 42,163).

The Transitional Share Awards and Special Share Awards were made during the year ended 31 March 2005 to former Crown Castle UK employees and have a vesting period of four and two years respectively, provided the employee is still employed by the Group. The number of awards made during the year ended 31 March 2005 were 188,650 and 45,700 respectively. At 31 March 2006 the number of conditional awards of ordinary share equivalents outstanding were 121,170 (2005: 188,650) and 11,000 (2005: 45,700) with lapses during the year of 22,560 (2005: nil) and 16,825 (2005: nil) and exercises during the year of 44,110 (2005: nil) and 17,875 (2005: nil) respectively.

31. Share capital (continued)

Share option and award schemes (continued)

Movement in options to subscribe for ordinary shares under the Group's various options schemes for the two years ended 31 March 2006 are shown below and include those options related to shares issued to employee benefit trusts:

	Sharesave scheme options		Executive Plan options		Total options
	Weighted average price £	millions	Weighted average price £	millions	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**

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

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 2006 was 2 years and 6 months. These options have exercise prices between £3.15 and £4.57.

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

	2006	2005
Sharesave scheme options	**5.89**	4.49
Executive Plan options	**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 2006 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
	3.81	0.3	3.81	0.3	375.8 – 490.0	2002 – 2009
	5.50	1.2	5.50	1.2	424.0 – 566.5	2003 – 2010
	5.28	0.9	5.28	0.9	526.0 – 623.0	2004 – 2011
	5.48	1.9	5.48	1.9	479.5 – 563.0	2005 – 2012
	4.72	2.6	4.72	2.6	434.3 – 481.5	2006 – 2013
	4.05	–	4.05	0.1	405.0	2007 – 2014
	5.03	7.1	5.01	7.2		

31. Share capital (continued)

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 2006 was £17m (2005: £16m).

Awards under share option plans

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

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

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

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

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

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

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

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

The fair values of awards under the Sharesave scheme have been calculated using the Black-Scholes model. This is considered appropriate given the short exercise window of sharesave options.

Volatility has been derived based on the following:

(i) implied volatility in traded options over the Group’s shares;

(ii) historical volatility of the Group’s shares from October 2002 (the date of the merger of National Grid Group plc and 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 two financial years ended 31 March were as follows:

	2006	2005
Average share price	**535.6p**	431.7p
Average fair value	**358.0p**	210.6p

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

	2006	2005
Dividend yield (%)	**4.4**	5.3-5.7
Volatility (%)	**19.9**	15.4
Risk-free investment rate (%)	**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. 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 31 March 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
Employee share option scheme issues	–	–	16	–	–	–	–	16	–	16
Tax on employee share option scheme issues	–	–	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
Employee share option scheme issues	–	–	17	–	–	–	–	17	–	17
Tax on employee share option scheme issues	–	–	7	–	–	–	–	7	–	7
At 31 March 2006	**310**	**1,316**	**6,817**	**127**	**37**	**6**	**(5,131)**	**3,482**	**11**	**3,493**

As at 31 March 2006 the Group has nil own shares included in retained earnings. As at 31 March 2005, own shares were included in the retained earnings reserve related to 7m 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 the Group. 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 Group undertakings. The trusts waived their rights to dividends on those shares.

Other reserves primarily represent the difference between the carrying value of Group 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 Group undertaking.

33. Group cash flow statement

a) Cash flow from operating activities – discontinued operations

	2006 £m	2005 £m
Operating profit	**46**	436
Adjustments for:		
Exceptional items	**15**	74
Depreciation and amortisation	**13**	176
Share-based payment charge	**2**	4
Changes in working capital and provisions	**(73)**	(69)
Cash flow relating to exceptional items	**(23)**	(74)
Cash flow relating to discontinued operations	**(20)**	547

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

	2006 £m	2005 £m
Movement in cash and cash equivalents	**1,181**	8
(Decrease)/increase in financial investments	**(25)**	59
Decrease/(increase) in borrowings and derivatives	**2,304**	(1,052)
Cash paid to shareholders under B share scheme	**1,957**	–
Net interest paid (i)	**704**	n/a
Change in net debt resulting from cash flows	**6,121**	(985)
Exchange adjustments (i)	**–**	112
Changes in fair value of financial assets and liabilities and exchange movements (i)	**(299)**	n/a
Issue of B shares	**(2,009)**	–
Net interest charge (i)	**(660)**	n/a
Other non-cash movements	**(17)**	(28)
Movement in net debt (net of related derivative financial instruments) in the year	**3,136**	(901)
Net debt at start of year	**(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	**(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 as described in note 2.

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)
	247	8	(1)	–	254
Financial investments	343	59	(4)	–	398
Borrowings	(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)**
	254	–	1,181	14	–	–	–	**1,449**
Financial investments (ii)	398	3	(155)	3	–	135	–	**384**
Borrowings (ii)	(14,290)	(894)	5,037	(207)	(2,009)	(746)	(17)	**(13,126)**
Derivatives (ii)	–	543	58	(109)	–	(49)	–	**443**
	(13,638)	(348)	6,121	(299)	(2,009)	(660)	(17)	**(10,850)**

(i) There are no comparatives for net debt related derivative assets and liabilities as the Group 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 (see note 2).
(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 Group pension fund and were in the normal course of business and are summarised below:

	2006 £m	2005 £m
Sales: Services supplied to a Group pension fund	**4**	4
Purchases: Services received from joint ventures	**32**	24

At 31 March 2006, the Group had amounts receivable and payable amounting to £nil (2005: £1m) and £1m (2005: £1m) respectively with related parties which are due on normal commercial terms.

Details of investments in principal Group undertakings and joint ventures are disclosed in note 36 and information relating to pension fund arrangements is disclosed in note 9. Details of Directors and key management remuneration is set out in note 7 and the Directors' Remuneration Report.

35. Commitments and contingencies

a) Future capital expenditure

	2006 £m	2005 £m
Contracted for but not provided	**1,343**	927

b) Lease commitments

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

	2006 £m	2005 £m
In one year or less	**87**	99
In more than one year, but not more than two years	**80**	91
In more than two years, but not more than three years	**75**	83
In more than three years, but not more than four years	**71**	79
In more than four years, but not more than five years	**67**	77
In more than five years	**451**	501
	831	930

c) Power commitments

At 31 March 2006, the Group had 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):

	2006 £m	2005 £m
In one year or less	**1,504**	1,058
In more than one year, but not more than two years	**935**	623
In more than two years, but not more than three years	**753**	583
In more than three years, but not more than four years	**588**	567
In more than four years, but not more than five years	**94**	462
In more than five years	**1,579**	1,622
	5,453	4,915

d) Other commitments, contingencies and guarantees

The value of other Group commitments, contingencies and guarantees at 31 March 2006 amounted to £334m (2005: £349m), including guarantees amounting to £149m (2005: £189m).

Details of the guarantees entered into by the Group at 31 March 2006 are shown below:

(i) performance guarantees of £20m relating to certain property obligations of Group undertakings. The bulk of these expire by December 2025;

(ii) a guarantee of £50m of the obligations of a Group undertaking to make payments in respect of any liabilities under a meter operating contract that runs until May 2008;

(iii) a performance guarantee relating to the construction of the Victoria to Tasmania Interconnector of 48m Australian dollars (A$48m) (£20m). This halved on commissioning in April 2006 and expires in November 2006;

35. Commitments and contingencies (continued)

(iv) a guarantee of the payment obligations of a Group undertaking in respect of a Power Connection Agreement amounting to an annual maximum of A$7m, reducing over the term of the contract. This runs until June 2051, but the maximum potential payout is estimated at £5m;

(v) a guarantee of the payment obligations of a Group undertaking in respect of a Nitrogen Supply Agreement amounting to a maximum potential payout of £14m subject to a cap of £1m per annum. This runs until November 2019;

(vi) a guarantee of the payment obligations of a Group 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) guarantees in respect of a former associate amounting to £14m, the bulk of which relates to its obligations to supply telecommunications services. This is open-ended; and

(viii) other guarantees amounting to £12m arising in the normal course of business and entered into on normal commercial terms. These guarantees run for varying lengths of time.

e) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £26m (2005: £23m).

36. Group undertakings and joint ventures

Principal Group undertakings

The principal Group undertakings included in the Group accounts at 31 March 2006 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)	Telecommunications infrastructure
National Grid Wireless Limited (i)	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 Group undertakings.
(ii) Issued ordinary share capital held by National Grid plc.

Principal joint ventures

at 31 March 2006

	Group holding	Country of incorporation and operation	Principal activity
Copperbelt Energy Corporation plc (i)	38.5% ordinary shares	Zambia	Transmission, distribution and supply of electricity

(i) 31 December year end.

Investments in joint ventures are held by Group undertakings.

The joint venture investment in Copperbelt Energy Corporation plc has been classified as an asset held for sale and sale completion is expected during 2006/07.

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

37. Differences between IFRS and US generally accepted accounting principles

The Group prepares its consolidated accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, which differ in certain respects from generally accepted accounting principles in the United States (US GAAP). IFRS as adopted by the EU 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 the Group is that the business combination of the then National Grid Group plc (now National Grid plc) and Lattice Group plc was accounted for as a merger (pooling of interests) under the Group's previous accounting standards, accounting standards generally accepted in the UK (UK GAAP). This transaction and its resulting account balances were grandfathered at 1 April 2004, the date of transition to IFRS (see note 1). 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 Group plc and Lattice Group plc on an historical cost basis for all periods presented. Under US GAAP, the accounts presented include the Lattice Group at fair value at the date of acquisition.

Condensed income statements, statements of comprehensive income and changes in shareholders' equity, balance sheets and segmental information in accordance with US GAAP disclosure requirements are presented in note 38. The balance sheets at 31 March 2005 and 31 March 2006 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 the US GAAP adjustments to profit for the financial year 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	2006 £m	2005 £m
Profit for the year attributable to equity shareholders under IFRS		**3,848**	1,424
Adjustments to conform with US GAAP			
Depreciation of property, plant and equipment	(a)	**(127)**	(233)
US regulatory accounting	(b)	**(269)**	(246)
Pensions and other post-retirement benefits	(c)	**(56)**	2
Financial instruments	(d)	**(130)**	254
Severance costs	(e)	**(63)**	62
Revenue recognition	(f)	**(48)**	13
Amortisation of intangibles	(h)	**(2)**	(2)
Interest on discounted provisions	(i)	**(14)**	–
Deferred taxation	(k)	**208**	28
Other	(l)	**(3)**	2
Discontinued operations – gains on disposal of business	(a), (g)	**(2,196)**	–
Discontinued operations – pensions and other post-retirement benefits	(c)	**(127)**	–
Discontinued operations – deferred taxation	(k)	**286**	–
		(2,541)	(120)
Net income under US GAAP		**1,307**	1,304

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	2006 £m	2005 £m
Total shareholders' equity under IFRS		**3,482**	2,111
Adjustments to conform with US GAAP			
Property, plant and equipment	(a)	**2,162**	3,116
Goodwill	(g)	**2,689**	4,027
US regulatory accounting	(b)	**2,702**	2,746
Pensions and other post-retirement benefits	(c)	**886**	944
Financial instruments	(d)	**119**	117
Severance liabilities	(e)	**2**	65
Revenue recognition	(f)	**(42)**	6
Intangible assets	(h)	**28**	30
Provisions	(i)	**(154)**	(130)
Non-reversal of impairments	(j)	**(39)**	(29)
Deferred taxation	(k)	**(2,090)**	(2,441)
Other	(l)	**2**	29
		6,265	8,480
Shareholders' equity under US GAAP		**9,747**	10,591

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

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

a) Depreciation of property, plant and equipment

In accordance with IFRS 1, the Group has not restated any business combinations that occurred prior to 31 March 2004. The Lattice Group plc business combination has therefore not been adjusted from the amount calculated under the Company's previous basis of accounting under UK GAAP. This transaction continues to be accounted for as a merger (pooling of interests) under IFRS, but 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 for US GAAP.

Fair value 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 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.

c) Pensions and other post-retirement benefits

Under IFRS, the Group recognises actuarial gains and losses 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.

In addition, under US GAAP, when a pension plan has an accumulated benefit obligation that exceeds the fair value of the plan assets, the unfunded amount is recognised as a minimum liability in the balance sheet. In respect of such liabilities, an intangible asset is recognised up to the amount of any unrecognised prior service cost and a regulatory asset is recognised for such liabilities recoverable through the regulatory process (see b) above). Thereafter the minimum liability is recognised in other comprehensive income.

Interest costs associated with the pension obligation are presented within finance costs under IFRS as opposed to within net periodic pension costs under US GAAP.

Under IFRS the curtailment/settlement gain on the sales of the distribution networks is included in full in the income statement. Under US GAAP, this gain is recognised in the income statement to the extent that it exceeds unrecognised losses.

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

	Pensions		Other post-retirement benefits	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Service cost	**118**	135	**16**	12
Interest cost	**804**	828	**63**	56
Expected return on plan assets	**(849)**	(860)	**(41)**	(40)
Amortisation of prior service cost	**5**	6	**6**	3
Amortisation of previously unrecognised actuarial losses	**58**	45	**–**	20
	136	154	**44**	51
Release of pension provision	**(2)**	(2)	**–**	–
	134	152	**44**	51

The additional (gain)/cost 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:

	2006 £m	2005 £m
(Gain)/cost of termination benefits and curtailments	**(9)**	30

37. 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 2005 in respect of the US and UK defined benefit schemes are shown below:

	US		UK	
	2006 %	2005 %	**2006 %**	2005 %
Discount rate	**5.8**	5.8	**5.1**	5.5
Expected return on assets	**7.0-8.3**	8.3	**5.8-6.4**	6.2-6.7
General salary increases	**3.9-4.3**	3.3-5.3	**3.9**	3.9
Pension increases	**nil**	nil	**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 5.8% (2005: 5.75%) and that medical costs would increase by 10% (2005: 10%), decreasing to 5% (2005: 5%) by 2011 and remain at 5% (2005: 5%) thereafter.

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

	Pensions		Other post-retirement benefits	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Projected benefit obligation at 31 March	**(16,603)**	(15,758)	**(1,223)**	(1,068)
Fair value of plan assets at 31 March	**15,349**	14,086	**568**	488
Excess of projected benefit obligation over plan assets	**(1,254)**	(1,672)	**(655)**	(580)
Unrecognised net actuarial loss	**840**	1,180	**335**	316
Unrecognised prior service cost	**56**	60	**69**	70
Net accrued benefit liability – before minimum liability adjustment	**(358)**	(432)	**(251)**	(194)
Additional minimum liability adjustment	**(472)**	(811)	**–**	–
Net accrued benefit liability	**(830)**	(1,243)	**(251)**	(194)

At 31 March 2006, as required under SFAS 87, an intangible asset of £56m (2005: £60m) was recognised in relation to the additional minimum liability, being equal to the unrecognised prior service cost. A regulatory asset of £46m (2005: £133m) was also created. The remaining additional minimum liability of £370m (2005: £618m) has been included in other comprehensive income.

The net accrued benefit liability above is shown net of a prepaid cost of £196m (2005: £181m) in respect of one Group scheme.

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

	US		UK	
	2006 %	2005 %	**2006 %**	2005 %
Discount rate	**6.0**	5.8	**4.9**	5.4
General salary increases	**4.1**	3.9-4.3	**3.9**	3.9
Pension increases	**nil**	nil	**2.95**	3.0

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

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

All pension schemes had an additional minimum liability adjustment except the National Grid UK Pension Scheme and the National Grid Wireless Pension Scheme. The accumulated benefit obligation for pensions was £16,180m at 31 March 2006 (2005: £14,825m). The Group 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	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Projected benefit obligation at start of year	**15,758**	15,394	**1,068**	1,002
Service cost	**118**	135	**16**	12
Interest cost	**804**	828	**63**	56
Plan participants' contributions	**14**	17	**–**	–
Plan amendment – prior service cost	**–**	17	**–**	79
Terminations	**49**	30	**–**	–
Curtailments	**(157)**	–	**–**	–
Settlements	**(619)**	(1)	**–**	–
Actuarial loss	**1,301**	136	**40**	5
Benefits paid	**(775)**	(783)	**(59)**	(52)
Acquisition of Group undertakings	**–**	31	**–**	–
Transfers	**(17)**	1	**–**	–
Exchange adjustments	**127**	(47)	**95**	(34)
Projected benefit obligation at end of year	**16,603**	15,758	**1,223**	1,068
Fair value of plan assets at start of year	**14,086**	13,432	**488**	496
Actual return on assets	**2,370**	1,248	**65**	26
Employer contributions	**191**	184	**30**	32
Plan participants' contributions	**14**	17	**–**	–
Benefits paid	**(774)**	(783)	**(59)**	(52)
Acquisition of Group undertakings	**–**	21	**–**	–
Settlements	**(609)**	(1)	**–**	–
Transfers	**(15)**	–	**–**	–
Exchange adjustments	**95**	(32)	**44**	(14)
Fair value of plan assets at end of year	**15,358**	14,086	**568**	488

As at 31 March 2006 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
2007	761	66
2008	774	69
2009	786	71
2010	802	74
2011	821	76
2012–2016	4,547	378

In the UK, the trustees for each plan are responsible for setting the long-term strategy after consultation with the Group and 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; to limit the risk; and minimise the long-term cost. In the US, the Group manages its pension plan investments 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 whilst improving diversification. Investment risk and return are reviewed by investment committees on a quarterly basis.

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

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

Expected subsidy receipts in respect of medical costs are as follows:

	£m
2007	4
2008	5
2009	5
2010	5
2011	5
2012–2016	29

d) Financial instruments

On 1 April 2005, the Group adopted IAS 39 in its IFRS 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'. In accordance with IAS 39, the Group has adopted hedge accounting 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. 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 they are recognised in the US GAAP income statement and hence are included as reconciling differences with IFRS.

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 of the change. 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 Group 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. There was no reconciling adjustment for the hedges of net investments for which the Group 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. The realised gains and losses on these contracts are reflected in the income statement at the contract settlement date.

e) Severance costs

Under IFRS, severance costs in respect of the Group's 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. Under IFRS, any 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.

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

g) Goodwill

Under IFRS, the business combination of National Grid plc and 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.

Under US GAAP, the fair value of net assets acquired is calculated in accordance with US GAAP principles, which differ in certain respects from IFRS principles. As acquisitions made prior to 1 April 2004 were not reopened on transition to IFRS, differences in measurement between US GAAP and UK GAAP also exist. As a result, the US GAAP fair value of net assets of Group undertakings acquired differs from the fair value of net assets as determined under IFRS principles. 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.

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.

i) Provisions

IAS 37 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 the year an impairment in respect of a joint venture was reversed under IFRS, whereas under US GAAP such an impairment reversal is not allowed.

k) 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:

	2006 £m	2005 £m
Current taxes	**432**	24
Deferred taxes (credit)/charge	**(84)**	279
Tax charge	**348**	303

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

	2006 £m	2005 £m
Deferred taxation liabilities:		
Excess of book value over taxation value of fixed assets	**3,778**	5,029
Other temporary differences	**1,494**	1,162
	5,272	6,191
Deferred taxation assets:		
Other temporary differences (i)	**(1,252)**	(900)
	4,020	5,291
Analysed as follows:		
Current	**(43)**	(184)
Non-current	**4,063**	5,475
	4,020	5,291

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

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

l) 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 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 would be viewed as 'non-GAAP' under regulations issued by the United States Securities and Exchange Commission (SEC). The Group has described such items and provided disclosure of the effects and reasons for presentation along with a condensed US GAAP income statement using the format prescribed by the SEC. The disclosure of each of the exceptional items would be prohibited within the Form 20-F if such exceptional items were not expressly permitted by IAS 1.

Management uses 'adjusted' profit measures in considering the performance of the Group's operating segments and businesses. References to 'adjusted operating profit', 'adjusted profit before taxation', 'adjusted earnings' or 'adjusted earnings per share' are stated before exceptional items and remeasurements.

The Directors believe that the use of these adjusted measures better indicates the underlying business performance of the Group than the unadjusted measures because the exclusion of these items provides a clearer comparison of results from year to year for each of the years presented. This is because this method of presentation removes the distorting impact of exceptional items and removes the impact of remeasurements in order to enhance comparability with the reporting practices of other UK companies.

Exceptional items and remeasurements, which are adjusted for in the adjusted measures referred to above, are defined as material items that derive from events that fall within the ordinary activities of the Group, but that require separate disclosure on the grounds of size or incidence for the accounts to give a true and fair view. Such exceptional items include, for example, material restructuring costs and impairments. Note 6 on page 113 contains a discussion of the nature of these exceptional items for each year.

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 38.

i) Capital contributions – The Group receives capital contributions 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 the asset's cost.

ii) Debt issuance costs – Under IFRS, direct and incremental costs incurred to issue debt securities are recorded as a reduction in the carrying value of the related debt instrument and are unwound as a finance charge over the term of the debt. Under US GAAP these costs are classified as a non-current asset.

iii) 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.

iv) Cumulative preference shares – These non-equity instruments are presented within borrowings under IFRS, but shown separately from shareholders' equity and liabilities under US GAAP.

v) 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.

Restricted net assets

National Grid USA and its public utility subsidiaries, all consolidated subsidiaries of the Group, are subject to restrictions on the payment of dividends by administrative order and contract. Orders by the SEC, 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 2006, £2.5bn of net assets were restricted, representing 26% of the Group's consolidated net assets under US GAAP at that date.

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

New US Accounting Standards adopted during 2005/06

FIN 47

FASB Interpretation No. 47 'Accounting for Conditional Asset Retirement Obligations' (FIN 47) clarifies that the term 'conditional asset retirement obligation', as used in SFAS No. 143 'Accounting for Asset Retirement Obligation' (SFAS 143), refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Group. The adoption of FIN 47 did not have a material impact on the Group accounts.

Recent US pronouncements not yet adopted

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 Group expects to adopt 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 Group plans to adopt SFAS 123(R) using the modified prospective method.

The Group 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'. Currently, the Group uses the Black-Scholes European option pricing model to estimate the value of stock options granted to employees and expects to continue to use this acceptable option valuation model upon the required adoption of SFAS 123(R) on 1 April 2006. The Group does not anticipate that adoption of SFAS 123(R) will have a material impact on its results of operations or its financial position.

SFAS 151

The FASB issued SFAS No. 151 'Inventory Costs – an amendment of ARB No. 43'. SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) as current period charges. SFAS No. 151 is effective for fiscal periods beginning after 15 June 2005. The Group does not believe that the adoption of SFAS No. 151 will have a material effect on its 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 Group expects to adopt SFAS 153 prospectively for all transactions taking place after 1 April 2006. The impact of the adoption of SFAS 153 cannot be predicted at this time because it will depend on whether applicable non-monetary transactions take place after the effective date.

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 No. 154 requires retrospective application of prior periods' financial statements for changes in accounting principle. SFAS No. 154 applies to accounting periods beginning after 15 December 2005. The Group does not believe that the adoption of SFAS No. 154 will have a material effect on its accounts.

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 No. 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 No. 155 is effective for fiscal years beginning after 15 September 2006. The Group does not believe that the adoption of SFAS No. 155 will have a material effect on its accounts.

38. Condensed US GAAP financial information

As described in note 37, the October 2002 business combination of National Grid Group plc and Lattice Group plc continues to be accounted for as a merger (pooling of interests) in the IFRS financial statements and as an acquisition (purchase accounting) under US GAAP. The different treatments result in the IFRS financial statements being fundamentally different compared with the amounts presented under US GAAP. Due to these differences, condensed US GAAP financial information is presented to show more clearly the operating and financial position that would have been reported under US GAAP.

Condensed US GAAP income statement

	2006 National Grid (IFRS) £m	2006 US GAAP adjustments £m	2006 National Grid (US GAAP) £m
Turnover	9,193	23	9,216
Other operating income	80	(30)	50
Operating costs			
Depreciation	(895)	(122)	(1,017)
Payroll and severance costs	(892)	(41)	(933)
Purchases of electricity	(1,977)	(116)	(2,093)
Purchases of gas	(566)	3	(563)
Rates and property taxes	(443)	(2)	(445)
Electricity transmission services scheme direct costs	(536)	–	(536)
Provision for doubtful debts	(24)	–	(24)
Other operating charges	(1,501)	(344)	(1,845)
	(6,834)	(622)	(7,456)
Operating profit	2,439	(629)	1,810
Net finance costs	(663)	(88)	(751)
Share of post-tax results of joint ventures	3	(3)	–
Profit before taxation	1,779	(720)	1,059
Taxation	(562)	214	(348)
Profit for the year	1,217	(506)	711
Minority interests	(2)	(1)	(3)
Interest in equity accounted affiliates (net of tax of £nil)		3	3
Net income from continuing operations	1,215	(504)	711
Net income from discontinued operations (net of tax of £237m credit)	2,633	(2,037)	596
Net income for the year	3,848	(2,541)	1,307
Basic earnings per share under US GAAP (pence) – continuing operations			26.2p
Diluted earnings per share under US GAAP (pence) – continuing operations			26.1p
Basic earnings per ADS under US GAAP (pence) – continuing operations			131.0p
Diluted earnings per ADS under US GAAP (pence) – continuing operations			130.5p
Basic earnings per share under US GAAP (pence) – discontinued operations			22.0p
Diluted earnings per share under US GAAP (pence) – discontinued operations			21.9p
Basic earnings per ADS under US GAAP (pence) – discontinued operations			110.0p
Diluted earnings per ADS under US GAAP (pence) – discontinued operations			109.5p
Basic earnings per share under US GAAP (pence) – total Group			48.2p
Diluted earnings per share under US GAAP (pence) – total Group			48.0p
Basic earnings per ADS under US GAAP (pence) – total Group			241.0p
Diluted earnings per ADS under US GAAP (pence) – total Group			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

38. Condensed US GAAP financial information (continued)

Condensed US GAAP income statement (continued)

	2005 National Grid (IFRS) £m	2005 US GAAP adjustments £m	2005 National Grid (US GAAP) £m
Turnover	7,382	42	7,424
Other operating income	70	(31)	39
Operating costs			
Depreciation	(774)	(191)	(965)
Payroll and severance costs	(919)	54	(865)
Purchases of electricity	(1,496)	(182)	(1,678)
Purchases of gas	(357)	–	(357)
Rates and property taxes	(406)	–	(406)
Electricity transmission services scheme direct costs	(301)	–	(301)
Provision for doubtful debts	(41)	–	(41)
Other operating charges	(1,016)	(30)	(1,046)
	(5,310)	(349)	(5,659)
Operating profit	2,142	(338)	1,804
Net finance costs	(706)	246	(460)
Share of post-tax results of joint ventures	3	(3)	–
Profit before taxation	1,439	(95)	1,344
Taxation	(319)	16	(303)
Profit for the year	1,120	(79)	1,041
Minority interests	–	(2)	(2)
Interest in equity accounted affiliates (net of tax of £2m)		(2)	(2)
Net income from continuing operations	1,120	(83)	1,037
Net income from discontinued operations (net of tax of £128m charge)	304	(37)	267
Net income for the year	1,424	(120)	1,304
Basic earnings per share under US GAAP (pence) – continuing operations (i)			38.3p
Diluted earnings per share under US GAAP (pence) – continuing operations (i)			38.1p
Basic earnings per ADS under US GAAP (pence) – continuing operations (i)			191.5p
Diluted earnings per ADS under US GAAP (pence) – continuing operations (i)			190.7p
Basic earnings per share under US GAAP (pence) – discontinued operations (i)			9.9p
Diluted earnings per share under US GAAP (pence) – discontinued operations (i)			9.8p
Basic earnings per ADS under US GAAP (pence) – discontinued operations (i)			49.5p
Diluted earnings per ADS under US GAAP (pence) – discontinued operations (i)			49.0p
Basic earnings per share under US GAAP (pence) – total Group (i)			48.2p
Diluted earnings per share under US GAAP (pence) – total Group (i)			47.9p
Basic earnings per ADS under US GAAP (pence) – total Group (i)			241.0p
Diluted earnings per ADS under US GAAP (pence) – total Group (i)			239.5p
Weighted average number of shares in issue (million) – for basic EPS (i)			2,705
Weighted average number of shares in issue (million) – for diluted EPS (i)			2,719

(i) Restated as a result of the 43 for 49 share consolidation, related to the return of capital via the B share scheme.

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

	2006 £m	2005 £m
Net income	**1,307**	1,304
Additional minimum pension liability (net of tax of £82m and £16m)	**168**	33
Exchange adjustments (i)	**368**	(80)
Mark-to-market of financial instruments (net of tax of £nil and £43m)	**3**	111
Comprehensive income	**1,846**	1,368
Dividends	**(745)**	(628)
Other shares issued	**28**	9
Share options granted	**17**	16
Return of capital to shareholders through B share scheme	**(2,009)**	–
Movement in treasury stock	**19**	5
Shareholders' equity at 1 April	**10,591**	9,821
Shareholders' equity at 31 March	**9,747**	10,591

(i) Included within exchange adjustments is £91m relating to losses on net investment hedges during the year.

38. Condensed US GAAP financial information (continued)

Condensed US GAAP balance sheet

	2006 £m	2005 £m
Assets		
Current assets		
Cash and cash equivalents (i)	**1,466**	285
Marketable securities (i)	**384**	396
Accounts and notes receivable	**838**	553
Inventories	**108**	101
Regulatory assets	**246**	443
Prepaid expenses and other current assets	**612**	599
Total current assets	**3,654**	2,377
Property, plant and equipment cost	**30,738**	34,282
Property, plant and equipment accumulated depreciation	**(10,503)**	(10,022)
	20,235	24,260
Goodwill cost	**4,927**	6,156
Goodwill accumulated amortisation and impairments	**(96)**	(97)
	4,831	6,059
Intangible assets	**390**	272
Investments	**160**	152
Regulatory assets	**2,805**	2,907
Other receivables	**212**	1,247
Total assets	**32,287**	37,274
Liabilities and shareholders' equity		
Current liabilities		
Bank overdrafts	**3**	18
Accounts payable	**2,097**	1,111
Short-term borrowings	**2,612**	3,229
Accrued income taxes	**419**	79
Other accrued liabilities	**165**	1,416
Total current liabilities	**5,296**	5,853
Long-term borrowings	**9,838**	11,475
Post-retirement benefits	**1,348**	1,515
Deferred income taxes	**4,063**	5,475
Other liabilities	**1,954**	2,327
Total liabilities	**22,499**	26,645
Minority interest – equity	**11**	10
Cumulative preference stock issued by Group undertakings	**30**	28
Shareholders' equity		
Common stock (par value £0.1139 per share; shares authorised 4,390m; shares issued 2006: 2,720m; 2005: 3,090m)	**310**	309
Additional paid in capital	**7,837**	7,793
Other reserves	**359**	359
Retained earnings	**1,920**	3,377
Accumulated comprehensive loss	**(679)**	(1,218)
Treasury stock	**–**	(29)
Shareholders' equity	**9,747**	10,591
Total liabilities and shareholders' equity	**32,287**	37,274

(i) A reclassification of £240m for the comparative period has been made between cash and cash equivalents and marketable securities.

Accumulated comprehensive loss can be analysed as follows:

	2006 £m	2005 £m
Cumulative translation adjustment	**(453)**	(853)
Additional minimum pension liability	**(370)**	(618)
Unrealised gains on derivatives	**9**	9
Unrealised gains on available-for-sale investments	**7**	4
Taxation	**124**	236
Other	**4**	4
	(679)	(1,218)

38. Condensed US GAAP financial information (continued)

Segmental information under US GAAP

Segments have been determined in accordance with SFAS 131 and segmented financial information has been presented in accordance with US GAAP.

	2006 £m	2005 £m
Revenue by business segment		
Continuing operations		
UK electricity and gas transmission	**2,667**	1,937
US electricity transmission	**306**	283
UK gas distribution	**1,217**	1,113
US electricity and gas distribution	**3,759**	3,112
US stranded cost recoveries	**556**	420
Wireless infrastructure	**325**	208
Other activities	**683**	844
Sales between businesses	**(297)**	(493)
Group revenue – continuing operations	**9,216**	7,424
Operating profit by business segment		
Continuing operations		
UK electricity and gas transmission	**710**	711
US electricity transmission	**121**	121
UK gas distribution	**360**	315
US electricity and gas distribution	**371**	356
US stranded cost recoveries	**124**	121
Wireless infrastructure	**66**	4
Other activities	**58**	176
Operating profit – continuing operations	**1,810**	1,804

Revenue and operating profit in the Other activities segment relates primarily to the UK.

	Property, plant and equipment	
	2006 £m	2005 £m
Analysis by business segment		
UK electricity and gas transmission	**7,110**	6,642
US electricity transmission	**1,339**	1,176
UK gas distribution	**5,457**	10,479
US electricity and gas distribution	**3,826**	3,401
US stranded cost recoveries	**–**	7
Wireless infrastructure	**662**	681
Other activities	**1,841**	1,874
	20,235	24,260
Analysis by geographical region		
UK	**14,667**	19,350
US	**5,219**	4,633
Rest of the World	**349**	277
	20,235	24,260

Goodwill

	UK electricity and gas transmission £m	US electricity transmission £m	UK gas distribution £m	US electricity and gas distribution £m	US stranded cost recoveries £m	Wireless infrastructure £m	Other activities £m	Total £m
1 April 2004	756	348	2,990	1,354	–	83	74	5,605
Exchange adjustments	–	(11)	–	(44)	–	(3)	–	(58)
Additions	–	–	–	–	–	512	–	512
1 April 2005	756	337	2,990	1,310	–	592	74	6,059
Exchange adjustments	–	29	–	116	–	5	–	150
Disposals	–	–	(1,369)	–	–	–	–	(1,369)
Adjustments to provisional fair value	–	–	–	–	–	(9)	–	(9)
31 March 2006	**756**	**366**	**1,621**	**1,426**	**–**	**588**	**74**	**4,831**

39. 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 2005/06 Annual Report and Accounts.

Summary income statements are presented, on a consolidating basis, for the two years ended 31 March 2006. 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.

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

Summary income statement for the year ended 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 Group £m
Turnover	1	–	2,261	7,317	(363)	9,216
Other operating income	–	–	4	46	–	50
Operating costs						
Depreciation	–	–	(492)	(525)	–	(1,017)
Payroll and severance costs	–	–	(282)	(651)	–	(933)
Purchases of electricity	–	–	–	(2,093)	–	(2,093)
Purchases of gas	–	–	(148)	(415)	–	(563)
Rates and property taxes	–	–	(180)	(265)	–	(445)
Electricity transmission services scheme direct costs	–	–	–	(536)	–	(536)
Provision for doubtful debts	–	–	–	(24)	–	(24)
Other operating charges	–	–	(977)	(1,663)	795	(1,845)
	–	–	(2,079)	(6,172)	795	(7,456)
Operating profit	1	–	186	1,191	432	1,810
Net finance costs	(29)	–	(215)	(507)	–	(751)
Dividends receivable	–	–	–	310	(310)	–
Profit before taxation	(28)	–	(29)	994	122	1,059
Taxation	42	–	(64)	(326)	–	(348)
Profit for the year	14	–	(93)	668	122	711
Minority interests	–	–	–	(3)	–	(3)
Interest in equity accounted affiliates	697	–	452	3	(1,149)	3
Net income from continuing operations	711	–	359	668	(1,027)	711
Net income from discontinued operations	596	–	546	62	(608)	596
Net income for the year	**1,307**	**–**	**905**	**730**	**(1,635)**	**1,307**

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 Group £m
Turnover	1	–	2,041	5,896	(514)	7,424
Other operating income	–	–	2	37	–	39
Operating costs						
Depreciation	–	–	(497)	(468)	–	(965)
Payroll and severance costs	(2)	–	(276)	(587)	–	(865)
Purchases of electricity	–	–	–	(1,678)	–	(1,678)
Purchases of gas	–	–	(85)	(272)	–	(357)
Rates and property taxes	–	–	(160)	(246)	–	(406)
Electricity transmission services scheme direct costs	–	–	–	(301)	–	(301)
Provision for doubtful debts	–	–	4	(45)	–	(41)
Other operating charges	(29)	–	(3,276)	(1,091)	3,350	(1,046)
	(31)	–	(4,290)	(4,688)	3,350	(5,659)
Operating profit	(30)	–	(2,247)	1,245	2,836	1,804
Net finance costs	123	–	(443)	(146)	6	(460)
Dividends receivable	–	–	–	500	(500)	–
Profit before taxation	93	–	(2,690)	1,599	2,342	1,344
Taxation	(20)	–	(32)	(249)	(2)	(303)
Profit for the year	73	–	(2,722)	1,350	2,340	1,041
Minority interests	–	–	–	(2)	–	(2)
Interest in equity accounted affiliates	1,231	–	2,930	(2)	(4,161)	(2)
Net income from continuing operations	1,304	–	208	1,346	(1,821)	1,037
Net income from discontinued operations	–	–	267	–	–	267
Net income for the year	**1,304**	**–**	**475**	**1,346**	**(1,821)**	**1,304**

39. 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 Group £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 Group undertakings	7,093	–	5,722	4,529	(17,344)	–
Regulatory assets	–	–	–	246	–	246
Prepaid expenses and other current assets	64	–	–	548	–	612
Total current assets	8,219	4	6,172	6,617	(17,358)	3,654
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 Group undertakings	–	157	–	–	(157)	–
Regulatory assets	–	–	–	2,805	–	2,805
Other receivables	79	–	3	130	–	212
Total assets	**13,507**	**161**	**17,620**	**39,973**	**(38,974)**	**32,287**
Liabilities and shareholders' equity						
Current liabilities						
Bank overdrafts	14	–	–	3	(14)	3
Accounts payable	–	–	342	1,755	–	2,097
Short-term borrowings	114	4	723	1,771	–	2,612
Accrued income taxes	–	–	70	349	–	419
Amounts owed to Group undertakings	1,813	–	920	14,611	(17,344)	–
Other accrued liabilities	63	–	83	96	(77)	165
Total current liabilities	2,004	4	2,138	18,585	(17,435)	5,296
Long-term borrowings	1,741	157	1,958	5,982	–	9,838
Amounts owed to Group undertakings	–	–	–	157	(157)	–
Post-retirement benefits	–	–	–	1,348	–	1,348
Deferred income taxes	15	–	2,151	1,897	–	4,063
Other liabilities	–	–	172	1,782	–	1,954
Total liabilities	**3,760**	**161**	**6,419**	**29,751**	**(17,592)**	**22,499**
Minority interest – equity	–	–	–	11	–	11
Cumulative preference stock issued by Group 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	1,920	–	1,476	1,568	(3,044)	1,920
Accumulated comprehensive loss	(679)	–	–	–	–	(679)
Treasury stock	–	–	–	–	–	–
Shareholders' equity	**9,747**	**–**	**11,201**	**10,181**	**(21,382)**	**9,747**
Total liabilities and shareholders' equity	**13,507**	**161**	**17,620**	**39,973**	**(38,974)**	**32,287**

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

Balance sheet as at 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 Group £m
Assets						
Current assets						
Cash and cash equivalents	118	–	4	163	–	285
Marketable securities	–	–	200	396	(200)	396
Accounts and notes receivable	–	–	37	516	–	553
Inventories	–	–	30	71	–	101
Amounts owed by Group undertakings	10,695	–	72	4,529	(15,296)	–
Regulatory assets	–	–	–	443	–	443
Prepaid expenses and other current assets	2	–	264	333	–	599
Total current assets	10,815	–	607	6,451	(15,496)	2,377
Property, plant and equipment	–	–	13,950	10,317	(7)	24,260
Goodwill	–	–	3,746	2,313	–	6,059
Intangible assets	–	–	–	272	–	272
Investments	3,332	–	1,605	16,314	(21,099)	152
Amounts owed by Group undertakings	9	178	2,644	840	(3,671)	–
Regulatory assets	–	–	–	2,907	–	2,907
Other receivables	226	–	151	870	–	1,247
Total assets	**14,382**	**178**	**22,703**	**40,284**	**(40,273)**	**37,274**
Liabilities and shareholders' equity						
Current liabilities						
Bank overdrafts	–	–	–	18	–	18
Accounts payable	–	–	342	769	–	1,111
Short-term borrowings	792	–	1,233	1,204	–	3,229
Accrued income taxes	–	–	22	57	–	79
Amounts owed to Group undertakings	1,752	–	2,777	10,695	(15,224)	–
Other accrued liabilities	63	–	552	878	(77)	1,416
Total current liabilities	2,607	–	4,926	13,621	(15,301)	5,853
Long-term borrowings	1,168	178	2,811	7,591	(273)	11,475
Amounts owed to Group undertakings	–	–	840	2,831	(3,671)	–
Post-retirement benefits	–	–	–	1,515	–	1,515
Deferred income taxes	8	–	3,421	2,046	–	5,475
Other liabilities	8	–	158	2,161	–	2,327
Total liabilities	**3,791**	**178**	**12,156**	**29,765**	**(19,245)**	**26,645**
Minority interest – equity	–	–	–	10	–	10
Cumulative preference stock issued by Group undertakings	–	–	–	28	–	28
Shareholders' equity						
Common stock	309	–	45	2,191	(2,236)	309
Additional paid in capital	7,793	–	9,680	8,072	(17,752)	7,793
Other reserves	359	–	–	–	–	359
Retained earnings	3,377	–	822	1,357	(2,179)	3,377
Accumulated comprehensive loss	(1,218)	–	–	(1,110)	1,110	(1,218)
Treasury stock	(29)	–	–	(29)	29	(29)
Shareholders' equity	**10,591**	**–**	**10,547**	**10,481**	**(21,028)**	**10,591**
Total liabilities and shareholders' equity	**14,382**	**178**	**22,703**	**40,284**	**(40,273)**	**37,274**

A reclassification of £240m for 2005 has been made between cash and cash equivalents and marketable securities.

39. 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 Group £m
Year ended 31 March 2006						
Net cash provided by/(used in) operating activities – continuing operations	(9)	1	1,501	1,586	(802)	2,277
Net cash used in operating activities – discontinued operations	–	–	(57)	–	–	(57)
Net cash provided by/(used in) operating activities	(9)	1	1,444	1,586	(802)	2,220
Net cash used in investing activities – continuing operations	–	–	(681)	(1,034)	–	(1,715)
Net cash provided by investing activities – discontinued operations	–	–	5,635	–	–	5,635
Net cash provided by/(used in) investing activities	–	–	4,954	(1,034)	–	3,920
Net cash (used in)/provided by 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	1,855	(4,522)	2,034
Net cash provided by operating activities – discontinued operations	–	–	449	–	–	449
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)	(1,966)	4,763	(2,602)
Net cash used in investing activities – discontinued operations	–	–	(323)	–	–	(323)
Net cash used in investing activities	(273)	–	(5,449)	(1,966)	4,763	(2,925)
Net cash provided by/(used in) financing activities	(723)	–	1,336	68	(241)	440
Increase/(decrease) in cash and cash equivalents in the year	112	(1)	(70)	(43)	–	(2)

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