

Accounting policies

for the year ended 31 March 2008

A. Basis of preparation of consolidated financial statements under IFRS

National Grid's principal activities involve the transmission and distribution of electricity and gas in Great Britain and the northeastern US. The Company is a public limited liability company incorporated and domiciled in England, with its registered office at 1-3 Strand, London WC2 5EH.

The Company has its primary listing on the London Stock Exchange and is also quoted on the New York Stock Exchange.

These consolidated financial statements were approved for issue by the Board of Directors on 14 May 2008.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ending 31 March 2008 and in accordance with the Companies Act 1985 applicable to companies reporting under IFRS and Article 4 of the European Union IAS Regulation. The 2007 and 2006 comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on a historical cost basis, except for the recording of pension liabilities and the revaluation of derivative financial instruments and certain commodity contracts.

These consolidated financial statements are presented in pounds sterling, which is the functional currency of the Company.

Our Ravenswood generation station, KeySpan Communications and KeySpan Engineering Associates businesses have been classified as held for sale in the consolidated balance sheet and as discontinued operations in the consolidated income statement, in accordance with our accounting policy I.

As set out in accounting policy T below, prior year business performance subtotals have been adjusted to reflect the exclusion of stranded cost recoveries, consistent with the current year classification.

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

B. Basis of consolidation

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

A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. A joint venture is an entity established to engage in economic activity, which the Company jointly controls with its fellow venturers. An associate is an entity which is neither a subsidiary nor a joint venture, but over which the Company has significant influence.

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

Where necessary, adjustments are made to bring the accounting policies used under UK generally accepted accounting principles (UK GAAP), US generally accepted accounting principles (US GAAP) or other framework used in the individual financial statements of the Company, subsidiaries and joint ventures into line with those used by the Company in its consolidated financial statements under IFRS. Inter-company transactions are eliminated.

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

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

C. Foreign currencies

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

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

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

D. Goodwill

Goodwill arising on a business combination represents the difference between the cost of acquisition and the Company's consolidated interest in the fair value of the identifiable assets and liabilities of a subsidiary or joint venture as 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 subsequent 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. Acquisition-related intangible assets principally comprise customer relationships.

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

Amortisation periods	Years
Software	3 to 5
Acquisition-related intangibles	10 to 25
Other – telecommunication licences	10 to 25
– other licences and other intangibles	3 to 5

Intangible emission allowances are accounted for in accordance with accounting policy V.

F. Property, plant and equipment

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

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

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

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

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

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

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

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

Depreciation of wireless infrastructure ceased on the classification of our wireless infrastructure operations as businesses held for sale in 2006/07.

G. Impairment of assets

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

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

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

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

Material impairments are recognised in the income statement and are disclosed separately.

H. Taxation

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts 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 amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

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

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

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

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

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

Investment tax credits are amortised over the economic life of the assets that give rise to the credits.

I. Discontinued operations, assets and businesses held for sale

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

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

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

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

J. Inventories

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

K. Decommissioning and environmental costs

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

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

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

L. Revenue

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

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

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

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

M. Segmental information

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

N. Pensions and other post-retirement benefits

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

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

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

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

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

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

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

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

O. Leases

Rentals under operating leases are charged to the income statement 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.

P. Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

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

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 recognised at fair value plus directly related incremental transaction costs and are subsequently carried at fair value on the balance sheet. Changes in the fair value of investments classified at fair value through profit and loss are included in the income statement, while changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. Investment income on investments classified at fair value through profit and loss and on available-for-sale investments is recognised on an effective interest basis and taken through interest income in the income statement.

Borrowings, which include interest bearing loans, UK retail price index (RPI) linked debt and overdrafts are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest rate method. Any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the income statement 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 prepare 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.

Derivative financial instruments are recorded at fair value, and where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a derivative liability. Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists and the cash flows are intended to be settled on a net basis. Gains and losses arising from the changes in fair value are included in the income statement in the period they arise.

Where we have derivatives embedded in financial instruments or other contracts that are closely related to those instruments or contracts, no adjustment is made with respect to such derivative clauses. In particular, interest payments on UK RPI debt are linked to movements in the UK retail price index. The link to RPI is considered to be an embedded derivative, which is closely related to the underlying debt instrument based on the view that there is a strong relationship existing between interest rates and inflation in the UK economy. Consequently these embedded derivatives are not accounted for separately from the debt instrument.

An equity instrument is any contract that evidences a residual interest in the consolidated assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs, with an annual amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

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 are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

Q. Commodity contracts

Commodity contracts that meet the definition of a derivative and which do not meet the exemption for normal sale, purchase or usage are carried at fair value.

Remeasurements of commodity contracts carried at fair value are recognised in the income statement, with changes due to movements in commodity prices recorded in operating costs and changes relating to movements in interest rates recorded in finance costs.

Energy purchase contracts for the forward purchase of electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves meet the normal purchase, sale or usage exemption of IAS 32 'Financial Instruments: Presentation'. They are, therefore, not recognised in the accounts. Disclosure of commitments under such contracts is made in the notes to the accounts (see note 29).

R. Hedge accounting

The Company and its subsidiaries enter into both derivative financial instruments (derivatives) and non-derivative financial instruments in order to manage interest rate and foreign currency exposures, and commodity price risks associated with underlying business activities and the financing of those activities.

Hedge accounting allows derivatives to be designated as a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility in the income statement of changes in fair value of the derivative instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. National Grid uses three hedge accounting methods.

Firstly, 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.

Secondly, fair value hedge accounting offsets the changes in the fair value of the hedging instrument against the change in the fair value of the hedged item in respect to the risk being hedged. These changes are recognised in the income statement to the extent the fair value hedge is effective. Adjustments made to the carrying amount of the hedged item for fair value hedges will be amortised over the remaining life, in line with the hedged item.

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

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the income statement as they arise, within finance costs.

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

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

S. Share-based payments

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

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

T. Business performance and exceptional items, remeasurements and stranded cost recoveries

Our financial performance is analysed into two components: business performance, which excludes exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles; and exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles. Business performance is used by management to monitor financial performance as it is considered that it improves the comparability of our reported financial performance from year to year. Business performance subtotals, which exclude exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles are presented on the face of the income statement or in the notes to the financial statements.

Exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles are items of income and expenditure that, in the judgement of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of our financial performance and significantly distort the comparability of financial performance between periods.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning provisions, integration of acquired businesses, restructuring costs and gains or losses on disposals of businesses or investments.

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

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective.

Stranded cost recoveries represent the recovery of historical generation-related costs in the US related to generation assets that are no longer owned. Such costs are being recovered from customers as permitted by regulatory agreements.

Acquisition-related intangibles comprise intangible assets, principally customer relationships, that are only recognised as a consequence of accounting required for a business combination. The amortisation of acquisition-related intangibles distorts the comparison of financial performance of acquired businesses with non-acquired businesses.

Prior year business performance subtotals have been adjusted to reflect the exclusion of stranded cost recoveries, consistent with the current year classification.

U. Other operating income

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

V. Emission allowances

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

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

W. 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 and bank overdrafts which are reported in borrowings.

X. Other equity reserves

Other equity reserves comprise the translation reserve (see accounting policy C), cash flow hedge reserve (see accounting policy R), available-for-sale reserve (see accounting policy P) and the merger reserve. The latter arose as a result of the application of merger accounting principles under the then prevailing UK GAAP, which under IFRS 1 was retained for mergers that occurred prior to the IFRS transition date of 1 April 2004. Under merger accounting principles, the difference between the carrying amount of the capital structure of the acquiring vehicle and that of the acquired business was treated as a merger difference and included within reserves.

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

Y. Dividends

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

Z. Areas of judgement and 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 estimations is contained in the accounting policies or the notes to the financial statements, and the key areas are summarised below.

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

- The categorisation of certain items as exceptional items, remeasurements and stranded cost recoveries and the definition of adjusted earnings – notes 4 and 10.
- The exemptions adopted on transition to IFRS on 1 April 2004 including, in particular, those relating to business combinations.
- Classification of business activities as held for sale and discontinued operations – accounting policy I.
- Hedge accounting – accounting policy R.
- Energy purchase contracts – classification as being for normal purchase, sale or usage – accounting policy Q and note 29.

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

- Impairment of goodwill – accounting policy D and note 11.
- Review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – accounting policies E, F and G.
- Estimation of liabilities for pension and other post-retirement benefits – note 5.
- Valuation of financial instruments and derivatives – notes 17 and 32.
- Revenue recognition and assessment of unbilled revenue – accounting policy L.
- Recoverability of deferred tax assets – accounting policy H and note 16.
- Environmental and decommissioning provisions – note 24.
- Fair values of acquired assets and liabilities – note 28.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2007/08

During the year ended 31 March 2008 the Company adopted the following amendments to International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the International Financial Reporting Interpretation Committee (IFRIC). None of these had a material impact on consolidated results or assets and liabilities.

IFRIC 8 on share-based payments	Addresses the issue of whether IFRS 2 'Share-Based Payment' applies to transactions in which the entity cannot identify specifically some or all of the goods or services received.
IFRIC 9 on the reassessment of embedded derivatives	Prohibits reassessment of the treatment of embedded derivatives subsequent to initial recognition unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.
IFRIC 10 on interim financial reporting and impairment	States that any impairment losses on goodwill and certain financial assets recognised in an interim financial statement may not be reversed in subsequent interim or annual financial statements.
IFRIC 11 on group and treasury share transactions	Provides guidance on whether share-based transactions involving treasury shares or involving subsidiary undertakings (for instance, options over a parent's shares) should be accounted for as equity-settled or cash-settled, share-based payment transactions.

New IFRS accounting standards and interpretations not yet adopted

The Company has yet to adopt the following standards and interpretations, but these are not expected to have a material impact on consolidated results or assets and liabilities. Further information is provided in the Accounting Policies section of the Operating and Financial Review.

IFRS 8 on operating segments	Sets out the requirements for the disclosure of information about an entity's operating segments and about the entity's products and services, the geographical areas in which it operates and its major customers. IFRS 8 achieves convergence with the US accounting standard, SFAS 131 'Disclosures about Segments of an Enterprise and Related Information' with minor differences. IFRS 8 is required to be adopted on 1 April 2009.
Amendment to IAS 23 on borrowing costs	Removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The amendment to IAS 23 is required to be adopted on 1 April 2009.
IFRIC 12 on service concession arrangements	Applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services, for example, under private finance initiative (PFI) contracts. IFRIC 12 will be adopted on 1 April 2008.
IFRIC 13 on customer loyalty programmes	Clarifies that the sale of goods or services together with customer award credits (for example, loyalty points or the right to free products) is accounted for as a multiple-element transaction. The consideration received from the customer is allocated between the components of the arrangement based on their fair values, which will defer the recognition of some revenue. IFRIC 13 will be adopted on 1 April 2008.
IFRIC 14 on defined benefit assets and minimum funding requirements	Considers the limit on the measurement of a defined benefit asset to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan plus unrecognised gains and losses, as set out in IAS 19 'Employee Benefits'. The interpretation considers when refunds or reductions in future contributions should be considered available, particularly when a minimum funding requirement exists. IFRIC 14 will be adopted on 1 April 2008.
Amendment to IAS 1 on the presentation of financial statements	Requires changes to the presentation of financial statements and adopts revised titles for the primary statements, although companies may continue to use the existing titles. It is expected that the amendment to IAS 1 will be adopted on 1 April 2009.
IFRS 3R on business combinations	Makes a number of changes to the accounting for business combinations, including requirements that all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income; an option to calculate goodwill based on the parent's share of net assets only or to include goodwill related to the minority interest; and a requirement that all transaction costs be expensed. It is expected that IFRS 3R will be adopted on 1 April 2010.
IAS 27R on consolidated and individual financial statements	Requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. The revised standard also specifies the accounting when control is lost. It is expected that IAS 27R will be adopted on 1 April 2010.
Amendment to IFRS 2 on share-based payments	Clarifies the definition of vesting conditions and the accounting treatment of cancellations. Vesting conditions are defined as either service conditions or performance conditions. Cancellations by employees are accounted for in the same way as cancellations by the Company. It is expected that the amendment to IFRS 2 will be adopted on 1 April 2009.
Amendments to IAS 32 and IAS 1 on puttable financial instruments and obligations arising on liquidation	Addresses the classification as a liability or as equity certain puttable financial instruments and instruments, or components thereof, which impose upon an entity an obligation to deliver a pro rata share of net assets on liquidation. The amendments to IAS 32 and IAS 1 are required to be adopted on 1 April 2009.

Consolidated income statement

for the years ended 31 March

	Notes	2008 £m	2008 £m	2007 £m	2007 £m	2006 £m	2006 £m
Revenue	1(a)		11,423		8,695		8,868
Other operating income	2		75		83		80
Operating costs	3		(8,534)		(6,265)		(6,574)
Operating profit							
Before exceptional items, remeasurements and stranded cost recoveries*	1(b)		2,595	2,031		1,968	
Exceptional items, remeasurements and stranded cost recoveries*	4		369	482		406	
Total operating profit	1(b)		2,964		2,513		2,374
Interest income and similar income	6		1,275		1,144		1,036
Interest expense and other finance costs							
Before exceptional items and remeasurements	6		(2,035)	(1,691)		(1,638)	
Exceptional items and remeasurements	4,6		(16)	(217)		(57)	
	6		(2,051)		(1,908)		(1,695)
Share of post-tax results of joint ventures and associates			4		2		3
Profit before taxation							
Before exceptional items, remeasurements and stranded cost recoveries*			1,839	1,486		1,369	
Exceptional items, remeasurements and stranded cost recoveries*	4		353	265		349	
Total profit before taxation			2,192		1,751		1,718
Taxation							
Before exceptional items, remeasurements and stranded cost recoveries*	7		(583)	(442)		(369)	
Exceptional items, remeasurements and stranded cost recoveries*	4,7		(28)	1		(166)	
Total taxation	7		(611)		(441)		(535)
Profit from continuing operations after taxation							
Before exceptional items, remeasurements and stranded cost recoveries*			1,256	1,044		1,000	
Exceptional items, remeasurements and stranded cost recoveries*	4		325	266		183	
Profit for the year from continuing operations			1,581		1,310		1,183
Profit for the year from discontinued operations							
Before exceptional items and remeasurements	8		28	104		77	
Exceptional items and remeasurements	8		1,590	(18)		2,590	
	8		1,618		86		2,667
Profit for the year			3,199		1,396		3,850
Attributable to:							
Equity shareholders of the parent			3,196		1,394		3,848
Minority interests			3		2		2
			3,199		1,396		3,850
Earnings per share from continuing operations							
Basic	10		60.5p		48.1p		41.6p
Diluted	10		60.1p		47.8p		41.4p
Earnings per share							
Basic	10		122.5p		51.3p		135.6p
Diluted	10		121.8p		50.9p		135.0p

*Comparatives have been adjusted to present items on a basis consistent with the current year classification

The notes on pages 126 to 178 form part of the consolidated financial statements.

Consolidated balance sheet

at 31 March

	Notes	2008 £m	2007 £m
Non-current assets			
Goodwill	11	3,838	1,480
Other intangible assets	12	272	144
Property, plant and equipment	13	24,333	18,895
Pension asset	5	846	37
Other non-current assets	14	255	36
Financial and other investments	15	251	137
Derivative financial assets	17	1,063	380
Total non-current assets		30,858	21,109
Current assets			
Inventories and current intangible assets	18	455	108
Trade and other receivables	19	2,269	1,236
Financial and other investments	15	2,095	2,098
Derivative financial assets	17	463	277
Cash and cash equivalents	20	174	1,593
Total current assets		5,456	5,312
Assets of businesses held for sale		1,508	1,968
Total assets	1(d)	37,822	28,389
Current liabilities			
Borrowings	21	(3,882)	(1,031)
Derivative financial liabilities	17	(114)	(235)
Trade and other payables	22	(2,439)	(1,852)
Current tax liabilities		(298)	(75)
Provisions	24	(389)	(167)
Total current liabilities		(7,122)	(3,360)
Non-current liabilities			
Borrowings	21	(17,121)	(14,686)
Derivative financial liabilities	17	(319)	(184)
Other non-current liabilities	23	(1,721)	(1,475)
Deferred tax liabilities	16	(3,407)	(2,389)
Pensions and other post-retirement benefit obligations	5	(1,746)	(1,282)
Provisions	24	(943)	(427)
Total non-current liabilities		(25,257)	(20,443)
Liabilities of businesses held for sale		(63)	(450)
Total liabilities	1(d)	(32,442)	(24,253)
Net assets		5,380	4,136
Equity			
Called up share capital	25	294	308
Share premium account	26	1,371	1,332
Retained earnings	26	8,949	7,635
Other equity reserves	26	(5,252)	(5,150)
Shareholders' equity		5,362	4,125
Minority interests	26	18	11
Total equity		5,380	4,136

These financial statements comprising the consolidated income statement, consolidated balance sheet, consolidated statement of recognised income and expense, consolidated cash flow statement, accounting policies, adoption of new accounting standards and the notes to the consolidated financial statements 1 to 38, were approved by the Board of Directors on 14 May 2008 and were signed on its behalf by:

Sir John Parker Chairman
Steve Lucas Finance Director

Consolidated statement of recognised income and expense

for the years ended 31 March

	Notes	2008 £m	2007 £m	2006 £m
Exchange adjustments		(25)	(179)	141
Actuarial net gain	5	432	365	181
Net (losses)/gains taken to equity in respect of cash flow hedges		(32)	47	(12)
Transferred to profit or loss on cash flow hedges		(7)	(45)	(20)
Net gains/(losses) taken to equity on available-for-sale investments		6	(3)	4
Transferred to profit or loss on sale of available-for-sale investments		–	(1)	(1)
Tax on items taken directly to or transferred from equity	7	(94)	(81)	(43)
Net income recognised directly in equity		280	103	250
Profit for the year		3,199	1,396	3,850
Total recognised income and expense for the year		3,479	1,499	4,100
Attributable to:				
Equity shareholders of the parent		3,476	1,498	4,097
Minority interests		3	1	3
		3,479	1,499	4,100

Consolidated cash flow statement

for the years ended 31 March

	Notes	2008 £m	2007 £m	2006 £m
Cash flows from operating activities				
Total operating profit		2,964	2,513	2,374
Adjustments for:				
Exceptional items, remeasurements and stranded cost recoveries*		(369)	(482)	(406)
Depreciation and amortisation		994	871	888
Share-based payment charge		18	15	14
Changes in working capital		(150)	127	(181)
Changes in provisions		(5)	(31)	7
Changes in pensions and other post-retirement benefit obligations		(333)	(125)	(40)
Cash flows relating to exceptional items		(132)	(86)	(115)
Cash flows relating to stranded cost recoveries*		278	288	432
Cash flows generated from continuing operations		3,265	3,090	2,973
Cash flows relating to discontinued operations	27(a)	10	181	138
Cash generated from operations		3,275	3,271	3,111
Tax paid – continuing operations		(110)	(310)	(103)
Tax paid – discontinued operations		–	(3)	(37)
Net cash inflow from operating activities		3,165	2,958	2,971
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired	28	(3,502)	(269)	–
Acquisition of other investments		(26)	–	–
Sale of investments in subsidiaries and other investments		55	19	8
Purchases of intangible assets		(45)	(33)	(15)
Purchases of property, plant and equipment		(2,832)	(2,185)	(1,657)
Disposals of property, plant and equipment		26	21	18
Interest received*		206	216	130
Purchases of financial investments		(8,788)	(3,699)	(2,870)
Sales of financial investments		8,833	1,974	2,895
Dividends received from joint ventures		–	–	2
Cash flows used in continuing operations – investing activities*		(6,073)	(3,956)	(1,489)
Cash flows relating to discontinued operations – investing activities	27(b)	3,050	(105)	5,541
Net cash flow (used in)/from investing activities*		(3,023)	(4,061)	4,052
Cash flows from financing activities				
Proceeds from issue of share capital and sale of treasury shares		23	16	54
Proceeds from loans received		1,568	5,519	1,026
Repayment of loans		(650)	(2,311)	(1,714)
Net movements in short-term borrowings and derivatives		671	(163)	(1,616)
Interest paid		(900)	(813)	(834)
Exceptional finance costs on the repayment of debt		–	(45)	(49)
Dividends paid to shareholders		(780)	(730)	(745)
Cash paid to shareholders under B share scheme		(26)	(26)	(1,957)
Repurchase of share capital and purchase of treasury shares		(1,498)	(169)	(7)
Net cash flow (used in)/from financing activities*		(1,592)	1,278	(5,842)
Net (decrease)/increase in cash and cash equivalents		(1,450)	175	1,181
Exchange movements		4	(14)	14
Cash included within assets of businesses held for sale		23	(23)	–
Net cash and cash equivalents at start of year (i)		1,587	1,449	254
Net cash and cash equivalents at end of year (i)	20	164	1,587	1,449

*Comparatives have been adjusted to present items on a basis consistent with the current year classification for stranded cost recoveries and interest received

(i) Net of bank overdrafts of £10m (2007: £6m; 2006: £3m).

Notes to the consolidated financial statements – analysis of items in the primary statements

1. Segmental analysis

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

Transmission UK	High-voltage electricity transmission networks, the gas transmission network in the UK, the UK liquefied natural gas (LNG) storage activities and the French electricity interconnector.
Transmission US	High-voltage electricity transmission networks in New York and New England.
Gas Distribution UK	Four of the eight regional networks of Great Britain's gas distribution system.
Gas Distribution US	Gas distribution in New York and New England.
Electricity Distribution & Generation US	Electricity distribution in New York and New England, and electricity generation in New York.

Other activities primarily relate to non-regulated businesses and other commercial operations not included within the above segments, including UK-based gas metering activities; UK property management; a UK LNG import terminal; other LNG operations; US unregulated transmission pipelines; US home services; US gas fields; together with corporate activities, including business development.

Discontinued operations comprise wireless infrastructure and communications operations in the UK and the US, an electricity interconnector in Australia, the Ravenswood generation station in New York City and the engineering and communications operations in the US acquired as part of the KeySpan acquisition. The wireless infrastructure operations in the UK were sold on 3 April 2007; the US wireless operations were sold on 15 August 2007; and the Basslink electricity interconnector in Australia was sold on 31 August 2007. The results for discontinued operations are disclosed in note 8.

Our segments are unchanged from those reported in the financial statements for the year ended 31 March 2007, except for our former US Electricity Distribution segment, which, as a consequence of the acquisition of KeySpan on 24 August 2007, has been expanded to incorporate the operations of KeySpan's generation business and is now reported as Electricity Distribution & Generation US. In addition, in line with our management structure, the recovery of stranded costs from US electricity distribution customers as permitted by regulatory agreements is no longer presented as a separate segment but is reported within Electricity Distribution & Generation US. Prior year comparatives have been adjusted to conform with the current year classification.

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

(a) Revenue

	Total sales 2008 £m	Sales between businesses 2008 £m	Sales to third parties 2008 £m	Total sales 2007 £m	Sales between businesses 2007 £m	Sales to third parties 2007 £m	Total sales 2006 £m	Sales between businesses 2006 £m	Sales to third parties 2006 £m
Business segments – continuing operations									
Transmission UK	2,956	16	2,940	2,816	18	2,798	2,710	15	2,695
Transmission US	299	61	238	270	47	223	310	48	262
Gas Distribution UK	1,383	70	1,313	1,193	92	1,101	1,222	86	1,136
Gas Distribution US	2,845	2	2,843	638	–	638	571	–	571
Electricity Distribution & Generation US*	3,508	2	3,506	3,430	2	3,428	3,651	2	3,649
Other activities	642	59	583	567	60	507	701	146	555
	11,633	210	11,423	8,914	219	8,695	9,165	297	8,868
Total excluding stranded cost recoveries			11,041			8,269			8,351
Stranded cost recoveries			382			426			517
			11,423			8,695			8,868
Geographical segments									
UK			4,787			4,397			4,374
US			6,636			4,298			4,494
			11,423			8,695			8,868

*Comparatives have been adjusted to present items on a basis consistent with the current year classification

The table above represents revenue from continuing operations only, as disclosed in the consolidated income statement.

For additional disclosures relating to discontinued operations, refer to note 8.

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

1. Segmental analysis continued

(a) Revenue continued

Approximately 9% (2007: 9%; 2006: 9%) of revenue for the year ended 31 March 2008 amounting to approximately £1.0bn (2007: £0.8bn; 2006: £0.9bn) derives from a single customer, the Centrica group. The majority of this revenue is in the Gas Distribution UK segment with lesser amounts in the Transmission UK segment and in other activities.

In accordance with the Company's accounting policy on revenue recognition, where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to reflect the 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. In the UK, there was an under-recovery of £23m at 31 March 2008 (2007: £33m). In the US, under-recoveries and other regulatory entitlements to future revenue (including stranded cost recoveries) amounted to £1,652m at 31 March 2008 (2007: £1,930m).

(b) Operating profit

	Before exceptional items, remeasurements and stranded			After exceptional items, remeasurements and stranded		
	2008 £m	2007 £m	2006 £m	2008 £m	2007 £m	2006 £m
Business segments – continuing operations						
Transmission UK	1,021	946	844	1,013	936	843
Transmission US	128	108	127	122	107	127
Gas Distribution UK	595	409	483	574	412	432
Gas Distribution US	392	71	47	487	67	47
Electricity Distribution & Generation US*	330	364	317	696	859	757
Other activities	129	133	150	72	132	168
	2,595	2,031	1,968	2,964	2,513	2,374
Geographical segments						
UK	1,752	1,491	1,478	1,667	1,482	1,423
US	843	540	490	1,297	1,031	930
Rest of the world	–	–	–	–	–	21
	2,595	2,031	1,968	2,964	2,513	2,374

*Comparatives have been adjusted to present items on a basis consistent with the current year classification

The table above represents operating profit from continuing operations only, as disclosed in the consolidated income statement, and excludes the results of discontinued operations. For additional disclosures relating to discontinued operations, refer to note 8.

(c) Capital expenditure and depreciation

	Capital expenditure			Depreciation and amortisation		
	2008 £m	2007 £m	2006 £m	2008 £m	2007 £m	2006 £m
Business segments – continuing operations						
Transmission UK	1,600	1,235	849	372	352	377
Transmission US	111	108	91	40	41	45
Gas Distribution UK	514	490	444	181	170	161
Gas Distribution US	188	36	25	91	24	19
Electricity Distribution & Generation US	257	218	219	146	127	126
Other activities	383	258	279	164	157	160
	3,053	2,345	1,907	994	871	888
Discontinued operations	1	30	201	–	72	77
	3,054	2,375	2,108	994	943	965
Geographical segments						
UK	2,493	2,007	1,697	709	739	771
US	560	365	340	285	196	194
Rest of the world	1	3	71	–	8	–
	3,054	2,375	2,108	994	943	965

Capital expenditure comprises additions to property, plant and equipment and other non-current intangible assets amounting to £3,009m (2007: £2,343m; 2006: £2,093m) and £45m (2007: £32m; 2006: £15m) respectively.

Depreciation and amortisation includes expensed depreciation of property, plant and equipment and amortisation of other intangible assets amounting to £940m (2007: £889m; 2006: £908m) and £54m (2007: £54m; 2006: £57m) respectively.

1. Segmental analysis continued

(d) Total assets and total liabilities

	Total assets		Total liabilities	
	2008 £m	2007 £m	2008 £m	2007 £m
Business segments – continuing operations				
Transmission UK*	10,076	8,060	(1,455)	(1,434)
Transmission US	1,534	1,481	(38)	(19)
Gas Distribution UK	5,765	5,404	(1,222)	(1,192)
Gas Distribution US	7,031	1,109	(1,254)	(231)
Electricity Distribution & Generation US*	5,525	4,536	(2,226)	(1,697)
Other activities*	2,517	1,478	(1,023)	(603)
	32,448	22,068	(7,218)	(5,176)
Discontinued operations	1,508	1,968	(83)	(477)
	33,956	24,036	(7,301)	(5,653)
Joint ventures – continuing operations	71	5	–	–
Unallocated	3,795	4,348	(25,141)	(18,600)
	37,822	28,389	(32,442)	(24,253)
Geographical segments				
UK	17,533	16,405	(3,365)	(3,683)
US	16,494	7,288	(3,936)	(1,966)
Rest of the world	–	348	–	(4)
Unallocated	3,795	4,348	(25,141)	(18,600)
	37,822	28,389	(32,442)	(24,253)

*Comparatives have been adjusted to present items on a basis consistent with the current year classification

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

2. Other operating income

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

3. Operating costs

	Before exceptional items, remeasurements and stranded			Exceptional items, remeasurements and stranded			Total		
	2008 £m	2007 £m	2006 £m	2008 £m	2007 £m	2006 £m	2008 £m	2007 £m	2006 £m
Depreciation of property, plant and equipment	940	830	844	–	–	–	940	830	844
Amortisation of intangible assets	50	41	44	4	–	–	54	41	44
Payroll costs	1,071	794	807	108	26	47	1,179	820	854
Other operating charges:									
Purchases of electricity*	1,589	1,680	1,906	(236)	(87)	71	1,353	1,593	1,977
Purchases of gas	2,011	544	566	–	–	–	2,011	544	566
Rates and property taxes	608	472	437	–	–	–	608	472	437
Electricity transmission services scheme direct costs	574	558	536	–	–	–	574	558	536
Payments to Scottish electricity transmission network owners	226	237	259	–	–	–	226	237	259
Other*	1,452	1,165	1,064	137	5	(7)	1,589	1,170	1,057
	8,521	6,321	6,463	13	(56)	111	8,534	6,265	6,574
Operating costs include:									
Research expenditure							13	6	7
Operating lease rentals							33	21	23
Plant and machinery							30	63	53
Other									

*Comparatives have been adjusted to present items on a basis consistent with the current year classification

3. Operating costs continued

(a) Payroll costs

	2008 £m	2007 £m	2006 £m
Wages and salaries	1,169	819	857
Social security costs	84	65	59
Other pension costs	218	132	140
Share-based payments	18	15	14
Severance costs (excluding pension costs)	14	14	23
	1,503	1,045	1,093
Less: payroll costs capitalised	(324)	(225)	(239)
	1,179	820	854

Payroll costs above represent continuing operations only. Payroll costs of discontinued operations for the year ended 31 March 2008 were £16m (2007: £37m; 2006: £67m).

(b) Number of employees

	31 March 2008 Number	Average 2008 Number	Average 2007 Number	Average 2006 Number
UK	10,223	10,093	10,356	10,722
US	17,145	13,335	8,618	8,400
Rest of the world	5	5	8	4
Continuing operations	27,373	23,433	18,982	19,126
Discontinued operations	204	119	730	1,403
	27,577	23,552	19,712	20,529

The vast majority of employees in the US are either directly or indirectly employed in the transmission, distribution and generation of electricity or the distribution of gas, while those in the UK are either directly or indirectly employed in the transmission and distribution of gas or the transmission of electricity. At 31 March 2008, 3,155 employees were employed in other operations.

(c) Key management compensation

	2008 £m	2007 £m	2006 £m
Salaries and short-term employee benefits	9	8	7
Post-employment benefits	8	5	5
Termination benefits	–	1	–
Share-based payments	3	3	2
	20	17	14

Key management compensation relates to the Board of Directors, including the Executive Directors and Non-executive Directors for the years presented, together with Cheryl LaFleur, acting Executive Director for Electricity Distribution for the period to 13 August 2007.

(d) Directors' emoluments

Details of Directors' emoluments are contained in the auditable part of the Directors' Remuneration Report, which form part of these financial statements.

3. Operating costs continued

(e) Auditors' remuneration

	2008 £m	2007 £m	2006 £m
Audit services			
Audit of parent company and consolidated financial statements	1.4	1.2	1.4
Other services			
Audit of subsidiary financial statements pursuant to legislation	5.1	2.8	2.0
Other services supplied pursuant to legislation	1.8	2.2	0.8
Services relating to tax compliance	0.7	0.6	0.5
Services relating to tax advisory	0.5	0.7	0.9
Services relating to corporate finance transactions	0.7	1.4	0.4
All other services	0.4	1.3	0.8
Fees paid by associated pension schemes			
Audit of pension schemes of the Company pursuant to legislation	–	0.2	0.1
	10.6	10.4	6.9
Total services pursuant to legislation	8.3	6.4	4.3
Total other services	2.3	4.0	2.6
	10.6	10.4	6.9

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

Services relating to corporate finance transactions primarily relate to the sale of Basslink, the potential sale of National Grid's property business and the KeySpan acquisition.

Other services include fees relating to corporate responsibility reporting, treasury related projects and sundry services, all of which have been subject to Audit Committee approval.

4. Exceptional items, remeasurements and stranded cost recoveries

	2008 £m	2007 £m	2006 £m
Exceptional items – restructuring costs (i)	(133)	(22)	(55)
Exceptional items – environmental related provisions (ii)	(92)	–	–
Exceptional items – gain on disposal of subsidiary (iii)	6	–	–
Exceptional items – profit on sale and reversal of impairment (iv)	–	–	21
Exceptional items – other (v)	(23)	–	–
Remeasurements – commodity contracts (vi)	232	81	(49)
Stranded cost recoveries (vii)*	379	423	489
Total exceptional items, remeasurements and stranded cost recoveries included within operating profit*	369	482	406
Exceptional items – debt restructuring costs (viii)	–	(45)	(49)
Remeasurements – commodity contracts (vi)	(9)	(19)	(14)
Remeasurements – net (losses)/gains on derivative financial instruments (ix)	(7)	(153)	6
Total exceptional items and remeasurements included within finance costs	(16)	(217)	(57)
Total exceptional items, remeasurements and stranded cost recoveries before taxation*	353	265	349
Exceptional tax item – deferred tax credit arising from reduction in UK tax rate (x)	170	–	–
Tax on exceptional items – restructuring costs (i)	49	12	7
Tax on exceptional items – environmental related provisions (ii)	20	–	–
Tax on exceptional items – gain on disposal of subsidiary (iii)	(4)	–	–
Tax on exceptional items – other (v)	5	–	–
Tax on remeasurements – commodity contracts (vi)	(90)	(25)	25
Tax on exceptional items – debt restructuring costs (viii)	–	14	15
Tax on remeasurements – derivative financial instruments (ix)	(28)	169	(17)
Tax on stranded cost recoveries (vii)*	(150)	(169)	(196)
Tax on exceptional items, remeasurements and stranded cost recoveries*	(28)	1	(166)
Total exceptional items, remeasurements and stranded cost recoveries*	325	266	183
Total exceptional items after taxation	(2)	(41)	(61)
Total commodity contract remeasurements after taxation	133	37	(38)
Total derivative financial instrument remeasurements after taxation	(35)	16	(11)
Total stranded cost recoveries after taxation*	229	254	293
Total exceptional items, remeasurements and stranded cost recoveries after taxation*	325	266	183

*Comparatives have been adjusted to present items on a basis consistent with the current year classification

- (i) Restructuring costs relate to planned cost reduction programmes in the UK and US (2007: UK and US; 2006: UK only) businesses. For the year ended 31 March 2008, restructuring costs included pension related costs of £83m arising as a result of redundancies (2007: £10m; 2006: £25m).
- (ii) The environmental charge for the year ended 31 March 2008 includes a charge of £44m resulting from revised cost estimates in the UK and £48m in the US. Costs incurred with respect to US environmental provisions are substantially recoverable from customers.
- (iii) The gain on disposal of subsidiary relates to the sale of Advantica.
- (iv) Gain on disposal of an investment in Energis Polska of £8m and reversal of a prior year impairment of £13m related to National Grid's investment in Copperbelt Energy Corporation (CEC).
- (v) A cost of £15m was incurred during the year ended 31 March 2008 relating to the potential disposal of National Grid's property business which we subsequently decided not to proceed with. In addition, there was a £4m amortisation charge on acquisition-related intangibles and a £4m increase in nuclear decommissioning provisions.
- (vi) Remeasurements – commodity contracts represent mark-to-market movements on certain commodity contract obligations, primarily indexed-linked swap contracts, in the US. Under the existing rate plans in the US, commodity costs are fully recovered from customers, although the pattern of recovery may differ from the pattern of costs incurred. These movements are comprised of those impacting operating profit which are based on the change in the commodity contract liability and those impacting finance costs as a result of the time value of money.
- (vii) Stranded cost recoveries capture the recovery of some of our historical investments in generating plants that were divested as part of the restructuring and wholesale power deregulation process in New England and New York during the 1990s. These recoveries are no longer considered to be part of our core business. Stranded cost recoveries on a pre-tax basis consist of revenue of £382m (2007: £426m; 2006: £517m) and operating costs of £3m (2007: £3m; 2006: £28m).
- (viii) Debt restructuring costs in the year ended 31 March 2007 represent debt redemption costs related to the restructuring of our debt portfolio. For 2006 these related to costs incurred on the early redemption of debt following the disposal of four gas distribution networks (£39m), together with issue costs associated with the B share scheme (£10m).
- (ix) Remeasurements – net (losses)/gains on derivative financial instruments comprise losses and gains arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in equity or offset by adjustments to the carrying value of debt. These remeasurements include a loss of £3m (2007: £126m; 2006: £nil) relating to pre-tax losses on investment related derivative financial instruments that offset on a post-tax basis. The tax charge in the year ended 31 March 2008 includes an £11m adjustment in respect of prior years (2007: £56m credit; 2006: £nil).
- (x) The exceptional tax credit in the period of £170m arose from a reduction in the UK corporation tax rate from 30% to 28% included in the Finance Act 2007. This resulted in a reduction in deferred tax liabilities.

5. Pensions and other post-retirement benefits

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

In the UK the principal schemes are the National Grid UK Pension Scheme and the National Grid Electricity Group of the Electricity Supply Pension Scheme. In the US we have a number of defined benefit and defined contribution pension plans and we also provide health care and life insurance benefits to eligible retired US employees. For further details regarding the nature and terms of each scheme/plan and the actuarial assumptions used to value the associated assets and pension or other post-retirement benefit obligations, refer to note 31.

The amounts recognised in the income statement with respect to pensions and other post-retirement benefits are as follows:

	Pensions			US other post-retirement benefits		
	2008 £m	2007 £m	2006 £m	2008 £m	2007 £m	2006 £m
Defined contribution scheme costs	5	3	2	-	-	-
<i>Defined benefit scheme costs</i>						
Current service cost	125	113	112	21	15	16
Past service cost	5	-	-	5	7	6
Curtailement gain on redundancies	(16)	(10)	(24)	(4)	-	-
Settlements on redundancies	16	-	-	-	-	-
Special termination benefits on redundancies	80	23	45	1	-	-
Curtailement cost – augmentations	3	3	5	-	-	-
Total in payroll costs – continuing	218	132	140	23	22	22
Curtailement gain on sale of subsidiary undertaking	(12)	-	-	-	-	-
Interest cost	912	806	826	89	63	63
Expected return on plan assets	(1,014)	(885)	(860)	(50)	(41)	(41)
Total in finance costs – continuing	(102)	(79)	(34)	39	22	22
Current service costs	2	2	7	1	-	-
Interest cost	-	2	2	-	-	-
Expected return on plan assets	-	(2)	(2)	-	-	-
Curtailement/settlement gain on sale of distribution networks	-	-	(168)	-	-	-
Total in discontinued operations	2	2	(161)	1	-	-

The amounts recognised in the statement of recognised income and expense are as follows:

	Pensions			US other post-retirement benefits		
	2008 £m	2007 £m	2006 £m	2008 £m	2007 £m	2006 £m
Actuarial net gain/(loss) during the year	497	357	197	(65)	8	(16)
Exchange differences	3	40	(30)	3	75	(51)
Total recognised for the year	500	397	167	(62)	83	(67)
Cumulative actuarial gain/(loss)	1,322	825	468	(91)	(26)	(34)

5. Pensions and other post-retirement benefits continued

The amounts recognised in the balance sheet with respect to pensions and other post-retirement benefits are as follows:

	Pensions			US other post-retirement benefits		
	2008 £m	2007 £m	2006 £m	2008 £m	2007 £m	2006 £m
Present value of funded obligations	(16,233)	(16,044)	(16,520)	(1,784)	(1,126)	(1,223)
Fair value of plan assets	16,536	15,468	15,341	737	531	568
	303	(576)	(1,179)	(1,047)	(595)	(655)
Present value of unfunded obligations	(158)	(83)	(96)	-	-	-
Other post-employment liabilities	-	-	-	(34)	(33)	(34)
Unrecognised past service cost	-	-	-	36	42	49
Net asset/(liability) in the balance sheet	145	(659)	(1,275)	(1,045)	(586)	(640)
Liabilities	(701)	(696)	(1,275)	(1,045)	(586)	(640)
Assets	846	37	-	-	-	-
Net asset/(liability)	145	(659)	(1,275)	(1,045)	(586)	(640)

Changes in the present value of the defined benefit obligation

Opening defined benefit obligation (including unfunded obligations)	(16,127)	(16,616)	(15,769)	(1,126)	(1,223)	(1,068)
Current service cost	(127)	(115)	(119)	(22)	(15)	(16)
Interest cost	(912)	(808)	(828)	(89)	(63)	(63)
Actuarial gains/(losses)	1,335	450	(1,300)	8	(4)	(40)
Curtailement gain on redundancies	16	10	24	4	-	-
Curtailement gain on sale of subsidiary undertaking	12	-	-	-	-	-
Curtailement gain/settlement on sale of distribution networks	-	-	757	-	-	-
Net transfers and disposals	8	(1)	15	-	-	-
Gains on settlements	-	-	20	-	-	-
Special termination benefits	(80)	(23)	(45)	(1)	-	-
Curtailement cost – augmentations	(3)	(3)	(5)	-	-	-
Acquisition of subsidiary undertakings	(1,362)	(89)	-	(639)	(19)	-
Plan amendments	(5)	-	-	-	(6)	-
Employee contributions	(15)	(14)	(14)	-	-	-
Benefits paid (including unfunded obligations)	875	845	775	78	62	59
Transferred to liabilities of businesses held for sale	-	48	-	-	-	-
Exchange adjustments	(6)	189	(127)	3	142	(95)
Closing defined benefit obligation (including unfunded obligations)	(16,391)	(16,127)	(16,616)	(1,784)	(1,126)	(1,223)

Changes in the fair value of plan assets

Opening fair value of plan assets	15,468	15,341	14,077	531	568	488
Expected return on plan assets	1,014	887	862	50	41	41
Actuarial (losses)/gains	(838)	(93)	1,497	(73)	12	24
Assets distributed on settlements and transfers	(16)	-	(623)	-	-	-
Transfers (out)/in	(8)	1	-	-	-	-
Employer contributions	465	276	191	46	28	30
Employee contributions	15	14	14	-	-	-
Acquisition of subsidiary undertakings	1,302	82	-	259	7	-
Benefits paid	(875)	(845)	(774)	(76)	(58)	(59)
Transferred to liabilities of businesses held for sale	-	(46)	-	-	-	-
Exchange adjustments	9	(149)	97	-	(67)	44
Closing fair value of plan assets	16,536	15,468	15,341	737	531	568

Actual return on plan assets

	176	794	2,359	(23)	53	65
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Expected contributions to defined benefit plans in the following year

	581	307	153	128	27	50
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6. Finance income and costs

	2008 £m	2007 £m	2006 £m
Interest income and similar income			
Expected return on pension and other post-retirement benefit plan assets	1,064	926	901
Interest income on financial instruments			
Interest income from bank deposits and other financial assets	209	214	130
Interest receivable on finance leases	2	3	4
Gains transferred from equity on disposal of available-for-sale investments	–	1	1
	1,275	1,144	1,036
Interest expense and other financial costs			
Before exceptional items and remeasurements	(2,035)	(1,691)	(1,638)
Exceptional items and remeasurements	(16)	(217)	(57)
	(2,051)	(1,908)	(1,695)
Net finance costs	(776)	(764)	(659)
<i>Interest expense and other finance costs comprise of the following:</i>			
Interest on pension and other post-retirement benefit plan obligations	(1,001)	(869)	(889)
Interest expense on financial liabilities held at amortised cost:			
Interest on bank loans and overdrafts	(71)	(48)	(33)
Interest on other borrowings	(984)	(768)	(708)
Interest on finance leases	(11)	(1)	(1)
Exceptional debt redemption costs	–	(45)	(39)
Exceptional B share issue costs	–	–	(10)
Interest on derivatives	(46)	(54)	(49)
Unwinding of discounts on provisions	(41)	(21)	(18)
Less: interest capitalised (i)	119	70	60
Interest expense	(2,035)	(1,736)	(1,687)
Net gains/(losses) on derivative financial instruments included in remeasurements:			
Ineffectiveness on derivatives designated as fair value hedges (ii)	1	18	(10)
Ineffectiveness on derivatives designated as cash flow hedges	13	–	17
Ineffectiveness on derivatives designated as net investment hedges	14	25	(25)
On undesignated forward rate risk relating to derivatives designated as net investment hedges	(53)	(82)	36
On derivatives not designated as hedges or ineligible for hedge accounting (iii)	18	(114)	(12)
Financial element of remeasurements on commodity contracts	(9)	(19)	(14)
Net losses on derivative financial instruments included in remeasurements (iv)	(16)	(172)	(8)
Interest expense and other finance costs	(2,051)	(1,908)	(1,695)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 6.3% (2007: 5.6%; 2006: 5.5%).

(ii) Includes a net gain on instruments designated as fair value hedges of £87m (2007: £100m loss; 2006: £11m loss) less a net loss of £86m (2007: £118m gain; 2006: £1m gain) arising from fair value adjustments to the carrying value of debt.

(iii) Includes a loss of £3m (2007: £126m; 2006: £nil) relating to pre-tax losses on investment-related derivative financial instruments which offset on a post-tax basis.

(iv) Includes a net foreign exchange loss on financing activities of £885m (2007: £122m gain; 2006: £273m loss). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

7. Taxation

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

	2008 £m	2007 £m	2006 £m
Taxation before exceptional items, remeasurements and stranded cost recoveries*	583	442	369
Exceptional tax item – deferred tax credit arising from the reduction in UK tax rate	(170)	–	–
Taxation on other exceptional items, remeasurements and stranded cost recoveries*	198	(1)	166
Taxation on total exceptional items, remeasurements and stranded cost recoveries (note 4)*	28	(1)	166
Total tax charge	611	441	535

Taxation as a percentage of profit before taxation

	2008 %	2007 %	2006 %
Before exceptional items, remeasurements and stranded cost recoveries*	31.7	29.7	27.0
After exceptional items, remeasurements and stranded cost recoveries	27.9	25.2	31.1

The tax charge for the year can be analysed as follows:

	2008 £m	2007 £m	2006 £m
United Kingdom			
Corporation tax at 30% (2007: 30%; 2006: 30%)	214	66	269
Corporation tax adjustment in respect of prior years (i)	(156)	(28)	(8)
Deferred tax	42	168	6
Deferred tax adjustment in respect of prior years (ii)	67	9	(6)
	167	215	261
Overseas			
Corporate tax	213	109	122
Corporate tax adjustment in respect of prior years	31	(149)	23
Deferred tax	191	207	158
Deferred tax adjustment in respect of prior years	9	59	(29)
	444	226	274
Total tax charge	611	441	535

*Comparatives have been adjusted to present items on a basis consistent with the current year classification

- (i) The UK corporation tax adjustment in respect of prior years includes a £9m charge (2007: £51m credit; 2006: £nil) that relates to exceptional items, remeasurements and stranded cost recoveries.
- (ii) The UK deferred tax adjustment in respect of prior years includes a £2m charge (2007: £5m credit; 2006: £nil) that relates to exceptional items, remeasurements and stranded cost recoveries.

Taxation on items charged/(credited) to equity

	2008 £m	2007 £m	2006 £m
Corporate tax credit on share-based payments	(7)	(2)	–
Deferred tax (credit)/charge on available-for-sale investments	(2)	1	1
Deferred tax (credit)/charge on revaluation of cash flow hedges	(2)	10	(20)
Deferred tax charge/(credit) on share-based payments	12	(11)	(7)
Deferred tax charge on actuarial gains	98	70	62
	99	68	36
Total tax charge recognised in consolidated statement of recognised income and expense	94	81	43
Total tax charge/(credit) relating to share-based payments recognised directly in equity (note 26)	5	(13)	(7)
	99	68	36

7. Taxation continued

The tax charge for the year after exceptional items, remeasurements and stranded cost recoveries is lower (2007: lower; 2006: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Before exceptional items, remeasurements and stranded cost recoveries 2008 £m	After exceptional items, remeasurements and stranded cost recoveries 2008 £m	Before exceptional items, remeasurements and stranded cost recoveries 2007 £m	After exceptional items, remeasurements and stranded cost recoveries 2007 £m	Before exceptional items, remeasurements and stranded cost recoveries 2006 £m	After exceptional items, remeasurements and stranded cost recoveries 2006 £m
Profit before taxation						
Before exceptional items, remeasurements and stranded cost recoveries*	1,839	1,839	1,486	1,486	1,369	1,369
Exceptional items, remeasurements and stranded cost recoveries*	–	353	–	265	–	349
Profit before taxation from continuing operations	1,839	2,192	1,486	1,751	1,369	1,718
Profit on continuing operations multiplied by rate of corporation tax in the UK of 30% (2007: 30%; 2006: 30%)	552	658	446	525	410	515
Effects of:						
Adjustments in respect of previous years	(60)	(49)	(53)	(109)	(16)	(12)
Expenses not deductible for tax purposes	102	117	44	111	84	108
Non-taxable income	(75)	(51)	(61)	(154)	(178)	(180)
Adjustment in respect of foreign tax rates*	26	68	22	70	19	58
Impact of share-based payments	2	2	9	9	(5)	(5)
Remeasurement of deferred tax						
– change in UK tax rate	–	(170)	–	–	–	–
Other	36	36	35	(11)	55	51
Total taxation from continuing operations	583	611	442	441	369	535
	%	%	%	%	%	%
Effective income tax rate	31.7	27.9	29.7	25.2	27.0	31.1

*Comparatives have been adjusted to present items on a basis consistent with the current year classification

Factors that may affect future tax charges

During the year, as a result of the change in the UK corporation tax rate from 30% to 28% that will be effective from 1 April 2008, the UK deferred tax expected to reverse has been measured using the 28% tax rate.

A number of changes to the UK corporation tax system were announced in the March 2008 Budget Statement and are expected to be enacted in the 2008 Finance Act. These include changes to the industrial building allowance regime. The changes have not been substantively enacted at the balance sheet date and therefore are not included in these financial statements. However, the impact of the changes to the industrial building allowance regime is expected to have a £40m tax charge impact.

8. Discontinued operations

Discontinued operations are businesses that have been sold, or which are held for sale. They include our former wireless infrastructure operations in the UK and US, and the Basslink electricity interconnector in Australia, that were classified as businesses held for sale during the year ended 31 March 2007. Businesses held for sale at 31 March 2008 comprise the Ravenswood generation station in New York City (representing our merchant electricity generation operations), together with KeySpan Communications and KeySpan Engineering Associates that were acquired as part of the KeySpan acquisition on 24 August 2007.

The wireless infrastructure operations in the UK and US were sold on 3 April 2007 and 15 August 2007 respectively, while the Basslink electricity interconnector business was sold on 31 August 2007. The sale of the Ravenswood generation station was agreed on 31 March 2008 for consideration of \$2.9bn. Completion of the sale is dependent upon regulatory approval and is expected during summer 2008.

Results of discontinued operations

	2008 £m	2007 £m	2006 £m
Revenue	201	383	493
Operating costs	(166)	(321)	(382)
Operating profit before exceptional items, remeasurements and stranded cost recoveries	35	117	131
Exceptional items (i)	–	(55)	(20)
Total operating profit from discontinued operations	35	62	111
Net finance costs before remeasurement finance income	–	(2)	(4)
Remeasurement finance income (ii)	8	37	–
Profit before tax from discontinued operations	43	97	107
Taxation	(7)	(11)	(45)
Profit after tax from discontinued operations	36	86	62
Gain on disposal of wireless operations	1,506	–	–
Gain on disposal of Basslink electricity interconnector	80	–	–
Gain on disposal of gas distribution networks	–	–	2,636
Gain on disposal of discontinued operations before tax	1,586	–	2,636
Taxation	(4)	–	(31)
Gain on disposal of discontinued operations	1,582	–	2,605
Total profit for the year from discontinued operations			
Before exceptional items, remeasurements and stranded cost recoveries	28	104	77
Exceptional items, remeasurements and stranded cost recoveries	1,590	(18)	2,590
	1,618	86	2,667

- (i) The exceptional item for the year ended 31 March 2007 reflects an impairment of goodwill within the US wireless infrastructure operations. Exceptional items for the year ended 31 March 2006 related to a fine (£15m) incurred in respect of a breach of health and safety laws in 1999 and to restructuring costs (£5m).
- (ii) Remeasurement finance income for the year ended 31 March 2008 comprised £8m of mark-to-market gains on financial instruments (2007: £13m) and for the year ended 31 March 2007 an additional £24m relating to the recognition of gains on the termination of a hedging arrangement.

9. Dividends

The following table shows the dividends paid to equity shareholders:

	2008 pence (per ordinary share)	2008 £m	2007 pence (per ordinary share)	2007 £m	2006 pence (per ordinary share)	2006 £m
Ordinary dividends						
Interim dividend for the year ended 31 March 2008	11.7	300	–	–	–	–
Final dividend for the year ended 31 March 2007	17.8	480	–	–	–	–
Interim dividend for the year ended 31 March 2007	–	–	10.9	297	–	–
Final dividend for the year ended 31 March 2006	–	–	15.9	433	–	–
Interim dividend for the year ended 31 March 2006	–	–	–	–	10.2	276
Final dividend for the year ended 31 March 2005	–	–	–	–	15.2	469
	29.5	780	26.8	730	25.4	745

In addition, the Directors are proposing a final dividend for 2008 of 21.3p per share that will absorb approximately £531m of shareholders' equity. It will be paid on 20 August 2008 to shareholders who are on the register of members at 6 June 2008.

10. 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, remeasurements and stranded cost recoveries, are provided to reflect the business performance subtotals used by the Company as described in accounting policy T. For further details of exceptional items, remeasurements and stranded cost recoveries, refer to note 4.

Diluted earnings per share have been calculated by dividing the net profit attributable to ordinary equity shareholders by the diluted weighted average number of ordinary shares outstanding during the year, adjusted to reflect the dilutive effect of the employee share plan.

(a) Basic earnings per share

	Earnings 2008 £m	Earnings per share 2008 pence	Earnings 2007 £m	Earnings per share 2007 pence	Earnings 2006 £m	Earnings per share 2006 pence
Adjusted earnings – continuing operations*	1,253	48.0	1,042	38.3	998	35.2
Exceptional items after taxation	(2)	(0.1)	(41)	(1.5)	(61)	(2.2)
Commodity contract remeasurements after taxation	133	5.1	37	1.3	(38)	(1.3)
Derivative financial instruments remeasurements after taxation	(35)	(1.3)	16	0.6	(11)	(0.4)
Stranded cost recoveries after taxation*	229	8.8	254	9.4	293	10.3
Earnings – continuing operations	1,578	60.5	1,308	48.1	1,181	41.6
Adjusted earnings – discontinued operations	28	1.1	104	3.8	77	2.7
Gain on disposal of operations after taxation	1,582	60.6	–	–	2,605	91.8
Other exceptional items and remeasurements	8	0.3	(18)	(0.6)	(15)	(0.5)
Earnings – discontinued operations	1,618	62.0	86	3.2	2,667	94.0
Earnings	3,196	122.5	1,394	51.3	3,848	135.6

	2008 millions	2007 millions	2006 millions
Weighted average number of shares – basic	2,609	2,719	2,837

*Comparatives have been adjusted to present items on a basis consistent with the current year classification

(b) Diluted earnings per share

	Earnings 2008 £m	Earnings per share 2008 pence	Earnings 2007 £m	Earnings per share 2007 pence	Earnings 2006 £m	Earnings per share 2006 pence
Adjusted diluted earnings – continuing operations*	1,253	47.8	1,042	38.1	998	35.0
Exceptional items after taxation	(2)	(0.1)	(41)	(1.5)	(61)	(2.2)
Commodity contract remeasurements after taxation	133	5.0	37	1.3	(38)	(1.3)
Derivative financial instruments remeasurements after taxation	(35)	(1.3)	16	0.6	(11)	(0.4)
Stranded cost recoveries after taxation*	229	8.7	254	9.3	293	10.3
Diluted earnings – continuing operations	1,578	60.1	1,308	47.8	1,181	41.4
Adjusted diluted earnings – discontinued operations	28	1.1	104	3.8	77	2.7
Gain on disposal of operations after taxation	1,582	60.3	–	–	2,605	91.4
Other exceptional items and remeasurements	8	0.3	(18)	(0.7)	(15)	(0.5)
Diluted earnings – discontinued operations	1,618	61.7	86	3.1	2,667	93.6
Diluted earnings	3,196	121.8	1,394	50.9	3,848	135.0

	2008 millions	2007 millions	2006 millions
Weighted average number of shares – diluted	2,624	2,737	2,851

*Comparatives have been adjusted to present items on a basis consistent with the current year classification

(c) Reconciliation of basic to diluted average number of shares

	2008 millions	2007 millions	2006 millions
Weighted average number of ordinary shares – basic	2,609	2,719	2,837
Effect of dilutive potential ordinary shares – employee share plan	15	18	14
Weighted average number of ordinary shares – diluted	2,624	2,737	2,851

11. Goodwill

	£m
Cost at 1 April 2006	2,156
Exchange adjustments	(192)
Acquisition of subsidiary undertakings	157
Reclassification to assets of businesses held for sale	(641)
Cost at 31 March 2007	1,480
Exchange adjustments	23
Acquisition of subsidiary undertakings (note 28)	2,335
Cost at 31 March 2008	3,838
Accumulated impairment losses at 1 April 2006	14
Exchange adjustments	(1)
Impairment charge	55
Reclassification to assets of businesses held for sale	(68)
Accumulated impairment losses at 31 March 2007 and 31 March 2008	–
Net book value at 31 March 2008	3,838
Net book value at 31 March 2007	1,480

The amounts disclosed above as at 31 March 2008 include balances relating to our operations in New England of £909m (2007: £915m; 2006: £882m), New York of £560m (2007: £565m; 2006: £639m) and our acquired KeySpan businesses of £2,369m.

Goodwill is reviewed annually for impairment.

Within our New England and upstate New York operations, goodwill is allocated to the individual subsidiary companies. These are defined as cash-generating units for impairment testing purposes. The recoverability of the goodwill as at 31 March 2008 that relates to our New England and upstate New York operations has been assessed by comparing the carrying value of these operations with the recoverable amount on a value-in-use basis. Value-in-use has been calculated based on projections that incorporate our best estimates of future cash flows, customer rates, costs, future prices and growth and has been 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 5.5% (2007: 6%). The discount rate is the post-tax weighted average cost of capital. On a pre-tax basis it is estimated that the discount rate would be approximately 9% (2007: 10%).

Within KeySpan, provisional goodwill (see note 28) is allocated based on the fair value of each cash-generating unit following a business enterprise valuation using both income and market-based approaches. For the income approach, a discounted cash flow analysis was prepared. This is an analysis of prospective cash flows discounted to present value at a discount rate, which reflects the risk of the entity being valued. The market-based approach indicates the fair value of a business based on a comparison of the company to comparable publicly traded companies and transactions in its industry, as well as prior company transactions. Once the fair value of the cash-generating unit and any identified intangible assets were estimated, the goodwill was implied as the residual value.

The main companies in the KeySpan group of companies are each defined as cash-generating units. The recoverability of the goodwill as at 31 March 2008 has been assessed by comparing the carrying value of these companies with the recoverable amount on a value-in-use basis. This has been based on projections prepared from internal forecasts extrapolated into the future by using a 2% growth rate. Cash flow projections have been discounted to reflect the time value of money, using discount rates of between 6.5% and 13.5% depending on the cash-generating unit. The discount rates are the post-tax weighted average cost of capital. On a pre-tax basis it is estimated that the discount rates would have been between 8.5% and 14.5%.

12. Other intangible assets

	Software £m	Acquisition- related £m	Other £m	Total £m
Non-current				
Cost at 1 April 2006	292	164	33	489
Exchange adjustments	(5)	–	(5)	(10)
Acquisition of subsidiary undertakings	–	–	55	55
Additions	20	–	12	32
Reclassification to assets of businesses held for sale	(21)	(164)	(71)	(256)
Cost at 31 March 2007	286	–	24	310
Exchange adjustments	2	–	2	4
Acquisition of subsidiary undertakings (note 28)	42	93	–	135
Additions	44	–	1	45
Disposals	(1)	–	–	(1)
Cost at 31 March 2008	373	93	27	493
Amortisation at 1 April 2006	142	17	9	168
Exchange adjustments	(3)	–	(3)	(6)
Amortisation charge for the year (i)	38	11	5	54
Reclassification to assets of businesses held for sale	(12)	(28)	(10)	(50)
Amortisation at 31 March 2007	165	–	1	166
Exchange adjustments	1	–	–	1
Amortisation charge for the year (i)	48	4	2	54
Amortisation at 31 March 2008	214	4	3	221
Net book value at 31 March 2008	159	89	24	272
Net book value at 31 March 2007	121	–	23	144

(i) Includes amounts in respect of discontinued operations of £nil (2007: £13m).

Current other intangible assets are presented together with inventories in note 18 and consist of emissions allowances of £145m (2007: £2m).

13. 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 2006	974	25,702	1,716	677	29,069
Exchange adjustments	(53)	(841)	(27)	(1)	(922)
Additions	16	604	1,611	112	2,343
Acquisition of subsidiary undertakings	12	157	1	–	170
Reclassification to assets of businesses held for sale	(152)	(1,292)	(2)	(22)	(1,468)
Disposals	(57)	(112)	–	(36)	(205)
Other reclassifications	38	1,248	(1,327)	41	–
Cost at 31 March 2007	778	25,466	1,972	771	28,987
Exchange adjustments	3	17	1	–	21
Additions	39	599	2,307	64	3,009
Acquisition of subsidiary undertakings (note 28)	353	2,793	129	7	3,282
Disposals	(40)	(135)	–	(56)	(231)
Reclassifications	25	1,840	(1,783)	57	139
Cost at 31 March 2008	1,158	30,580	2,626	843	35,207
Depreciation at 1 April 2006	284	9,400	–	450	10,134
Exchange adjustments	(10)	(311)	–	(1)	(322)
Depreciation charge for the year (i)	18	801	–	70	889
Reclassification to assets of businesses held for sale	(97)	(350)	–	(18)	(465)
Disposals	(3)	(107)	–	(34)	(144)
Depreciation at 31 March 2007	192	9,433	–	467	10,092
Exchange adjustments	1	6	–	–	7
Depreciation charge for the year (i)	26	853	–	75	954
Disposals	(17)	(113)	–	(49)	(179)
Depreciation at 31 March 2008	202	10,179	–	493	10,874
Net book value at 31 March 2008	956	20,401	2,626	350	24,333
Net book value at 31 March 2007	586	16,033	1,972	304	18,895

(i) Includes amounts in respect of discontinued operations of £nil (2007: £59m) and capitalised depreciation of £14m (2007: £nil).

The net book value of land and buildings comprised:

	2008 £m	2007 £m
Freehold	910	540
Long leasehold (over 50 years)	5	13
Short leasehold (under 50 years)	41	33
	956	586

The cost of property, plant and equipment at 31 March 2008 included £674m (2007: £565m) relating to interest capitalised.

Included within trade and other payables and other non-current liabilities at 31 March 2008 are contributions to the cost of property, plant and equipment amounting to £31m (2007: £28m) and £1,228m (2007: £1,079m) respectively.

Reclassifications for 2007/08 include an amount of £139m transferred to trade and other payables, and other non-current liabilities.

The carrying value of property, plant and equipment held under finance leases at 31 March 2008 was £193m (2007: £107m).

Additions during the year include £26m (2007: £1m) of property, plant and equipment held under finance leases.

14. Other non-current assets

	2008 £m	2007 £m
Lease receivables	4	15
Prepayments	7	6
Other receivables	186	15
Commodity contract assets	58	–
	255	36

The fair value of other non-current receivables at 31 March 2008 was £246m (2007: £35m). For further information on commodity contract assets, refer to note 34. Other receivables include a £152m (2007: £nil) receivable from the Long Island Power Authority.

15. Financial and other investments

	2008 £m	2007 £m
Non-current		
Available-for-sale investments	180	132
Investments in joint ventures and associates	71	5
	251	137
Current		
Available-for-sale investments	2,062	1,800
Loans and receivables	33	298
	2,095	2,098
Total financial and other investments	2,346	2,235
Financial and other investments include the following:		
Investments in short-term money funds	1,803	1,591
UK managed investments in equity and bonds	224	213
US managed investments in equity and bonds	107	74
Bank deposits	–	250
Restricted cash balances		
Collateral	17	22
Other	10	22
Cash surrender value of life insurance policies	101	53
Investment in joint ventures and associates	71	5
Other investments	13	5
	2,346	2,235

Available-for-sale investments are recorded at fair value. Due to their short maturities the carrying value of loans and receivables approximates their fair value.

The maximum exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our treasury-related credit risk, refer to note 33. None of the financial investments is past due or impaired.

16. Deferred tax assets and liabilities

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

Deferred tax (assets)/liabilities

	Accelerated tax depreciation £m	Share-based payments £m	Pensions and other post-retirement benefits £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2006	(5)	(28)	(397)	(6)	(835)	(1,271)
Deferred tax liabilities at 31 March 2006	3,126	–	–	20	127	3,273
At 1 April 2006	3,121	(28)	(397)	14	(708)	2,002
Exchange adjustments	(90)	–	13	–	91	14
Charged/(credited) to income statement (i)	321	9	82	(9)	54	457
(Credited)/charged to equity	–	(11)	70	11	–	70
Acquisition of subsidiary undertakings	–	–	2	–	(13)	(11)
Reclassification to liabilities of businesses held for sale	(129)	1	1	–	3	(124)
Other	63	–	(238)	5	151	(19)
At 31 March 2007	3,286	(29)	(467)	21	(422)	2,389
Deferred tax assets at 31 March 2007	(4)	(29)	(532)	(9)	(452)	(1,026)
Deferred tax liabilities at 31 March 2007	3,290	–	65	30	30	3,415
At 1 April 2007	3,286	(29)	(467)	21	(422)	2,389
Exchange adjustments	(1)	–	–	–	11	10
Charged/(credited) to income statement (i)	123	–	(9)	(2)	196	308
Charged/(credited) to equity	–	12	98	(4)	–	106
Acquisition of subsidiary undertakings (note 28)	289	–	(60)	(3)	365	591
Other	(2)	1	2	–	2	3
At 31 March 2008	3,695	(16)	(436)	12	152	3,407
Deferred tax assets at 31 March 2008	(2)	(16)	(685)	(17)	(322)	(1,042)
Deferred tax liabilities at 31 March 2008	3,697	–	249	29	474	4,449
	3,695	(16)	(436)	12	152	3,407

(i) Deferred tax charged to the income statement includes a £1m tax credit (2007: £14m tax charge) reported within profit 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. As at 31 March 2008 and 2007 the deferred tax balances are liabilities after offset.

At the balance sheet date there were no material current deferred tax assets or liabilities (2007: £nil).

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

	2008 £m	2007 £m
Capital losses	220	216
Non-trade deficits	10	203
Trading losses	–	3

The capital losses and non-trade deficits are available to carry forward indefinitely. The capital losses can be offset against specific types of future capital gains and non-trade deficits can be offset against specific future non-trade 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 £930m (2007: £811m). No liability is recognised in respect of the differences because the Company and its subsidiaries are in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

17. Derivative financial instruments

Our use of derivatives may entail a derivative transaction qualifying for one or more hedge type designations under IAS 39. For further information and a detailed description of our derivative financial instruments and hedge type designations, refer to note 32. The fair value amounts by designated hedge type can be analysed as follows:

	2008			2007		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Fair value hedges						
Interest rate swaps	23	(8)	15	16	(30)	(14)
Cross-currency interest rate swaps	271	(43)	228	50	(137)	(87)
	294	(51)	243	66	(167)	(101)
Cash flow hedges						
Interest rate swaps	49	(76)	(27)	15	(6)	9
Cross-currency interest rate swaps	609	(8)	601	69	(25)	44
Foreign exchange forward contracts	16	(7)	9	–	–	–
	674	(91)	583	84	(31)	53
Net investment hedges						
Cross-currency interest rate swaps	362	(49)	313	270	(32)	238
Foreign exchange forward contracts	–	(20)	(20)	4	(13)	(9)
	362	(69)	293	274	(45)	229
Derivatives not in a formal hedge relationship						
Interest rate swaps	76	(100)	(24)	17	(35)	(18)
Interest rate swaptions	–	(6)	(6)	–	–	–
Cross-currency interest rate swaps	4	–	4	123	(4)	119
Equity index-linked (i)	–	–	–	145	(189)	(44)
	80	(106)	(26)	285	(228)	57
	1,410	(317)	1,093	709	(471)	238
Hedge positions offset within derivative instruments	116	(116)	–	(52)	52	–
Total	1,526	(433)	1,093	657	(419)	238

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

The maturity of derivative financial instruments is as follows:

	2008			2007		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
In one year or less	463	(114)	349	277	(235)	42
Current	463	(114)	349	277	(235)	42
In more than one year, but not more than two years	104	(3)	101	26	(10)	16
In more than two years, but not more than three years	113	(21)	92	12	(7)	5
In more than three years, but not more than four years	358	(68)	290	5	(3)	2
In more than four years, but not more than five years	170	(36)	134	173	(22)	151
In more than five years	318	(191)	127	164	(142)	22
Non-current	1,063	(319)	744	380	(184)	196
	1,526	(433)	1,093	657	(419)	238

For each class of derivatives, our exposure, based on the sterling equivalent notional value of the pay leg is as follows:

	2008 £m	2007 £m
Interest rate swaps	(10,105)	(7,026)
Interest rate swaptions	(202)	–
Cross-currency interest rate swaps	(7,120)	(8,631)
Foreign exchange forward contracts	(2,020)	(2,213)
Equity index-linked	–	(607)
Total	(19,447)	(18,477)

18. Inventories and current intangible assets

	2008 £m	2007 £m
Raw materials and consumables	116	69
Work in progress	16	17
Fuel stocks	178	20
Current intangible assets	145	2
	455	108

£446m of inventories were consumed and recognised within operating costs during the year (2007: £97m; 2006: £58m). The above table includes a £4m provision for obsolescence as at 31 March 2008 (2007: £3m).

Current intangible assets consists of emissions allowances.

19. Trade and other receivables

	2008 £m	2007 £m
Trade receivables	1,162	638
Other receivables	80	60
Commodity contract assets	78	–
Prepayments and accrued income	949	538
	2,269	1,236

Trade receivables are non interest-bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their book value. Commodity contract assets are recorded at fair value. For further details of commodity risk, refer to note 34. All other receivables are recorded at amortised cost.

Provision for impairment of receivables

	2008 £m	2007 £m
At 1 April	102	107
Exchange adjustments	(1)	(12)
Charge for the year, net of recoveries	108	63
Acquisition of subsidiary undertaking	37	–
Uncollectable amounts written off against receivables	(91)	(51)
Reclassification to assets held for sale	–	(5)
At 31 March	155	102

As at 31 March 2008, trade receivables of £188m (2007: £18m) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2008 £m	2007 £m
Up to 3 months past due	100	10
3 to 6 months past due	36	2
Over 6 months past due	52	6
	188	18

For further information on our wholesale and retail credit risk, refer to note 33. For further information on our commodity risk, refer to note 34.

20. Cash and cash equivalents

	2008 £m	2007 £m
Cash at bank	93	50
Short-term deposits	81	1,543
Cash and cash equivalents excluding bank overdrafts	174	1,593
Bank overdrafts	(10)	(6)
Net cash and cash equivalents	164	1,587

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

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

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 33.

National Grid USA and its public utility subsidiaries (all consolidated subsidiaries) are subject to restrictions on the payment of dividends by administrative order and contract. At 31 March 2008, £51m (2007: £132m) of cash and cash equivalents were restricted.

21. Borrowings

The following table analyses borrowings, including bank overdrafts:

	2008 £m	2007 £m
Current		
Bank loans	502	136
Bonds	2,545	849
Commercial paper	562	–
Finance leases	256	10
Other loans	7	30
Bank overdrafts	10	6
	3,882	1,031
Non-current		
Bank loans	1,541	930
Bonds	15,287	13,544
Finance leases	165	92
Other loans	128	120
	17,121	14,686
Total borrowings	21,003	15,717

Total borrowings are repayable as follows:

	2008 £m	2007 £m
In one year or less	3,882	1,031
In more than one year, but not more than two years	1,386	1,869
In more than two years, but not more than three years	1,413	1,011
In more than three years, but not more than four years	1,700	748
In more than four years, but not more than five years	1,302	1,411
In more than five years:		
by instalments	78	116
other than by instalments	11,242	9,531
	21,003	15,717

The fair value of borrowings at 31 March 2008 was £20,208m (2007: £15,919m). Market values, where available, have been used to determine fair value. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

21. Borrowings continued

Charges over property, plant and other assets were provided as collateral over borrowings totalling £388m at 31 March 2008 (2007: £418m).

The notional amount outstanding of the debt portfolio at 31 March 2008 was £21,143m (2007: £16,042m).

Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £345m (2007: £134m) in respect of cash received under collateral agreements. Cash placed under collateral agreements is shown in note 15.

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

	2008 £m	2007 £m
Gross finance lease liabilities repayable as follows:		
In one year or less	266	17
In more than one year, but not more than five years	120	48
In more than five years	99	94
	485	159
Less: finance charges allocated to future periods	(64)	(57)
	421	102
The present value of finance lease liabilities is as follows:		
In one year or less	256	10
In more than one year, but not more than five years	94	21
In more than five years	71	71
	421	102

For further details of our bonds in issue and borrowing facilities, refer to note 35.

22. Trade and other payables

	2008 £m	2007 £m
Trade payables	1,708	1,246
Commodity contract liabilities	36	138
Social security and other taxes	114	108
Other payables	482	279
Deferred income	99	81
	2,439	1,852

Due to their short maturities, the fair value of trade and other payables (excluding deferred income) approximates their book value. Commodity contract liabilities are recorded at fair value. For further details of commodity risk, refer to note 34. All other trade and other payables are recorded at amortised cost.

23. Other non-current liabilities

	2008 £m	2007 £m
Commodity contract liabilities	88	130
Other payables	347	214
Deferred income	1,286	1,131
	1,721	1,475

Commodity contract liabilities are recorded at fair value. For further details of commodity risk, refer to note 34. All other non-current liabilities are recorded at amortised cost. The fair value of other payables at 31 March 2008 was £332m (2007: £204m).

24. Provisions

	Decommissioning £m	Environmental £m	Emissions £m	Restructuring £m	Other £m	Total provisions £m
At 1 April 2006	127	429	23	75	117	771
Exchange adjustments	(12)	(27)	–	–	–	(39)
Acquisition of subsidiary undertakings	1	7	–	–	–	8
Additions	–	14	13	14	1	42
Unused amounts reversed	(13)	(11)	(23)	(1)	(2)	(50)
Reclassification to working capital	–	(4)	–	–	–	(4)
Reclassification to assets of businesses held for sale	(12)	–	–	–	(15)	(27)
Unwinding of discount	4	15	–	–	2	21
Utilised	(25)	(51)	(12)	(32)	(8)	(128)
At 31 March 2007	70	372	1	56	95	594
Exchange adjustments	–	3	2	–	1	6
Acquisition of subsidiary undertakings	23	338	125	–	157	643
Additions	5	124	5	25	17	176
Unused amounts reversed	(4)	(14)	(1)	–	(5)	(24)
Unwinding of discount	6	27	–	–	8	41
Utilised	(13)	(69)	(4)	(15)	(3)	(104)
At 31 March 2008	87	781	128	66	270	1,332

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

	2008 £m	2007 £m
Current	389	167
Non-current	943	427
	1,332	594

Decommissioning provision

The decommissioning provision of £87m at 31 March 2008 (2007: £70m) primarily represented the net present value of the estimated expenditure (discounted at a nominal rate of 6%) expected to be incurred in respect of the decommissioning of certain nuclear generating units. It also included £33m (2007: £9m) relating to other asset retirement obligations. Expenditure is expected to be incurred between financial years 2009 and 2061.

Environmental provision

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

	2008		2007		Nominal discount rate
	Discounted £m	Undiscounted £m	Discounted £m	Undiscounted £m	
UK gas site decontamination (i)	192	280	168	246	5.0%
US sites (ii)	587	792	200	296	6.0%-6.5%
Other (iii)	2	2	4	4	n/a
	781	1,074	372	546	

(i) Represents the statutory decontamination costs of old gas manufacturing sites in the UK. The anticipated timing of the cash flows for statutory decontamination cannot be predicted with certainty, but they are expected to be incurred over the financial years 2009 to 2058 with some 50% of the spend over the next five years.

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

The undiscounted amount of the provision is the undiscounted best estimate of the liability having regard to the uncertainties above.

(ii) The remediation expenditure in the US is expected to be incurred between financial years 2009 and 2059. The uncertainties regarding the calculation of this provision are similar to those considered in respect of UK gas decontamination. However, unlike the UK, with the exception of immaterial amounts of such costs, this expenditure is expected to be recoverable from rate payers under the terms of various rate agreements in the US.

In determining the undiscounted amount of the environmental provision relating to US sites we do not have sufficient information to calculate a range of outcomes, but it is expected that any outcome of the liability would be recovered from rate payers (with the exception of immaterial amounts of site costs).

(iii) The remainder of the environmental provision relates to the expected cost of remediation of certain other sites in the UK. This is expected to be utilised within the next five years and there is no material difference between the discounted and undiscounted amounts.

Emissions provision

The provision for emission costs is expected to be settled using emissions allowances granted.

Restructuring provision

At 31 March 2008, £32m of the total restructuring provision (2007: £31m) consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties. The remainder of the restructuring provision related to business reorganisation costs in the UK, to be paid between financial years 2009 and 2010.

24. Provisions continued

Other provisions

Other provisions at 31 March 2008 included £52m (2007: £49m) of estimated liabilities in respect of past events insured by insurance subsidiary undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates are based on experience from previous years and there is, therefore, no identifiable payment date. Other provisions at 31 March 2008 also included £17m (2007: £24m) in respect of the sales of four UK gas distribution networks relating to property transfer costs; and £11m (2007: £11m) in respect of obligations associated with investments in joint ventures.

As at 31 March 2008 other provisions also included a £165m onerous lease provision that was recognised upon the acquisition of KeySpan at a fair value of £157m. The associated operating lease relates to the Ravenswood generation station but the lease commitment will remain with National Grid following completion of its sale.

25. Share capital

	Allotted, called up and fully paid	
	millions	£m
Ordinary shares		
At 31 March 2005	3,090	309
Issued during the year	8	1
Effect of share consolidation (i)	(378)	–
At 31 March 2006	2,720	310
Issued during the year	4	–
Repurchased during the year (ii)	(23)	(2)
At 31 March 2007	2,701	308
Issued during the year (iii)	8	1
Repurchased during the year (iv)	(127)	(15)
At 31 March 2008	2,582	294

- (i) On 29 July 2005, the ordinary share capital was consolidated with 43 new ordinary shares of 11¹⁷/₄₃ pence each issued for every 49 existing ordinary shares of 10 pence each cancelled.
- (ii) From 20 November 2006 to 22 March 2007, the Company repurchased, and subsequently cancelled, under its share repurchase programme 22,388,381 ordinary shares for aggregate consideration of £169m, including transaction costs. The shares repurchased have a nominal value of £2m and represented approximately 1% of the ordinary shares in issue as at 31 March 2007. The excess of the consideration over the nominal value was charged against retained earnings.
- (iii) Included within issued share capital is 3,705,193 ordinary shares that were issued following the conversion of the Company's B shares to ordinary shares on 28 September 2007.
- (iv) From 30 May 2007 to 27 November 2007, the Company repurchased, and subsequently cancelled, under its share repurchase programme 126,817,712 ordinary shares for aggregate consideration of £946m, including transaction costs. The shares repurchased have a nominal value of £15m and represented approximately 5% of the ordinary shares in issue as at 31 March 2008. The excess of the consideration over the nominal value has been charged against retained earnings.

B shares

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

Under the return of cash scheme the holders of B shares who elected not to receive the return of cash immediately could retain their B shares for future repurchase. Under the terms set out in the Circular dated 6 June 2005, a final repurchase offer was made in August 2007 for all outstanding B shares. As a result on 28 September 2007, the Company converted 41,988,387 B shares into 3,705,193 ordinary shares of 11¹⁷/₄₃ pence each. Fractions were disregarded and 202,514 B shares were deferred and then subsequently cancelled on 28 January 2008.

Treasury shares

At 31 March 2008, the Company held per the share register 66,696,328 (2007 and 2006: nil) of its own shares. At 31 March 2008 a further 3,960,000 ordinary shares had been repurchased but had yet to be included on the register.

The Company made the following transactions in respect of its own shares during the year ended 31 March 2008:

- (i) From 21 June 2007 to 31 March 2008 the Company repurchased, under its share repurchase programme 73,328,706 ordinary shares for aggregate consideration of £570m, including transaction costs. The shares repurchased have a nominal value of £8m and represented approximately 3% of the ordinary shares in issue as at 31 March 2008.
- (ii) During the year, 100,000 treasury shares were gifted to a National Grid Employee Share Trust and 2,572,378 treasury shares were re-issued in relation to employee share schemes, in total representing approximately 0.1% of the ordinary shares in issue as at 31 March 2008. The nominal value of these shares was £0.3m and the total proceeds received were £10m.
- (iii) During the year the Company made gifts totalling £6m to National Grid Employee Share Trusts, outside of its share repurchase programme, to enable the trustees to make purchases of National Grid plc shares in order to satisfy the requirements of employee share option and reward plans.

The maximum number of treasury shares held during the year was 66,696,328 ordinary shares representing approximately 3% of the ordinary shares in issue as at 31 March 2008 and having a nominal value of £8m. The market value of these shares as at 31 March 2008 was £462m.

25. Share capital continued

Additional information in respect of share capital

	2008 millions	2008 £m	2007 millions	2007 £m	2006 millions	2006 £m
Consideration received in respect of ordinary shares issued during the year	8	23	4	16	8	28
Authorised share capital						
Ordinary shares (i)	4,392	501	4,388	500	4,388	500
Non-cumulative B shares	–	–	3,150	315	3,150	315
	4,392	501	7,538	815	7,538	815

(i) On 28 September 2007, the Company increased its authorised ordinary share capital by 3,705,183 ordinary shares to 4,391,705,193 ordinary shares of 11¹⁷/₄₃ pence each.

For details in respect of share options and reward plans, refer to note 36.

26. Reconciliation of movements in total equity

	Called-up share capital £m	Share premium account £m	Retained earnings £m	Other equity reserves £m	Total shareholders' equity £m	Minority interests £m	Total equity £m
At 1 April 2005	309	1,289	5,559	(5,089)	2,068	10	2,078
Total recognised income and expense for the year	–	–	3,969	128	4,097	3	4,100
Equity dividends	–	–	(745)	–	(745)	–	(745)
Return of capital to shareholders through B share scheme	–	–	(2,009)	–	(2,009)	–	(2,009)
Issue of ordinary share capital	1	27	–	–	28	–	28
Other movements in minority interests	–	–	–	–	–	(2)	(2)
Movement in shares held in employee share trusts	–	–	19	–	19	–	19
Share-based payment	–	–	17	–	17	–	17
Tax on share-based payment	–	–	7	–	7	–	7
At 31 March 2006	310	1,316	6,817	(4,961)	3,482	11	3,493
Total recognised income and expense for the year	–	–	1,689	(191)	1,498	1	1,499
Equity dividends	–	–	(730)	–	(730)	–	(730)
Issue of ordinary share capital	–	16	–	–	16	–	16
Repurchase of shares	(2)	–	(169)	2	(169)	–	(169)
Other movements in minority interests	–	–	–	–	–	(1)	(1)
Share-based payment	–	–	15	–	15	–	15
Tax on share-based payment	–	–	13	–	13	–	13
At 31 March 2007	308	1,332	7,635	(5,150)	4,125	11	4,136
Total recognised income and expense for the year	–	–	3,530	(54)	3,476	3	3,479
Equity dividends	–	–	(780)	–	(780)	–	(780)
Issue of ordinary share capital	1	12	–	–	13	–	13
B shares converted to ordinary shares	–	27	–	–	27	–	27
Repurchase of share capital and purchase of treasury shares (i)	(15)	–	(1,522)	15	(1,522)	–	(1,522)
Other movements in minority interests	–	–	–	–	–	4	4
Share-based payment	–	–	18	–	18	–	18
Transfer between reserves	–	–	63	(63)	–	–	–
Issue of treasury shares	–	–	10	–	10	–	10
Tax on share-based payment	–	–	(5)	–	(5)	–	(5)
At 31 March 2008	294	1,371	8,949	(5,252)	5,362	18	5,380

(i) From 30 May 2007 to 31 March 2008, the Company repurchased under its share repurchase programme 200.1m ordinary shares for aggregate consideration of £1,516m including transaction costs. The shares repurchased have a nominal value of 11¹⁷/₄₃ pence each and represented 8% of the ordinary shares in issue as at 31 March 2008. Included within total equity is a deduction of £570m for treasury shares (31 March 2007: £nil). Further purchases of shares relating to employee share schemes were made for an aggregate consideration of £6m.

26. Reconciliation of movements in total equity continued

Other equity reserves

	Translation	Cash flow hedge	Available- for-sale	Capital redemption	Merger	Total
At 1 April 2005	(13)	51	4	2	(5,133)	(5,089)
Net income/(expense) recognised directly in equity	140	(14)	2	–	–	128
At 31 March 2006	127	37	6	2	(5,133)	(4,961)
Net (expense)/income recognised directly in equity	(175)	(11)	(5)	–	–	(191)
Repurchase of share capital	–	–	–	2	–	2
At 31 March 2007	(48)	26	1	4	(5,133)	(5,150)
Net (expense)/income recognised directly in equity	(25)	(37)	8	–	–	(54)
Repurchase of share capital	–	–	–	15	–	15
Transfer between reserves	–	(31)	–	–	(32)	(63)
At 31 March 2008	(73)	(42)	9	19	(5,165)	(5,252)

The merger reserve represents the difference between the carrying value of subsidiary undertakings, investments and their respective capital structures following the Lattice demerger from BG Group plc and the 1999 Lattice refinancing of £(5,745)m and merger differences of £221m and £359m.

A £32m gain on transfer of fixed assets to a former joint venture which subsequently became a subsidiary undertaking was transferred from other reserves to profit and loss reserve, as a result of the disposal of our wireless business.

Gains and losses recognised in the cash flow hedge reserve on interest rate swap contracts as of 31 March 2008 will be continuously transferred to the income statement until the borrowings are repaid (refer to note 21).

The amount of the cash flow hedge reserve due to be released from reserves to the income statement within the next year is £10m, with the remaining amount due to be released with the same maturity profile as borrowings due after more than one year as shown in note 21.

27. Consolidated cash flow statement

(a) Cash flow from operating activities – discontinued operations

	2008 £m	2007 £m	2006 £m
Operating profit	35	62	111
Adjustments for:			
Exceptional items	–	55	20
Depreciation and amortisation	–	72	77
Share-based payment charge	–	–	3
Changes in working capital, provisions and pensions	(25)	(8)	(47)
Cash flow relating to exceptional items	–	–	(26)
Cash flow relating to discontinued operations	10	181	138

(b) Cash flow from investing activities – discontinued operations

	2008 £m	2007 £m	2006 £m
Disposal proceeds	3,064	27	5,750
Acquisition of subsidiaries, net of cash acquired	–	(85)	–
Other investing activities	(14)	(47)	(209)
Cash flow relating to discontinued operations	3,050	(105)	5,541

27. Consolidated cash flow statement continued

(c) Reconciliation of net cash flow to movement in net debt

	2008 £m	2007 £m	2006 £m
Movement in cash and cash equivalents	(1,450)	175	1,181
(Decrease)/increase in financial investments	(45)	1,725	(25)
(Increase)/decrease in borrowings and derivatives	(1,589)	(3,045)	2,304
Cash paid to shareholders under B share scheme	26	26	1,957
Net interest paid	694	597	704
Change in net debt resulting from cash flows	(2,364)	(522)	6,121
Changes in fair value of financial assets and liabilities and exchange movements	(133)	331	(299)
Issue of B shares	–	–	(2,009)
Net interest charge on the components of net debt	(901)	(655)	(660)
Borrowings of subsidiary undertaking acquired	(2,446)	(48)	–
Amounts reclassified to businesses held for sale	17	(42)	–
Other non-cash movements	(26)	(2)	(17)
Movement in net debt (net of related derivative financial instruments) in the year	(5,853)	(938)	3,136
Net debt at start of year	(11,788)	(10,850)	(13,638)
Impact of adoption of IAS 32 and IAS 39 (i)	–	–	(348)
Net debt (net of related derivative financial instruments) at end of year	(17,641)	(11,788)	(10,850)

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

(d) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments ⁽ⁱ⁾ £m	Borrowings ⁽ⁱⁱ⁾ £m	Derivatives ⁽ⁱⁱ⁾ £m	Total £m
At 31 March 2005	272	(18)	254	398	(14,290)	–	(13,638)
Impact of adoption of IAS 32 and IAS 39 (i)	–	–	–	3	(894)	543	(348)
Cash flow	1,166	15	1,181	(155)	5,037	58	6,121
Fair value gains and losses	14	–	14	3	(207)	(109)	(299)
Issue of B shares	–	–	–	–	(2,009)	–	(2,009)
Interest charges	–	–	–	135	(746)	(49)	(660)
Other non-cash movements	–	–	–	–	(17)	–	(17)
At 31 March 2006	1,452	(3)	1,449	384	(13,126)	443	(10,850)
Cash flow	178	(3)	175	1,509	(2,233)	27	(522)
Fair value gains and losses	(14)	–	(14)	(9)	511	(157)	331
Interest charges	–	–	–	215	(833)	(37)	(655)
Other non-cash movements	(23)	–	(23)	(1)	(30)	(38)	(92)
At 31 March 2007	1,593	(6)	1,587	2,098	(15,711)	238	(11,788)
Cash flow	(1,446)	(4)	(1,450)	(251)	(729)	66	(2,364)
Fair value gains and losses	4	–	4	4	(990)	849	(133)
Interest charges	–	–	–	211	(1,066)	(46)	(901)
Acquisition of subsidiary undertaking	–	–	–	33	(2,479)	–	(2,446)
Other non-cash movements	23	–	23	–	(18)	(14)	(9)
At 31 March 2008	174	(10)	164	2,095	(20,993)	1,093	(17,641)

(i) National Grid adopted IAS 39 with effect from 1 April 2005 consistent with the requirements of IFRS 1. The adoption of IAS 39 also resulted in changes to the carrying value of borrowings and financial investments as at 1 April 2005.

(ii) Includes interest. Accrued interest at 31 March 2008 was £(225)m.

Notes to the consolidated financial statements – supplementary information

28. Acquisitions

On 24 August 2007, the acquisition of KeySpan was completed, with 100% of the shares acquired for total cash consideration of £3.8bn, including acquisition costs of £25m. The provisional amount of goodwill that arose on the acquisition was £2.3bn, however, this is subject to change as the exercise of establishing fair values of the assets and liabilities acquired is not final at this stage. Provisional goodwill principally relates to the market and regulatory position and retail customer relationships of the acquired operations, the opportunity to make future capital investment, expected synergies and opportunities for further cost improvements in the future, to the assembled workforce and to the potential for future growth. The fair values of the assets and liabilities acquired have been updated from the provisional fair values reported in our half year results for the six months ended 30 September 2007.

Fair values of assets and liabilities remain provisional and are subject to further adjustment within one year of acquisition dates. The principal items outstanding include the fair values of tax liabilities, contingent and unrecorded liabilities and businesses held for sale.

The majority of the acquired operations relate to gas distribution and electricity distribution and generation activities and so are presented within the Gas Distribution US and Electricity Distribution & Generation US segments. Certain acquired activities, comprising the Ravenswood electricity generation station in New York City, KeySpan Communications and KeySpan Engineering Associates operations are disclosed as discontinued operations in the income statement as we plan, and expect, to dispose of these activities.

	IFRS book value at acquisition £m	Fair value* £m
Other intangible assets	42	135
Property, plant and equipment	3,152	3,282
Financial and other investments – non-current	129	129
Inventories and current intangibles	505	505
Trade and other receivables	767	748
Financial and other investments – current	33	33
Cash and cash equivalents	260	260
Assets of businesses held for sale	472	1,487
Borrowings – current	(545)	(545)
Trade and other payables	(713)	(749)
Borrowings – non-current	(1,852)	(1,934)
Other non-current liabilities	(169)	(169)
Deferred tax liabilities	(132)	(591)
Pensions and other post-retirement benefit obligations	(440)	(440)
Provisions	(649)	(643)
Liabilities of businesses held for sale	(73)	(73)
Minority interest	(8)	(8)
Net assets acquired	779	1,427
Goodwill arising on acquisition		2,335
Total consideration		3,762

*Provisional fair value subject to adjustment

The total consideration net of cash acquired (£260m) was £3,502m.

The KeySpan acquired activities contributed revenue of £2,498m to our continuing operations; contributed a profit from continuing operations after taxation of £225m; and reported an adjusted profit (before exceptional items, remeasurements and stranded cost recoveries) from continuing operations after taxation of £174m for the period from 24 August 2007 to 31 March 2008. Exceptional items, remeasurements and stranded cost recoveries included pre-tax costs of £53m relating to restructuring costs and pre-tax gains on remeasurements of £138m.

28. Acquisitions continued

Pro forma information

As required by IFRS 3 Business Combinations, the following summary presents the consolidated results as if KeySpan had been acquired on 1 April 2007. The pro forma information includes the results of KeySpan for the year 1 April 2007 to 31 March 2008, adjusted for the estimated effect of accounting policies adopted by National Grid and the impact of provisional fair value accounting adjustments (eg amortisation of intangible assets) together with the recognition of the impact on pro forma net interest expense as a result of the acquisition. All of the pre-tax pro forma adjustments have been taxed (where appropriate) at the rate of tax pertaining to the jurisdiction in which the pro forma adjustment arose. The pro forma information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the enlarged National Grid.

	2008 Actual £m	2008 Pro forma £m
Revenue	11,423	12,345
Operating profit before exceptional items, remeasurements and stranded cost recoveries	2,595	2,625
Total operating profit	2,964	2,901
Profit after taxation from continuing operations before exceptional items, remeasurements and stranded cost recoveries	1,256	1,175
Profit for the year from continuing operations	1,581	1,443
Profit for the year	3,199	3,087

29. Commitments and contingencies

(a) Future capital expenditure

	2008 £m	2007 £m
Contracted for but not provided	1,097	1,554

(b) Lease commitments

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

	2008 £m	2007 £m
In one year or less	83	80
In more than one year, but not more than two years	83	76
In more than two years, but not more than three years	80	72
In more than three years, but not more than four years	69	68
In more than four years, but not more than five years	66	64
In more than five years	356	440
	737	800

The majority of the leases were in respect of properties.

(c) Energy purchase commitments

At 31 March 2008, there were obligations under contracts for the forward purchase of energy. The following table analyses these commitments, excluding commodity contracts carried at fair value.

	2008 £m	2007 £m
In one year or less	1,790	1,233
In more than one year, but not more than two years	900	642
In more than two years, but not more than three years	475	476
In more than three years, but not more than four years	295	186
In more than four years, but not more than five years	130	141
In more than five years	1,163	1,053
	4,753	3,731

Energy commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves. Such commitments are for our normal purchase, sale or usage and hence are accounted as ordinary purchase contracts.

Details of commodity contracts that do not meet the normal purchase, sale or usage criteria and hence are accounted for as derivative contracts are shown in note 34.

29. Commitments and contingencies continued

(d) Other commitments, contingencies and guarantees

The value of other commitments, contingencies and guarantees at 31 March 2008 amounted to £1,387m (2007: £537m), including guarantees amounting to £925m (2007: £229m) and commitments largely relating to gas purchasing and property remediation of £432m (2007: £198m).

Details of the guarantees entered into by the Company or its subsidiary undertakings at 31 March 2008 are shown below:

- (i) guarantees of a subsidiary company's obligations under a membership interest and stock purchase agreement amounting to £282m. These will expire on closing the agreement;
- (ii) a letter of support of obligations under a shareholders' agreement relating to the interconnector project between Great Britain and The Netherlands amounting to approximately £227m. This expires in 2010;
- (iii) a guarantee amounting to approximately £105m of half of the obligations of the interconnector project between Great Britain and The Netherlands. This expires in 2010;
- (iv) guarantees of certain obligations in respect of the UK Grain LNG Import Terminal for which the maximum annual liability amounts to £86m. These run for varying lengths of time, expiring between 2019 and 2028;
- (v) guarantees of £59m relating to certain property obligations of subsidiary undertakings. The majority of these expire by December 2025;
- (vi) a guarantee of £50m in respect of liabilities under a meter operating contract that runs until May 2008;
- (vii) an uncapped guarantee, for which the maximum liability is estimated at £40m, to The Crown Estates in support of the transfer of the interconnector between France and England to National Grid Interconnectors Limited as part of the Licence to Assign Lease. This is ongoing;
- (viii) letters of credit in support of gas balancing obligations amounting to £25m, lasting for less than one year;
- (ix) collateral of £15m to secure syndicate insurance obligations which are evergreen;
- (x) guarantees in respect of a former associate amounting to £14m, the majority of which relates to its obligations to supply telecommunications services. These are open-ended; and
- (xi) other guarantees amounting to £22m arising in the normal course of business and entered into on normal commercial terms. These guarantees run for varying lengths of time.

The Company has entered into an agreement with a stockbroker to repurchase the Company's shares, which is cancellable at any time other than during a close period. The Company entered a close period on 1 April 2008, at which point authority existed for the repurchase of shares up to a maximum value of £248m during the close period. The close period ended following the full year results announcement on 15 May 2008. During the period between 1 April and 14 May 2008, share repurchases amounted to £97.8m.

(e) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £35m (2007: £32m).

(f) Litigation and claims

On 25 February 2008, the Gas and Electricity Markets Authority (GEMA) imposed a £41.6m fine on National Grid for infringement of the Competition Act 1998 in relation to a number of metering contracts entered into with gas suppliers in 2004. We believe that the contracts do not infringe competition law, they were entered into voluntarily by gas suppliers, and Ofgem was consulted throughout the process of contract development and negotiation. Therefore, we have lodged an appeal with the Competition Appeal Tribunal. GEMA has suspended the fine pending the outcome of the appeal and no provision has been made in the accounts.

We remain convinced that National Grid has not breached the Competition Act 1998, that our position will be upheld and the fine reversed upon appeal.

30. 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 associates and a pension plan and were in the normal course of business and are summarised below:

	2008 £m	2007 £m	2006 £m
Sales: Services supplied to a pension plan	3	4	4
Purchases: Services received from joint ventures and associates	33	26	32

At 31 March 2008, there were amounts receivable and payable from and to related parties amounting to £nil (2007: £nil; 2006: £nil) and £2m (2007: £2m; 2006: £1m) respectively, which are due on normal commercial terms.

Details of investments in principal subsidiary undertakings, joint ventures and associates are disclosed in note 37 and information relating to pension fund arrangements is disclosed in notes 5 and 31. For details of Directors and key management remuneration, refer to note 3c and the auditable section of the Directors' Remuneration Report.

31. Actuarial information on pensions and other post-retirement benefits

UK pension schemes

National Grid's defined benefit pension schemes are funded with assets held in separate trustee administered funds. The schemes are subject to independent actuarial valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

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

The results of the actuarial valuation carried out at 31 March 2006 showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 32% of pensionable earnings (29% employers and 3% employees). The ongoing contribution rate does not include an allowance for administration expenses. These contributions are reviewed annually. From 1 April 2007, the rate used for the recovery of administration costs was 3.7% of salary. Employers are currently, therefore, paying a total contribution rate of 32.7%. The contribution rate will be reviewed as part of the 2007 actuarial valuation which is currently in progress.

In line with the agreement made after the 2003 valuation, no funding of the deficit identified in the 2006 actuarial valuation will be provided to the scheme until the outcome of the actuarial valuation as at 31 March 2007 is known. At this point, National Grid will pay the gross amount of any deficit up to a maximum amount of £520m (£373m net of tax) into the scheme. Until the 31 March 2007 actuarial valuation has been completed, National Grid has arranged for banks to provide the trustees with letters of credit. The main conditions under which these letters of credit could be drawn relate to events that would imperil the interests of the scheme, such as National Grid Gas plc, a subsidiary undertaking, becoming insolvent or National Grid failing to make agreed payments into the scheme.

The actuarial valuation as at 31 March 2007 is currently in progress but has not yet been completed. In anticipation of the finalisation of the valuation, the Company made deficit payments to the scheme totalling £115m (£81m net of tax) prior to 31 March 2008 and a further £250m (£180m net of tax) in April 2008. The Company and trustees are currently in the process of agreeing a recovery plan in respect of the outstanding deficit amount which will be agreed before the end of June 2008.

Electricity Supply Pension Scheme

The Electricity Supply Pension Scheme is a funded scheme which is divided into sections, one of which is National Grid's section. National Grid's section of the scheme provides final salary defined benefits and was closed to new entrants on 1 April 2006.

The latest full actuarial valuation as at 31 March 2007 has been carried out by Hewitt Associates Limited. The aggregate market value of the scheme's assets at that date was £1,345m and the value of the assets represented 77% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 March 2007 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £405m on the valuation date.

The actuarial valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 26.5% of pensionable earnings (20.5% employers and 6% employees). This contribution rate will be reviewed as part of the next full actuarial valuation due on 31 March 2010.

Following the 2004 actuarial valuation it had been agreed that no funding of the deficit identified would be provided to the scheme until the outcome of the actuarial valuation at 31 March 2007 was known. At this point, National Grid would pay the gross amount of any deficit up to a maximum amount of £68m (£48m net of tax) plus interest into the scheme. Over the year to 31 March 2008, deficit payments equal to £40m (£28m net of tax) were paid into the scheme and a further payment of £60m (£43m net of tax) was paid in April 2008. The Company and the trustees have agreed a recovery plan which will see the remaining deficit paid off by March 2017. In addition, the Company agreed to put in place triggers which would bring forward payment of the outstanding deficit. The conditions under which payment of the outstanding deficit would be made are if National Grid Electricity Transmission plc (NGET) ceases to hold the licence granted under the Electricity Act 1989 or NGET's credit rating by two out of three specified agencies falls below an agreed level for a period of 40 days.

31. Actuarial information on pensions and other post-retirement benefits continued

US pension plans

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

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

US retiree healthcare and life insurance plans

National Grid and the acquired KeySpan companies provide healthcare and life insurance benefits to eligible retired US employees. Eligibility is based on certain age and length of service requirements and in most cases retirees must contribute to the cost of their coverage.

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

National Grid expects to contribute approximately £268m to the pension and post-retirement benefit plans from 1 April 2008 to 31 March 2009, although this figure may vary due to changes in market conditions and regulatory recovery.

Asset allocations and actuarial assumptions

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		
	2008 %	2007 %	2006 %	2008 %	2007 %	2006 %	2008 %	2007 %	2006 %
Equities (i)	35.9	35.8	40.7	60.6	63.7	66.4	63.1	68.5	69.0
Corporate bonds (ii)	25.0	18.6	19.2	33.6	33.5	32.0	32.3	31.1	30.6
Gilts	29.8	33.9	30.1	–	–	–	–	–	–
Property	6.7	8.5	8.5	–	–	0.2	–	–	–
Other	2.6	3.2	1.5	5.8	2.8	1.4	4.6	0.4	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(i) Included within equities at 31 March 2008 were ordinary shares of National Grid plc with a value of £24m (2007: £24m).

(ii) Included within corporate bonds is an investment in a bond issued by a subsidiary undertaking with a value of £20m (2007: £nil).

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 scheme. The expected real returns on specific asset classes reflect historical returns, investment yields on the measurement date and general future return expectations, and have been set after taking advice from the schemes' actuaries. The current target asset allocation for the National Grid UK Pension Scheme is 34% equities, 58% bonds and 8% property and other. The current target asset allocation for National Grid's section of the Electricity Supply Pension Scheme is 58% equities, 35% bonds, 7% property and other.

In respect of US plans, 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. The long-term target asset allocation for the National Grid US pension plans is 66% equities, 34% bonds and cash. The long-term target asset allocation for other National Grid US post-retirement benefit plans is 67% equities and 33% bonds. For all KeySpan plans (including post-retirement benefit plans) the long-term asset allocation is 70% equities and 30% bonds and cash.

31. Actuarial information on pensions and other post-retirement benefits continued

The principal actuarial assumptions used were:

	UK pensions			US pensions			US other post-retirement benefits		
	2008 %	2007 %	2006 %	2008 %	2007 %	2006 %	2008 %	2007 %	2006 %
Discount rate (i)	6.6	5.4	4.9	6.5	5.8	6.0	6.5	5.8	6.0
Expected return on plan assets	6.4	6.1	5.8	7.9	8.3	8.3	7.6	8.3	8.3
Rate of increase in salaries (ii)	4.6	4.2	3.9	4.0	4.1	4.1	4.0	4.1	4.1
Rate of increase in pensions in payment	3.8	3.3	3.0	–	–	–	n/a	n/a	n/a
Rate of increase in pensions in deferment	3.7	3.2	2.9	–	–	–	n/a	n/a	n/a
Rate of increase in Retail Price Index or equivalent	3.7	3.2	2.9	3.0	2.5	3.0	n/a	n/a	n/a
Initial healthcare cost trend rate	n/a	n/a	n/a	n/a	n/a	n/a	10.0	10.0	10.0
Ultimate healthcare cost trend rate	n/a	n/a	n/a	n/a	n/a	n/a	5.0	5.0	5.0

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

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

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

	2008		2007	
	UK years	US years	UK years	US years
Today:				
Males	20.9	18.2	20.1	17.6
Females	23.1	20.5	22.5	20.2
In 20 years:				
Males	23.2	18.2	21.2	17.6
Females	25.4	20.5	23.6	20.2

Sensitivities analysed – all other assumptions held constant:

	Change in pension and other post-retirement obligation		Change in annual pension cost	
	2008 £m	2007 £m	2008 £m	2007 £m
0.1% increase (2007: 0.1% decrease) in discount rate	251	260	4	4
0.5% increase in long-term rate of increase in salaries	131	139	5	8
Increase of one year to life expectations at age 60	588	557	4	4

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:

	2008 £m	2007 £m	2006 £m
<i>Increase</i>			
Effect on the aggregate of the service cost and interest cost	16	14	15
Effect on defined benefit obligation	251	170	186
<i>Decrease</i>			
Effect on the aggregate of the service cost and interest cost	(13)	(12)	(12)
Effect on defined benefit obligation	(214)	(147)	(161)

The history of experience adjustments is as follows:

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Details of experience gains/(losses) for all plans					
Present value of funded and unfunded obligations	(18,175)	(17,253)	(17,839)	(16,837)	(16,405)
Fair value of plan assets	17,273	15,999	15,909	14,565	13,907
	(902)	(1,254)	(1,930)	(2,272)	(2,498)
Difference between the expected and actual return on plan assets (i)	(911)	(81)	1,521	405	n/a
Experience gains on plan liabilities (i)	152	9	192	42	n/a
Actuarial gains/(losses) on plan liabilities (i)	1,343	446	(1,340)	(152)	n/a

(i) National Grid adopted IAS 19 from 1 April 2004 hence no information has been presented for the year ended 31 March 2004.

32. Supplementary information on derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives enable their users to alter exposure to market or credit risks. We use derivatives to manage both our treasury and operational market risks. Operational market risks are managed using commodity contracts which are detailed in note 34.

Treasury financial instruments

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

Hedging policies using derivative financial instruments are further explained in note 33. Derivatives that are held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, cash flow hedges or net investment hedges. These are described as follows:

Fair value hedges

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

Cash flow hedges

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

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

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

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

Net investment hedges

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

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

Derivatives not in a formal hedge relationship

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

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in remeasurements within the income statement.

33. Financial risk

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

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Board of Directors. This department identifies, evaluates and hedges financial risks in close co-operation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity as discussed further in our treasury policy, described on pages 76 to 78.

(a) Market risk

(i) Foreign exchange risk

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

With respect to near term foreign exchange risk, we use foreign exchange forwards to manage foreign exchange transaction exposure. Our policy is to hedge a minimum percentage of known contracted foreign currency flows in order to mitigate foreign currency movements in the intervening period. Where cash forecasts are less certain, we generally cover a percentage of the foreign currency flows depending on the level of agreed probability for those future cash flows.

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

During 2008 and 2007, derivative financial instruments were used to manage foreign currency risk as follows:

	2008					2007				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Cash and cash equivalents	168	6	–	–	174	733	2	858	–	1,593
Financial investments	1,063	92	898	42	2,095	1,663	61	345	29	2,098
Borrowings*	(9,111)	(5,342)	(5,769)	(781)	(21,003)	(8,030)	(4,677)	(2,443)	(567)	(15,717)
Pre-derivative position	(7,880)	(5,244)	(4,871)	(739)	(18,734)	(5,634)	(4,614)	(1,240)	(538)	(12,026)
Derivative effect	1,069	5,301	(6,016)	739	1,093	(1,709)	4,693	(2,972)	226	238
Net debt position	(6,811)	57	(10,887)	–	(17,641)	(7,343)	79	(4,212)	(312)	(11,788)

*Includes bank overdrafts

The overall exposure to US dollars largely relates to our net investment hedge activities as described and shown in note 32.

The currency exposure on other financial instruments is as follows:

	2008					2007				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Trade and other receivables	182	–	1,138	–	1,320	172	–	526	–	698
Trade and other payables	(1,290)	–	(1,050)	–	(2,340)	(1,208)	–	(563)	–	(1,771)
Other non-current liabilities	(18)	–	(417)	–	(435)	(11)	–	(333)	–	(344)

The carrying amounts of other financial instruments are denominated in the above currencies, which in most instances are the functional currency of the respective subsidiaries. Our exposure to US dollars is due to activities in our US subsidiaries. We do not have any other significant exposure to currency risk on these amounts.

33. Financial risk continued

(a) Market risk continued

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from our borrowings. Borrowings issued at variable rates expose National Grid to cash flow interest rate risk. Borrowings issued at fixed-rates expose National Grid to fair value interest rate risk. Our interest rate risk management policy as further explained on page 76 is to minimise the finance costs (being interest costs and changes in the market value of debt). Some of our borrowings issued are index-linked; that is, their cost is linked to changes in the UK retail price index (RPI). We believe that these borrowings provide a good hedge for regulated UK revenues and our UK regulatory asset values that are also RPI-linked.

Interest rate risk arising from the financial investments is primarily variable being composed of short dated money funds.

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

	2008 £m	2007 £m
Fixed interest rate borrowings		
In one year or less	(2,620)	(619)
In more than one year, but not more than two years	(906)	(1,525)
In more than two years, but not more than three years	(642)	(569)
In more than three years, but not more than four years	(1,008)	(263)
In more than four years, but not more than five years	(900)	(901)
In more than five years	(5,579)	(4,886)
	(11,655)	(8,763)
Floating interest rate borrowings (including RPI)	(9,348)	(6,954)
Total borrowings	(21,003)	(15,717)

During 2008 and 2007, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2008					2007				
	Fixed-rate £m	Floating-rate £m	RPI ⁽ⁱ⁾ £m	Other ⁽ⁱⁱ⁾ £m	Total £m	Fixed-rate £m	Floating-rate £m	RPI ⁽ⁱ⁾ £m	Other ⁽ⁱⁱ⁾ £m	Total £m
Cash and cash equivalents	-	174	-	-	174	-	1,593	-	-	1,593
Financial investments	223	1,835	-	37	2,095	-	1,872	-	226	2,098
Borrowings*	(11,655)	(4,825)	(4,523)	-	(21,003)	(8,763)	(3,307)	(3,647)	-	(15,717)
Pre-derivative position	(11,432)	(2,816)	(4,523)	37	(18,734)	(8,763)	158	(3,647)	226	(12,026)
Derivative effect	1,814	(708)	(2)	(11)	1,093	2,747	(2,501)	-	(8)	238
Net debt position	(9,618)	(3,524)	(4,525)	26	(17,641)	(6,016)	(2,343)	(3,647)	218	(11,788)

*Includes bank overdrafts

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

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

33. Financial risk continued

(b) Credit risk

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

Treasury related credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. As at 31 March 2008 the following limits were in place for investments held with banks and financial institutions:

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

As at 31 March 2008 and 2007, we had a number of exposures to individual counterparties. In accordance with our treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. Management does not expect any significant losses from non-performance by these counterparties.

The counterparty exposure under derivative financial contracts as shown in note 17 was £1,526m (2007: £657m), after netting agreements it was £1,277m (2007: £364m). This exposure is further reduced by collateral received as shown in note 21.

Wholesale and retail credit risk

Our principal commercial exposure in the UK is governed by the credit rules within the regulated codes Uniform Network Code and Connection and Use of System Code. These lay down the level of credit relative to the Regulatory Asset Value (RAV) for each credit rating. In the US, we are required to supply electricity and gas under state regulations. Our credit policies and practices are designed to limit credit exposure by collecting prepayments prior to providing utility services. Collection activities are managed on a daily basis. The utilisation of credit limits is regularly monitored. Sales to retail customers are usually settled in cash or using major credit cards. Management does not expect any significant losses of receivables that have not been provided for as shown in note 19.

33. Financial risk continued

(c) Liquidity analysis

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

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

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
At 31 March 2008					
Non derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(3,379)	(1,345)	(1,380)	(14,626)	(20,730)
Interest payments on borrowings (i)	(822)	(728)	(663)	(7,946)	(10,159)
Finance lease liabilities	(266)	(38)	(34)	(147)	(485)
Other non interest-bearing liabilities	(2,190)	(347)	–	–	(2,537)
Derivative financial liabilities					
Derivative contracts – receipts	990	495	710	5,329	7,524
Derivative contracts – payments	(647)	(364)	(587)	(5,538)	(7,136)
Commodity contracts	(490)	(257)	(188)	(279)	(1,214)
Total at 31 March 2008	(6,804)	(2,584)	(2,142)	(23,207)	(34,737)

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

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

33. Financial risk continued

(d) Sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits, derivative financial instruments and commodity contracts. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity to changes in market variables, being UK and US interest rates, the UK retail price index and the US dollar to sterling exchange rate on our financial instruments.

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

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2008 and 31 March 2007, respectively. As a consequence, this sensitivity analysis relates to the positions at those dates and is not representative of the years then ended, as all of these varied.

The following assumptions were made in calculating the sensitivity analysis:

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

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

	2008		2007	
	Income statement -/+ £m	Other equity reserves -/+ £m	Income statement -/+ £m	Other equity reserves -/+ £m
UK retail price index +/- 0.50%	16	–	13	–
UK interest rates +/- 0.50%	46	57	35	43
US interest rates +/- 0.50%	31	7	26	8
US dollar exchange rate +/- 10%	18	590	36	194

The income statement sensitivities impact interest expense and financial instrument remeasurements.

The other equity reserves impact does not reflect the exchange translation in our US subsidiary investments which it is estimated would change by £718m (2007: £380m) in the opposite direction if the US dollar exchange rate changed by 10%.

(e) Capital and risk management

National Grid's objectives when managing capital are to safeguard our ability to continue as a going concern, to remain within regulatory constraints and to operate an efficient balance sheet thus achieving an optimal capital structure and cost of capital.

In order to maintain or adjust the capital structure, we may return excess capital to shareholders, issue new shares or sell assets to reduce debt.

The principal measure of our balance sheet efficiency is our interest cover ratio. Interest cover for the year ended 31 March 2008 decreased to 3.2 from 3.8 for the year ended 31 March 2007. Our long-term target range for interest cover is between 3.0 and 3.5.

34. Commodity risk

We purchase electricity and gas in order to supply our customers in the US and also to meet our own energy requirements. We purchased gas and oil for our discontinued Ravenswood generation station prior to 31 December 2007 when we entered a tolling agreement with a third party. We also engage in the sale of gas that is produced primarily by our West Virginia gas fields. In the US substantially all of our costs of purchasing electricity and gas for supply to customers are typically recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular financial period. The most significant gas purchases for our own use relate to the operation of our gas transmission and gas distribution networks, mainly in the UK, while we also purchase fuel for our vehicle fleets in the UK and the US.

We enter into forward contracts for the purchase of commodities; some of these do not meet the normal purchase, sale or usage exemption for accounting purposes and hence are reported as derivatives. We also enter into derivative instruments including index-linked swaps and futures contracts linked to commodity prices. These derivatives are used to reduce market price volatility and are carried at fair value in the balance sheet. Mark-to-market changes in these contracts are reflected through earnings with the exception of electricity and gas futures contracts, and gas sales swaps which are designated as cash flow hedges.

Our Energy Procurement Risk Management Policy and Delegations of Authority govern our US commodity trading activities for energy transactions. The purpose of the policy is to ensure that our US operating companies participate in the physical and financial markets only for those commodities that we or our customers have a physical market requirement, and will transact only within predefined risk parameters approved by the Energy Procurement Risk Management Committee.

The fair value of our commodity contracts by type can be analysed as follows:

	2008			2007*
	Assets £m	Liabilities £m	Total £m	Total £m
Commodity purchase contracts accounted for as derivative contracts				
Forward purchases of electricity	–	(47)	(47)	(132)
Forward purchases of gas	116	(39)	77	–
Forward purchases of electricity capacity	1	(12)	(11)	–
Derivative financial instruments linked to commodity prices				
Electricity swaps	–	(26)	(26)	(136)
NYMEX gas and electricity futures	19	–	19	–
	136	(124)	12	(268)

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

	2008			2007*
	Assets £m	Liabilities £m	Total £m	Total £m
In one year or less	78	(36)	42	(138)
Current	78	(36)	42	(138)
In more than one year, but not more than two years	40	(36)	4	(42)
In more than two years, but not more than three years	14	(12)	2	(11)
In more than three years, but not more than four years	4	(18)	(14)	(12)
In more than four years, but not more than five years	–	(12)	(12)	(12)
In more than five years	–	(10)	(10)	(53)
Non-current	58	(88)	(30)	(130)
Total	136	(124)	12	(268)

*In 2007 all commodity contracts were liabilities

For each class of commodity contract, our exposure, based on the notional quantities is as follows:

	2008	2007
Forward purchases of electricity (i)	Nil	Nil
Forward purchases of gas (ii)	197m Dth	n/a
Forward purchases of electricity capacity	23 GWh	n/a
Electricity swaps	5,466 GWh	6,845 GWh
NYMEX electricity futures	581 GWh	n/a
NYMEX gas futures	19m Dth	n/a

(i) Forward electricity purchases have terms up to 12 years but do not have specified notional quantities as these are defined by a percentage of unit output. The future obligations of these contracts are £316m (2007: £389m).

(ii) Forward gas purchases have terms up to seven years. The future obligations of these contracts are £873m (2007: n/a).

34. Commodity risk continued

A sensitivity analysis has been prepared on the basis that all commodity contracts are constant from the balance sheet date. Based on this, an illustrative 10% movement in commodity prices would have the following impacts after the effects of tax:

	2008		2007	
	Income statement £m	Other equity reserves £m	Income statement £m	Other equity reserves £m
10% increase in commodity prices	25	(1)	10	–
10% reduction in commodity prices	(22)	1	(10)	–

The income statement sensitivities will impact commodity remeasurements.

35. Bonds and facilities

The table below shows our significant bonds in issue, being £50m notional value or greater. Unless otherwise indicated, these instruments were outstanding at both 31 March 2008 and 31 March 2007.

Issuer	Original Notional Value	Description of instrument	Due
Bonds			
British Transco Finance Inc.	USD 300m	6.625% Fixed Rate	2018
British Transco International Finance BV	FRF 2,000m	5.125% Fixed Rate	2009
	USD 1,500m	Zero Coupon Bond	2021
Brooklyn Union Gas Company (i)	USD 153m	NYSERDA 4.7% GFRB's Series 1996	2021
	USD 400m	KEDNY 5.6% Senior Unsecured Note	2016
KeySpan Corporation (i)	USD 700m	KeySpan MTN 7.625%	2010
	USD 250m	KeySpan MTN 8.00%	2030
	USD 160m	KeySpan 4.9% Notes	2008
	USD 307m	KeySpan 5.803% Notes	2035
	USD 150m	KeySpan 4.65% Notes	2013
	USD 150m	KeySpan 5.875% Notes	2033
KeySpan Gas East Corporation (i) (National Grid Energy Delivery Long Island)	USD 400m	KeySpan 7.875% Gas East MTN Program	2010
	USD 100m	KEDLI 5.6% Senior Unsecured Note	2016
KeySpan Ravenswood LLC (i)	USD 412m	Ravenswood Master Lease Notes	2009
National Grid Electricity Transmission plc	EUR 600m	4.125% Fixed Rate	2008
	GBP 250m	4.75% Fixed Rate	2010
	GBP 300m	2.983% Guaranteed Retail Price Index-Linked	2018
	GBP 220m	3.806% Retail Price Index-Linked	2020
	GBP 450m	5.875% Fixed Rate	2024
	GBP 360m	6.5% Fixed Rate	2028
	GBP 70m	3.589% Limited Retail Price Index-Linked	2030
	GBP 50m	2.817% Guaranteed Limited Retail Price Index-Linked	2032
	GBP 75m	5.0% Fixed Rate	2035
	GBP 50m	2.2280% Retail Price Index-Linked	2035
	GBP 75m	2.0353% Retail Price Index-Linked	2035
	GBP 50m	1.8204% Retail Price Index-Linked	2035
	JPY 10,000m	Callable Fixed Rate Notes	2035
	GBP 200m	1.6449% Retail Price Index-Linked	2036
	GBP 50m	1.6747% Retail Price Index-Linked	2036
	GBP 50m	1.819% Retail Price Index-Linked	2056
	GBP 150m	1.823% Retail Price Index-Linked	2056
	GBP 50m	1.797% Retail Price Index-Linked	2056
	GBP 50m	1.6574% Retail Price Index-Linked	2056
	GBP 50m	1.8055% Index-Linked (ii)	2039
	GBP 150m	1.8575% Index-Linked (ii)	2039

35. Bonds and facilities continued

Issuer	Original Notional Value	Description of instrument	Due	
New England Power Company	USD 136m	Floating Rate Tax Exempt Pollution Control Revenue Bonds	2020	
	USD 106m	Floating Rate Tax Exempt Pollution Control Revenue Bonds	2022	
National Grid Gas Holdings plc	GBP 503m	Floating Rate (iii)	2009	
	GBP 503m	4.1875% Index-Linked (iii)	2022	
	GBP 503m	7.0% Fixed Rate (iii)	2024	
National Grid Gas plc	GBP 300m	5.625% Fixed Rate (iv)	2007	
	GBP 250m	8.875% Fixed Rate	2008	
	AUD 500m	7.0% Fixed Rate	2008	
	GBP 300m	5.375% Fixed Rate	2009	
	GBP 300m	6.0% Fixed Rate	2017	
	GBP 275m	8.75% Fixed Rate	2025	
	GBP 50m	6.2% Fixed Rate	2028	
	GBP 100m	1.6747% Retail Price Index-Linked	2036	
	GBP 115m	1.7298% Retail Price Index-Linked	2046	
	GBP 100m	1.6298% Retail Price Index-Linked	2048	
	GBP 100m	1.5522% Retail Price Index-Linked	2048	
	GBP 300m	1.754% Retail Price Index-Linked	2036	
	GBP 140m	1.7864% Index-Linked	2037	
	GBP 50m	1.7552% Index-Linked	2037	
	GBP 50m	1.6783% Index-Linked	2037	
	GBP 100m	1.9158% Index-Linked	2037	
	GBP 50m	1.8928% Index-Linked	2037	
	GBP 65m	1.9211% Index-Linked	2037	
	GBP 50m	1.7642% Index-Linked	2037	
	GBP 100m	1.7762% Index-Linked	2037	
	EUR 100m	4.445% Fixed Rate (ii)	2009	
	GBP 100m	1.7744% Index-Linked (ii)	2039	
	GBP 100m	1.8625% Index-Linked (ii)	2039	
	GBP 75m	1.5803% Index-Linked (ii)	2052	
	GBP 300m	6.375% Fixed Rate (ii)	2020	
	GBP 503m	Floating Rate (iii)	2009	
	GBP 503m	4.1875% Index-Linked (iii)	2022	
	GBP 503m	7.0% Fixed Rate (iii)	2024	
	National Grid plc	CAD 200m	4.98% Fixed Rate	2011
		EUR 500m	3.75% Fixed Rate	2008
EUR 1,000m		4.125% Fixed Rate	2013	
EUR 600m		5.0% Fixed Rate	2018	
EUR 500m		4.375% Fixed Rate	2020	
EUR 600m		Floating Rate	2010	
EUR 300m		Floating Rate (iv)	2008	
EUR 750m		Floating Rate	2012	
EUR 300m		Floating Rate	2009	
EUR 450m		Floating Rate	2008	
EUR 100m		3.25% Fixed Rate	2009	
GBP 300m		5.25% Fixed Rate	2011	
GBP 250m		5.5% Fixed Rate	2013	
USD 1,000m		6.3% Fixed Rate	2016	
USD 100m		Floating Rate	2011	
NGG Finance plc	EUR 750m	6.125% Fixed Rate	2011	
Niagara Mohawk Power Corporation	USD 200m	8.875% Senior Notes (iv)	2007	
	USD 600m	7.75% Senior Notes	2008	
	USD 116m	7.2% Tax-Exempt First Mortgage Bonds (v)	2029	

(i) These bonds were acquired as part of the KeySpan acquisition in August 2007.

(ii) Issued during the year ended 31 March 2008.

(iii) The bonds were transferred from National Grid Gas Holdings plc to National Grid Gas plc during the year.

(iv) Matured during the year ended 31 March 2008.

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

35. Bonds and facilities continued

Issuer	Original Notional Value	Description of instrument	Due
Bank loans and other loans			
National Grid plc	USD 150m	Floating Rate (i)	2011
National Grid Grain LNG Limited	GBP 120m	Floating Rate	2014
	GBP 140m	Floating Rate (i)	2023
National Grid Electricity Transmission plc	GBP 200m	Floating Rate	2012
	GBP 200m	Floating Rate	2017
National Grid Gas plc	GBP 200m	Floating Rate	2012
	GBP 180m	1.88% Retail Price Index-Linked	2022
	GBP 190m	2.14% Retail Price Index-Linked (i)	2022
	JPY 10,000m	4.31% Fixed Rate	2029
	JPY 10,000m	4.63% Fixed Rate	2029
National Grid USA	EUR 100m	Floating Rate (i)	2011
	USD 150m	Floating Rate (i)	2011

(i) Issued during the year ended 31 March 2008.

No significant bonds have been announced to the market prior to 31 March 2008 but not issued until after that date. However, the following bonds and loans have been issued since 31 March 2008:

Issuer	Original Notional Value	Description of instrument	Due
Bonds and loans issued after 31 March 2008			
National Grid plc	USD 150m	Floating Rate	2011
National Grid Gas plc	EUR 750m	5.125% Fixed Rate	2013
	GBP 300m	6.00% Fixed Rate	2038

Borrowing facilities

At 31 March 2008, there were bilateral committed credit facilities of £1,315m (2007: £1,290m), of which £1,235m (2007: £1,290m) were undrawn. In addition, there were committed credit facilities from syndicates of banks of £1,628m at 31 March 2008 (2007: £879m), of which £1,628m (2007: £879m) were undrawn. An analysis of the maturity of these undrawn committed facilities is shown below:

Undrawn committed borrowing facilities

	2008 £m	2007 £m
Expiring:		
In one year or less	756	762
In more than one year, but not more than two years	408	–
In more than two years	1,699	1,407
	2,863	2,169

At 31 March 2008, of the unused facilities £2,747m (2007: £2,052m) was held as back-up to commercial paper and similar borrowings.

36. Share options and reward plans

We operate four principal forms of share option and share reward plans. These plans include an employee Sharesave scheme, a Performance Share Plan (PSP), the Deferred Share Plan and the Retention Award Plans. In any 10 year period, the maximum number of shares that may be issued or issuable pursuant to these share plans may not exceed the number of shares representing 10% of the issued ordinary share capital.

Active share plans

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

Under the PSP, awards have been made to Executive Directors and approximately 350 senior employees. Awards made in 2004 have lapsed. For awards made from 2005, the criteria was amended so that 50% is based on the Company's Total Shareholder Return (TSR) performance when compared to the FTSE 100 and 50% is based on the annualised growth of the Company's EPS compared to the growth in RPI (the general index of retail prices for all items). Awards are delivered in National Grid plc shares.

Under the Deferred Share Plan, one half of any bonus earned by Executive Directors and a predetermined part of any bonus earned by UK senior employees is automatically deferred into National Grid shares. The shares are held in trust for three years before release.

Retention awards have been made to a small number of senior employees following the acquisition of KeySpan. Awards were made in November 2007 in National Grid ADSs and will vest in three equal tranches over three years, provided the employee remains employed by the Company. The Retention Awards are conditional share awards with no performance conditions attached.

36. Share options and reward plans continued

Additional information in respect of active share schemes

	2008 millions	2007 millions	2006 millions
Performance Share Plan			
Awards of ordinary share equivalents at 1 April	8.0	9.2	6.6
Awards made	3.1	2.6	3.1
Lapses/forfeits	(3.4)	(3.8)	(0.5)
Awards vested	(0.2)	–	–
Awards of ordinary share equivalents at 31 March	7.5	8.0	9.2
Conditional awards available for release at 31 March	–	–	–
Deferred Share Plan			
Awards of ordinary share equivalents at 1 April	0.4	–	–
Awards made	0.2	0.4	–
Lapses/forfeits	–	–	–
Awards vested	(0.1)	–	–
Awards of ordinary share equivalents at 31 March	0.5	0.4	–
Conditional awards available for release at 31 March	–	0.1	–
Retention Award Plans			
Awards of ordinary share equivalents at 1 April	–	–	–
Awards made	0.8	–	–
Lapses/forfeits	–	–	–
Awards vested	–	–	–
Awards of ordinary share equivalents at 31 March	0.8	–	–
Conditional awards available for release at 31 March	–	–	–

Non-active share plans

We also have a number of historical plans where awards are still outstanding but no further awards will be granted. These include the Executive Share Option Plan and the Share Matching Plan.

The Executive Share Option Plan applied to senior executives, including Executive Directors. Options granted were subject to the achievement of performance targets related to TSR over a three year period and those for 2000 are awaiting retest. 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 Share Matching Plan applied to Executive Directors and other senior employees whereby a predetermined part of each participant's bonus entitlement was automatically deferred into National Grid plc shares (known as qualifying shares) and a matching award may be exercised under the Plan after a three year period provided the Director or senior employee remains employed by the Company or its subsidiary undertakings.

In addition to the above, following the sale of the UK Wireless business, Transitional Share Awards and Special Share Awards which were made during the year ended 31 March 2005 to former Wireless employees vested in full on completion.

Additional information in respect of non-active share schemes

	2008 000s	2007 000s	2006 000s
Share Matching Plan			
Awards at 1 April	384	436	342
Awards granted	1	–	149
Lapses/forfeits	–	–	(1)
Awards exercised	(183)	(52)	(54)
Awards at 31 March	202	384	436
Options exercisable at 31 March	109	164	45
Transitional Share Awards/Special Share Awards			
Awards of ordinary share equivalents at 1 April	77	133	234
Awards made	–	–	–
Lapses/forfeits	(1)	(6)	(39)
Awards vested	(73)	(50)	(62)
Awards of ordinary share equivalents at 31 March	3	77	133
Conditional awards available for release at 31 March	3	1	–

36. Share options and reward plans continued

Share options

Movement in options to subscribe for ordinary shares under the Company's various options schemes for the three years ended 31 March 2008 is shown below and includes those options related to shares issued by employee benefit trusts:

	Sharesave scheme options		Executive Plan options		Total options millions
	Weighted average price £	millions	Weighted average price £	millions	
At 31 March 2005	3.35	31.2	4.86	10.4	41.6
Granted	4.34	5.6	–	–	5.6
Lapsed – expired	3.33	(4.1)	4.32	(0.9)	(5.0)
Exercised	3.25	(12.8)	4.04	(2.3)	(15.1)
At 31 March 2006	3.68	19.9	5.01	7.2	27.1
Granted	5.58	4.2	–	–	4.2
Lapsed – expired	3.82	(0.9)	5.48	(1.9)	(2.8)
Exercised	3.43	(1.9)	5.00	(2.1)	(4.0)
At 31 March 2007	4.07	21.3	4.74	3.2	24.5
Granted	6.55	2.9	–	–	2.9
Lapsed – expired	4.43	(1.0)	5.31	(0.1)	(1.1)
Exercised	3.37	(6.3)	4.45	(1.1)	(7.4)
At 31 March 2008	4.74	16.9	4.87	2.0	18.9

Included within options outstanding at 31 March 2008, 31 March 2007 and 31 March 2006 were the following options that were exercisable:

At 31 March 2008	3.74	0.5	4.78	1.3	1.8
At 31 March 2007	3.17	4.1	4.63	2.4	6.5
At 31 March 2006	3.24	0.5	5.03	7.1	7.6

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2008 was 2 years and 2 months. These options have exercise prices between £3.17 and £6.55.

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

	2008 £	2007 £	2006 £
Sharesave scheme options	7.79	6.50	5.89
Executive Plan options	7.68	6.68	5.50

Additional information in respect of share options

	2008 £m	2007 £m	2006 £m
Share options exercised			
Cash received on exercise of all share options during the year	23	16	54
Tax benefits realised from share options exercised during the year	10	5	5

Options outstanding and exercisable and their weighted average exercise prices for the respective ranges of exercise prices and years at 31 March 2008 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	3.91	0.1	3.91	0.1	375.8-490.0	2002-2009
	5.34	0.2	5.34	0.2	424.0-566.5	2003-2010
	5.27	–	5.26	0.6	526.0-623.0	2004-2011
	4.70	1.0	4.70	1.0	434.3-481.5	2006-2013
	4.05	–	4.05	0.1	405.0	2007-2014
	4.78	1.3	4.87	2.0		

The aggregate intrinsic value of all options outstanding and exercisable at 31 March 2008 amounted to £47m and £5m respectively.

Share-based payment charges

The charge to the income statement for the year ended 31 March 2008 was £18m (2007: £15m; 2006: £14m). The related tax charge recognised in the income statement was £1m (2007: £9m charge; 2006: £2m credit).

36. Share options and reward plans continued

Awards under share option plans

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

	2008	2007	2006
Average share price	846.0p	746.0p	569.0p
Average exercise price	655.0p	558.0p	434.0p
Average fair value	190.0p	166.8p	128.0p

These amounts have been calculated in respect of options where the exercise price is less than the market price at the date of grant.

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

	2008	2007	2006
Dividend yield (%)	4.5	4.5	4.5
Volatility (%)	15.6-18.9	15.6-18.9	15.6-18.9
Risk-free investment rate (%)	4.2	4.2	4.2
Average life (years)	4.1	3.9	4.3

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

Volatility was derived based on the following and is assumed to revert from its current implied level to its long run mean, based on historical volatility under (ii) below:

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

Awards under other share scheme plans

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

	2008	2007	2006
Average share price	766.9p	594.0p	535.6p
Average fair value	522.8p	403.1p	358.0p

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

	2008	2007	2006
Dividend yield (%)	4.4	4.4	4.4
Volatility (%)	19.9	19.9	19.9
Risk-free investment rate (%)	4.1	4.1	4.1

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

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

37. Subsidiary undertakings, joint ventures and associates

Principal subsidiary undertakings

The principal subsidiary undertakings included in the consolidated financial statements at 31 March 2008 are listed below. These undertakings are wholly-owned and, unless otherwise indicated, are incorporated in Great Britain.

	Principal activity
National Grid Gas plc (i)	Transmission and distribution of gas
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 Metering Limited (i)	Metering services
OnStream Metering Services Limited (i)	Metering services
National Grid Grain LNG Limited (i)	LNG import terminal
Boston Gas Company (incorporated in the US) (i)	Distribution of gas
National Grid Electric Services LLC (incorporated in the US) (i)	Transmission and distribution of electricity
National Grid Generation LLC (incorporated in the US) (i)	Generation of electricity
New England Electric Transmission Corporation (incorporated in the US) (i)	Transmission of electricity
Nantucket Electric Company (incorporated in the US) (i)	Distribution of electricity
KeySpan Gas East Corporation (incorporated in the US) (i)	Distribution of gas
KeySpan-Ravenswood, LLC (incorporated in the US) (i)	Electricity generation
The Brooklyn Union Gas Company (incorporated in the US) (i)	Distribution of gas
NGG Finance plc (ii)	Financing
British Transco Finance, Inc. (incorporated in the US) (i)	Financing
British Transco International Finance B.V. (incorporated in The Netherlands) (i)	Financing
National Grid Property Limited (i)	Property services
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
KeySpan Corporation (incorporated in the US) (i)	Holding company

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

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

Principal joint ventures and associates

The principal joint ventures and associate undertakings included in the financial statements at 31 March 2008 are listed below. These undertakings are incorporated in Great Britain (unless otherwise indicated).

	% ownership	Principal activity
Blue – ng (Holdings) Limited	50	Holding company
BritNed Development Limited	50	Interconnector between UK and Netherlands
Millennium Pipeline Company, LLC (incorporated in the US)	26.25	Gas pipeline construction
Iroquois Gas Transmission System, L.P. (incorporated in the US)	20.4	Transmission of gas

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

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional 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). Condensed consolidating financial information is also provided in respect of Niagara Mohawk Power Corporation as a result of National Grid plc's guarantee (dated 29 October 2007) of Niagara Mohawk's 3.6% and 3.9% issued preferred shares. National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation are wholly-owned subsidiaries of National Grid plc.

The following financial information for National Grid plc, National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation 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.

This parent company-only financial information should be read in conjunction with the Company's financial statements and footnotes presented in our 2007/08 Annual Report and Accounts.

Summary income statements are presented, on a consolidating basis, for the three years ended 31 March 2008. Summary income statements of National Grid plc and National Grid Gas plc are presented under IFRS 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 IFRS. The IFRS 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., Niagara Mohawk Power Corporation, and other subsidiaries.

Summary income statement for the year ended 31 March 2008 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor		Consolidation adjustments £m	National Grid consolidated £m
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m		
Revenue	–	2,108	–	2,459	7,104	(248)	11,423
Other operating income	–	–	–	8	67	–	75
Operating costs							
Depreciation and amortisation	–	(101)	–	(432)	(461)	–	(994)
Payroll costs	–	(201)	–	(226)	(752)	–	(1,179)
Purchases of electricity	–	(609)	–	–	(744)	–	(1,353)
Purchases of gas	–	(297)	–	(110)	(1,604)	–	(2,011)
Rates and property taxes	–	(93)	–	(227)	(288)	–	(608)
Electricity transmission services scheme direct costs	–	–	–	–	(574)	–	(574)
Payments to Scottish electricity transmission network owners	–	–	–	–	(226)	–	(226)
Other operating charges	–	(248)	–	(514)	(1,075)	248	(1,589)
	–	(1,549)	–	(1,509)	(5,724)	248	(8,534)
Operating profit	–	559	–	958	1,447	–	2,964
Net finance costs	(116)	(116)	–	(298)	(246)	–	(776)
Dividends receivable	–	–	–	–	500	(500)	–
Interest in equity accounted affiliates	1,711	–	–	(27)	(7)	(1,673)	4
Profit before taxation	1,595	443	–	633	1,694	(2,173)	2,192
Taxation	(14)	(194)	–	(141)	(262)	–	(611)
Profit for the year from continuing operations	1,581	249	–	492	1,432	(2,173)	1,581
Profit for the year from discontinued operations	1,618	–	–	3	1,615	(1,618)	1,618
Profit for the year	3,199	249	–⁽ⁱ⁾	495	3,047	(3,791)	3,199
Attributable to:							
Equity shareholders	3,196	249	–	495	3,044	(3,788)	3,196
Minority interests	3	–	–	–	3	(3)	3
	3,199	249	–⁽ⁱ⁾	495	3,047	(3,791)	3,199

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

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Summary income statement for the year ended 31 March 2007 – IFRS

	Parent	Issuer of notes		Subsidiary	Other	Consolidation	National
	guarantor	Niagara	British	guarantor			
	National	Mohawk	Transco	National	subsidiaries	adjustments	Grid
	Grid	Power	Finance Inc.	Grid Gas	£m	£m	consolidated
	plc	Corporation	£m	plc			£m
	£m	£m		£m			£m
Revenue	–	2,189	–	2,231	4,593	(318)	8,695
Other operating income	–	–	–	6	77	–	83
Operating costs							
Depreciation and amortisation	–	(102)	–	(389)	(380)	–	(871)
Payroll costs	–	(209)	–	(228)	(383)	–	(820)
Purchases of electricity	–	(633)	–	–	(960)	–	(1,593)
Purchases of gas	–	(309)	–	(113)	(122)	–	(544)
Rates and property taxes	–	(104)	–	(211)	(157)	–	(472)
Electricity transmission services scheme direct costs	–	–	–	–	(558)	–	(558)
Payments to Scottish electricity transmission network owners	–	–	–	–	(237)	–	(237)
Other operating charges	(2)	(154)	–	(531)	(801)	318	(1,170)
	(2)	(1,511)	–	(1,472)	(3,598)	318	(6,265)
Operating profit	(2)	678	–	765	1,072	–	2,513
Net finance costs	18	(131)	–	(280)	(371)	–	(764)
Dividends receivable	–	–	–	–	1,850	(1,850)	–
Interest in equity accounted affiliates	1,286	–	–	15	(1)	(1,298)	2
Profit before taxation	1,302	547	–	500	2,550	(3,148)	1,751
Taxation	8	(238)	–	(239)	28	–	(441)
Profit for the year from continuing operations	1,310	309	–	261	2,578	(3,148)	1,310
Profit for the year from discontinued operations	86	–	–	13	73	(86)	86
Profit for the year	1,396	309	– ⁽ⁱ⁾	274	2,651	(3,234)	1,396
Attributable to:							
Equity shareholders	1,394	309	–	274	2,649	(3,232)	1,394
Minority interests	2	–	–	–	2	(2)	2
	1,396	309	– ⁽ⁱ⁾	274	2,651	(3,234)	1,396

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

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Summary income statement for the year ended 31 March 2006 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor	Other subsidiaries £m*	Consolidation adjustments £m*	National Grid consolidated £m*
	National Grid plc £m*	Niagara Mohawk Power Corporation £m*	British Transco Finance Inc. £m*	National Grid Gas plc £m*			
Revenue	1	2,360	–	2,281	4,589	(363)	8,868
Other operating income	–	–	–	4	76	–	80
Operating costs							
Depreciation and amortisation	–	(105)	–	(396)	(387)	–	(888)
Payroll costs	–	(221)	–	(213)	(420)	–	(854)
Purchases of electricity	–	(694)	–	–	(1,283)	–	(1,977)
Purchases of gas	–	(418)	–	(148)	–	–	(566)
Rates and property taxes	–	(104)	–	(180)	(153)	–	(437)
Electricity transmission services scheme direct costs	–	–	–	–	(536)	–	(536)
Payments to Scottish electricity transmission network owners	–	–	–	–	(259)	–	(259)
Other operating charges	–	(281)	–	(983)	(588)	795	(1,057)
	–	(1,823)	–	(1,920)	(3,626)	795	(6,574)
Operating profit	1	537	–	365	1,039	432	2,374
Net finance costs	(1)	(130)	–	(193)	(335)	–	(659)
Dividends receivable	–	–	–	–	310	(310)	–
Interest in equity accounted affiliates	1,149	–	–	441	3	(1,590)	3
Profit before taxation	1,149	407	–	613	1,017	(1,468)	1,718
Taxation	34	(148)	–	(123)	(298)	–	(535)
Profit for the year from continuing operations	1,183	259	–	490	719	(1,468)	1,183
Profit for the year from discontinued operations	2,667	–	–	2,494	185	(2,679)	2,667
Profit for the year	3,850	259	– ⁽ⁱ⁾	2,984	904	(4,147)	3,850
Attributable to:							
Equity shareholders	3,848	259	–	2,984	902	(4,145)	3,848
Minority interests	2	–	–	–	2	(2)	2
	3,850	259	– ⁽ⁱ⁾	2,984	904	(4,147)	3,850

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

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

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Balance sheet as at 31 March 2008 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m			
Non-current assets							
Goodwill	–	564	–	–	3,274	–	3,838
Other intangible assets	–	12	–	56	204	–	272
Property, plant and equipment	–	2,756	–	9,761	11,816	–	24,333
Deferred tax assets	3	67	–	–	–	(70)	–
Other non-current assets	–	–	–	–	1,101	–	1,101
Amounts owed by subsidiary undertakings	–	–	–	5,630	1,067	(6,697)	–
Financial and other investments (i)	3,189	20	–	19	11,082	(14,059)	251
Derivative financial assets	751	–	–	101	211	–	1,063
Total non-current assets	3,943	3,419	–	15,567	28,755	(20,826)	30,858
Current assets							
Inventories and current intangible assets	–	18	–	31	406	–	455
Trade and other receivables	3	401	–	254	1,611	–	2,269
Amounts owed by subsidiary undertakings	11,350	–	154	125	6,465	(18,094)	–
Financial and other investments	787	2	–	499	807	–	2,095
Derivative financial assets	341	–	–	81	41	–	463
Cash and cash equivalents	–	5	–	3	166	–	174
Total current assets	12,481	426	154	993	9,496	(18,094)	5,456
Assets of businesses held for sale	–	–	–	–	1,508	–	1,508
Total assets	16,424	3,845	154	16,560	39,759	(38,920)	37,822
Current liabilities							
Borrowings	(1,019)	(351)	(3)	(680)	(1,829)	–	(3,882)
Derivative financial liabilities	(79)	–	–	(27)	(8)	–	(114)
Trade and other payables	(51)	(231)	–	(580)	(1,577)	–	(2,439)
Amounts owed to subsidiary undertakings	(4,804)	(170)	–	(1,490)	(11,630)	18,094	–
Current tax liabilities	–	(41)	–	(27)	(230)	–	(298)
Provisions	–	(16)	–	(50)	(323)	–	(389)
Total current liabilities	(5,953)	(809)	(3)	(2,854)	(15,597)	18,094	(7,122)
Non-current liabilities							
Borrowings	(4,460)	(417)	(151)	(4,906)	(7,187)	–	(17,121)
Derivative financial liabilities	(179)	–	–	(83)	(57)	–	(319)
Other non-current liabilities	–	(188)	–	(1,043)	(490)	–	(1,721)
Amounts owed to subsidiary undertakings	(452)	(615)	–	–	(5,630)	6,697	–
Deferred tax liabilities	–	–	–	(1,630)	(1,847)	70	(3,407)
Pensions and other post-retirement benefits	–	(784)	–	–	(962)	–	(1,746)
Provisions	–	(166)	–	(64)	(713)	–	(943)
Total non-current liabilities	(5,091)	(2,170)	(151)	(7,726)	(16,886)	6,767	(25,257)
Liabilities of businesses held for sale	–	–	–	–	(63)	–	(63)
Total liabilities	(11,044)	(2,979)	(154)	(10,580)	(32,546)	24,861	(32,442)
Net assets (i)	5,380	866	–	5,980	7,213	(14,059)	5,380
Equity							
Called up share capital	294	94	–	45	182	(321)	294
Share premium account	1,371	1,486	–	204	3,642	(5,332)	1,371
Retained earnings	8,949	(723)	–	4,433	10,055	(13,765)	8,949
Other equity reserves	(5,252)	9	–	1,298	(6,666)	5,359	(5,252)
Total shareholders' equity (i)	5,362	866	–	5,980	7,213	(14,059)	5,362
Minority interests	18	–	–	–	–	–	18
Total equity (i)	5,380	866	–	5,980	7,213	(14,059)	5,380

(i) Includes parent Company's subsidiaries, associates and joint ventures presented on an equity accounted basis.

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Balance sheet as at 31 March 2007 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m			
Non-current assets							
Goodwill	–	569	–	–	911	–	1,480
Other intangible assets	–	12	–	41	91	–	144
Property, plant and equipment	–	2,624	–	8,829	7,442	–	18,895
Deferred tax assets	3	143	–	–	–	(146)	–
Other non-current assets	–	–	–	2	71	–	73
Amounts owed by subsidiary undertakings	–	–	–	5,611	620	(6,231)	–
Financial and other investments (i)	1,508	20	–	47	11,385	(12,823)	137
Derivative financial assets	192	–	–	65	123	–	380
Total non-current assets	1,703	3,368	–	14,595	20,643	(19,200)	21,109
Current assets							
Inventories and current intangible assets	–	16	–	28	64	–	108
Trade and other receivables	3	377	–	238	618	–	1,236
Amounts owed by subsidiary undertakings	9,047	–	156	92	5,432	(14,727)	–
Financial and other investments	279	19	–	305	1,495	–	2,098
Derivative financial assets	119	–	–	9	149	–	277
Cash and cash equivalents	751	4	–	172	666	–	1,593
Total current assets	10,199	416	156	844	8,424	(14,727)	5,312
Assets of businesses held for sale	–	–	–	–	1,968	–	1,968
Total assets	11,902	3,784	156	15,439	31,035	(33,927)	28,389
Current liabilities							
Borrowings	(360)	(120)	(3)	(353)	(195)	–	(1,031)
Derivative financial liabilities	(29)	–	–	(12)	(194)	–	(235)
Trade and other payables	(23)	(306)	–	(587)	(936)	–	(1,852)
Amounts owed to subsidiary undertakings	(2,776)	(216)	–	(2,440)	(9,295)	14,727	–
Current tax liabilities	–	–	–	(34)	(41)	–	(75)
Provisions	–	(13)	–	(31)	(123)	–	(167)
Total current liabilities	(3,188)	(655)	(3)	(3,457)	(10,784)	14,727	(3,360)
Non-current liabilities							
Borrowings	(4,524)	(710)	(153)	(3,219)	(6,080)	–	(14,686)
Derivative financial liabilities	(54)	–	–	(83)	(47)	–	(184)
Other non-current liabilities	–	(148)	–	(1,012)	(315)	–	(1,475)
Amounts owed to subsidiary undertakings	–	(620)	–	–	(5,611)	6,231	–
Deferred tax liabilities	–	–	–	(1,627)	(908)	146	(2,389)
Pensions and other post-retirement benefits	–	(876)	–	–	(406)	–	(1,282)
Provisions	–	(130)	–	(74)	(223)	–	(427)
Total non-current liabilities	(4,578)	(2,484)	(153)	(6,015)	(13,590)	6,377	(20,443)
Liabilities of businesses held for sale	–	–	–	–	(450)	–	(450)
Total liabilities	(7,766)	(3,139)	(156)	(9,472)	(24,824)	21,104	(24,253)
Net assets (i)	4,136	645	–	5,967	6,211	(12,823)	4,136
Equity							
Called up share capital	308	95	–	45	181	(321)	308
Share premium account	1,332	1,499	–	204	3,091	(4,794)	1,332
Retained earnings	7,635	(951)	–	4,467	9,454	(12,970)	7,635
Other equity reserves	(5,150)	2	–	1,251	(6,515)	5,262	(5,150)
Total shareholders' equity (i)	4,125	645	–	5,967	6,211	(12,823)	4,125
Minority interests	11	–	–	–	–	–	11
Total equity (i)	4,136	645	–	5,967	6,211	(12,823)	4,136

(i) Includes parent Company's subsidiaries, associates and joint ventures presented on an equity accounted basis.

38. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Cash flow statements

	Parent guarantor	Issuer of notes		Subsidiary guarantor		Consolidation adjustments £m	National Grid consolidated £m
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m		
Year ended 31 March 2008							
Net cash provided by operating activities – continuing operations	4	316	–	1,552	1,283	–	3,155
Net cash provided by operating activities – discontinued operations	–	–	–	–	10	–	10
Net cash provided by operating activities	4	316	–	1,552	1,293	–	3,165
Net cash provided by/(used in) investing activities – continuing operations	1,547	(209)	–	(1,630)	(3,658)	(2,123)	(6,073)
Net cash (used in)/provided by investing activities – discontinued operations	–	–	–	(4)	3,054	–	3,050
Net cash used in investing activities	1,547	(209)	–	(1,634)	(604)	(2,123)	(3,023)
Net cash (used in)/provided by financing activities	(2,302)	(105)	–	(87)	(1,221)	2,123	(1,592)
(Decrease)/increase in cash and cash equivalents in the year	(751)	2	–	(169)	(532)	–	(1,450)
Year ended 31 March 2007							
Net cash provided by operating activities – continuing operations	1	374	–	1,341	1,064	–	2,780
Net cash provided by operating activities – discontinued operations	–	–	–	–	178	–	178
Net cash provided by operating activities	1	374	–	1,341	1,242	–	2,958
Net cash used in investing activities – continuing operations	(1,225)	(140)	–	(1,381)	(403)	(807)	(3,956)
Net cash provided by/(used in) investing activities – discontinued operations	–	–	–	27	(132)	–	(105)
Net cash used in investing activities	(1,225)	(140)	–	(1,354)	(535)	(807)	(4,061)
Net cash provided by/(used in) financing activities	940	(232)	–	(42)	(195)	807	1,278
(Decrease)/increase in cash and cash equivalents in the year	(284)	2	–	(55)	512	–	175
Year ended 31 March 2006							
Net cash provided by operating activities – continuing operations	–	329	–	1,140	1,401	–	2,870
Net cash (used in)/provided by operating activities – discontinued operations	–	–	–	(57)	158	–	101
Net cash provided by operating activities	–	329	–	1,083	1,559	–	2,971
Net cash used in investing activities – continuing operations	–	(192)	–	(146)	(659)	(492)	(1,489)
Net cash provided by/(used in) investing activities – discontinued operations	–	–	–	5,635	(94)	–	5,541
Net cash (used in)/provided by investing activities	–	(192)	–	5,489	(753)	(492)	4,052
Net cash provided by/(used in) financing activities	914	(141)	–	(6,355)	(752)	492	(5,842)
Increase/(decrease) in cash and cash equivalents in the year	914	(4)	–	217	54	–	1,181

Cash dividends were received by National Grid plc from consolidated subsidiaries amounting to £2,500m during the year ended 31 March 2008 (2007: £220m; 2006: £nil).