

# Company accounting policies

## A. Basis of preparation of individual financial statements under UK GAAP

These individual financial statements of the Company have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act 1985.

The individual financial statements of the Company have been prepared on a historical cost basis, except for the revaluation of financial instruments.

These financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates.

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The Company has taken the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash flow statements'.

In accordance with exemptions under FRS 8 'Related party disclosures', the Company has not disclosed transactions with related parties, as the Company's financial statements are presented together with its consolidated financial statements. Further, in accordance with exemptions under FRS 29 'Financial Instruments: Disclosures', the Company has not presented the financial instruments disclosures required by the standard, as disclosures which comply with the standard are included in the consolidated financial statements.

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. Fixed asset investments

Investments held as fixed assets are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value in use.

## C. Taxation

Current tax for the current and prior periods is provided at the amount expected to be paid (or recovered) using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

## D. Foreign currencies

Transactions in currencies other than the functional currency of the Company 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.

Gains and losses arising on retranslation of monetary assets and liabilities are included in the profit and loss account.

## E. Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs.

Loans receivable are carried at amortised cost using the effective interest rate method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired are recognised on an effective interest basis in the profit and loss account.

Current asset 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 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 net profit or loss for the period. Investment income on investments classified as available-for-sale is recognised in the profit and loss account as it accrues.

Borrowings, which include interest-bearing loans and overdrafts are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest rate method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the profit and loss account using the effective interest rate method.

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 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 changes in fair value are included in the profit and loss account in the period they arise.

Where derivatives are embedded in other financial instruments that are closely related to those instruments, no adjustment is made with respect to such derivative clauses. Otherwise the derivative is recorded separately at fair value on the balance sheet.

## F. Hedge accounting

The Company enters into derivative financial instruments ('derivatives') and non-derivative financial instruments in order to manage its interest rate and foreign currency exposures, with a view to managing these risks associated with the Company's underlying business activities and the financing of those activities. The principal derivatives used include interest rate swaps, forward rate agreements, currency swaps, forward foreign currency contracts and interest rate swaptions.

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 profit and loss account. The Company uses two 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 profit and loss account. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the profit and loss account in the same period in which the hedged item affects net profit or loss.

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

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

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 profit and loss account in the same periods in which the previously hedged item affects net profit or loss. For fair value hedges the cumulative adjustment recorded to its carrying value at the date hedge accounting is discontinued is amortised to the profit and loss account using the effective interest rate method.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the profit and loss account immediately.

## G. Parent Company guarantees

The Company has guaranteed the repayment of the principal and any associated premium and interest on specific loans due from certain subsidiary undertakings to third parties. In the event of default or non-performance by the subsidiary, the Company recognises such guarantees as insurance contracts, at fair value with a corresponding increase in the carrying value of the investment.

## H. Share-based payments

The Company issues equity-settled, share-based payments to certain employees of subsidiary undertakings, detailed in the Directors' Report, the Directors' Remuneration Report and in note 36 to the consolidated financial statements.

Equity-settled, share-based payments are measured at fair value at the date of grant. The Company has no employees. Equity-settled, share-based payments that are made available to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investments in subsidiaries, based on an estimate of the number of shares that will eventually vest. Where payments are subsequently received from subsidiaries, these are accounted for as a disposal of investment.

## I. Dividends

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

# Company balance sheet

at 31 March

	Notes	2008 £m	2007 £m
<b>Fixed assets</b>			
Investments	2	4,276	3,707
<b>Current assets</b>			
Debtors (amounts falling due within one year)	3	8,545	9,050
Debtors (amounts falling due after more than one year)	3	2,811	3
Derivative financial instruments (amounts falling due within one year)	5	341	119
Derivative financial instruments (amounts falling due after more than one year)	5	751	192
Current asset investments		787	1,030
		<b>13,235</b>	10,394
<b>Creditors (amounts falling due within one year)</b>			
Borrowings	6	(1,019)	(360)
Derivative financial instruments	5	(79)	(29)
Other creditors	4	(4,855)	(2,799)
		<b>(5,953)</b>	(3,188)
<b>Net current assets</b>		<b>7,282</b>	7,206
<b>Total assets less current liabilities</b>		<b>11,558</b>	10,913
<b>Creditors (amounts falling due after more than one year)</b>			
Borrowings	6	(4,460)	(4,524)
Derivative financial instruments	5	(179)	(54)
Amounts owed to subsidiary undertakings		(452)	–
		<b>(5,091)</b>	(4,578)
<b>Net assets employed</b>		<b>6,467</b>	6,335
<b>Capital and reserves</b>			
Called up share capital	7	294	308
Share premium account	8	1,371	1,332
Cash flow hedge reserve	8	14	22
Other equity reserves	8	124	91
Profit and loss account	8	4,664	4,582
<b>Total shareholders' funds</b>	9	<b>6,467</b>	6,335

Commitments and contingencies are shown in note 10 to the Company financial statements on page 185.

The notes on pages 182 to 185 form part of the individual financial statements of the Company, which 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

# Notes to the Company financial statements

## 1. Adoption of new accounting standards

### New financial reporting standards (FRS) and abstracts adopted in 2007/08

During the year the Company has adopted the following FRSs and abstracts. None of these had a material impact on consolidated results or assets and liabilities.

Amendment to FRS 3 on reporting financial performance	Removes inconsistencies between FRS 3 and both FRS 26 'Financial Instruments: Recognition and measurement' and FRS 23 'The effects of changes in foreign exchange rates', in particular as regards recycling to the profit and loss account of gains and losses and exchange differences previously recognised in the statement of recognised gains and losses.
Amendment to FRS 26 on financial instruments: measurement – recognition and derecognition	Implements the recognition and derecognition material in IAS 39. The requirements of FRS 5, 'Reporting the substance of transactions', are superseded for transactions that fall within FRS 26's scope, but FRS 5 continues to apply to transactions in non-financial assets and liabilities.
UITF Abstract 42 on 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.
UITF Abstract 44 on group and treasury share transactions	Provides guidance on whether share-based transactions involving treasury shares or involving group entities (for instance, options over a parent's shares) should be accounted for as equity-settled or cash-settled.

### New FRS not yet adopted

The Company has yet to adopt the following FRS, however, it is not expected to have a material impact on the Company's results or assets and liabilities.

Amendment to FRS 20 on share-based payment	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 FRS 20 will be adopted on 1 April 2009.
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## 2. Fixed asset investments

	Shares in subsidiary undertakings £m	Loan to subsidiary undertaking £m	Total £m
At 31 March 2006	2,428	–	2,428
Additions	952	327	1,279
At 31 March 2007	3,380	327	3,707
Additions	896	–	896
Reclassification of loan as amounts owed by subsidiary undertakings	–	(327)	(327)
<b>At 31 March 2008</b>	<b>4,276</b>	<b>–</b>	<b>4,276</b>

During the year the Company acquired a further 500,000 ordinary shares of £1 each in National Grid (US) Holdings Limited for a total consideration of £878m.

The names of the principal subsidiary undertakings, joint ventures and associates are included in note 37 in the consolidated financial statements.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

### 3. Debtors

	2008 £m	2007 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	8,542	9,047
Prepayments and accrued income	3	3
	<b>8,545</b>	<b>9,050</b>
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	2,808	–
Deferred taxation	3	3
	<b>2,811</b>	<b>3</b>

	Deferred taxation £m
At 1 April 2006	(5)
Charged to equity	(4)
Charged to the profit and loss account (i)	12
At 1 April 2007	3
Credited to equity	4
Credited to the profit and loss account (i)	(4)
<b>At 31 March 2008</b>	<b>3</b>

(i) Included is a deferred tax charge of £2m (2007: credit of £13m) in respect of prior years.

#### Factors that may affect future deferred tax charges

The changes enacted in the Finance Act 2007 included a reduction in the UK Corporation Tax rate from 30% to 28% with effect from 1 April 2008. The deferred tax expected to reverse has been measured using the 28% rate.

### 4. Creditors (amounts falling due within one year)

	2008 £m	2007 £m
Borrowings (note 6)	1,019	360
Derivative financial instruments	79	29
Amounts owed to subsidiary undertakings	4,804	2,776
Other creditors	51	23
	<b>5,953</b>	<b>3,188</b>

### 5. Derivative financial instruments

The fair value of derivative financial instruments shown on the balance sheet is as follows:

	2008			2007		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Current	341	(79)	262	119	(29)	90
Non-current	751	(179)	572	192	(54)	138
	<b>1,092</b>	<b>(258)</b>	<b>834</b>	<b>311</b>	<b>(83)</b>	<b>228</b>

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

	2008 £m	2007 £m
Interest rate swaps	(4,952)	(3,625)
Interest rate swaptions	(202)	–
Cross-currency interest rate swaps	(4,919)	(5,179)
Foreign exchange forward contracts	(5,721)	(2,114)
<b>Total</b>	<b>(15,794)</b>	<b>(10,918)</b>

## 6. Borrowings

The following table analyses the Company's total borrowings:

	2008 £m	2007 £m
Amounts falling due within one year:		
Bank loans and overdrafts	192	30
Bonds	827	301
Other loans	–	29
	<b>1,019</b>	360
Amounts falling due after more than one year:		
Bank loans	75	–
Bonds	4,385	4,524
	<b>4,460</b>	4,524
<b>Total borrowings</b>	<b>5,479</b>	4,884

	2008 £m	2007 £m
Total borrowings are repayable as follows:		
In one year or less	1,019	360
In more than one year, but not more than two years	342	642
In more than two years, but not more than three years	650	295
In more than three years, but not more than four years	999	495
In more than four years, but not more than five years	792	897
In more than five years, other than by instalments	1,677	2,195
	<b>5,479</b>	4,884

The notional amount of borrowings outstanding as at 31 March 2008 was £5,417m (2007: £4,872m). For further information on significant borrowings, refer to note 35 of the consolidated financial statements.

## 7. Called up share capital

	Called up and fully paid	
	millions	£m
At 31 March 2006	2,720	310
Issued during the year	4	–
Repurchased during the year (i)	(23)	(2)
At 31 March 2007	2,701	308
Issued during the year (ii)	8	1
Repurchased during the year (iii)	(127)	(15)
<b>At 31 March 2008</b>	<b>2,582</b>	<b>294</b>

- (i) 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 consideration has been charged against retained earnings.
- (ii) Included within issued share capital was 3,705,193 ordinary shares that were issued following the conversion of the Company's B shares to ordinary shares on 28 September 2007.
- (iii) 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 consideration has been charged against retained earnings.

For further details on share capital, refer to note 25 in the consolidated financial statements.

## 8. Reserves

	Share premium account £m	Cash flow hedge reserve £m	Other equity reserves £m	Profit and loss account £m
At 1 April 2006	1,316	7	74	5,237
Net loss transferred from equity in respect of cash flow hedges (net of tax)	–	15	–	–
Issue of ordinary share capital	16	–	–	–
Repurchase of shares	–	–	2	(169)
Share-based payment	–	–	15	–
Retained loss for the year	–	–	–	(486)
At 31 March 2007	1,332	22	91	4,582
Net gain transferred from equity in respect of cash flow hedges (net of tax)	–	(8)	–	–
Issue of ordinary share capital	12	–	–	–
B shares converted to ordinary shares	27	–	–	–
Repurchase of share capital and purchase of treasury shares (i)	–	–	15	(1,520)
Issue of treasury shares	–	–	–	12
Share-based payment	–	–	18	–
Retained profit for the year	–	–	–	1,590
<b>At 31 March 2008</b>	<b>1,371</b>	<b>14</b>	<b>124</b>	<b>4,664</b>

(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. Further purchases of shares outside the official share repurchase programme were for an aggregate consideration of £4m.

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The Company's profit after taxation was £2,370m (2007: £244m). Of the Company's profit and loss account reserve of £4,664m at 31 March 2008 (2007: £4,582m), £1,623m (2007: £2,131m) relating to gains on intra-group transactions was not distributable to shareholders.

## 9. Reconciliation of movements in shareholders' funds

	2008 £m	2007 £m
Profit for the year after taxation	2,370	244
Dividends (i)	(780)	(730)
Profit/(loss) for the financial year	1,590	(486)
Proceeds of issue of ordinary shares	13	16
Proceeds of issue of treasury shares	12	–
B shares converted to ordinary shares	27	–
Movement on cash flow hedge reserve (net of tax)	(8)	15
Share-based payment	18	15
Repurchase of ordinary shares	(1,520)	(169)
Net increase/(decrease) in shareholders' funds	132	(609)
Opening shareholders' funds	6,335	6,944
<b>Closing shareholders' funds</b>	<b>6,467</b>	<b>6,335</b>

(i) For further details on dividends, refer to note 9 in the consolidated financial statements.

## 10. Commitments and contingencies

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due from certain subsidiary undertakings to third parties. At 31 March 2008, the sterling equivalent amounted to £1,088m (2007: £650m). The guarantees are for varying terms from 3 years to open-ended.

The Company has also guaranteed the lease obligations of a former associate to a subsidiary undertaking, amounting to £13m (2007: £23m).

## 11. Directors and employees

There are no employees of the Company (2007: nil). The Directors of the Company were paid by subsidiary undertakings in 2008 and 2007. Details of Directors' emoluments are contained in the Directors' Remuneration Report.