

National Grid Company plc

Regulatory Accounts

2004/05

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Basis of preparation in respect of the Regulatory Accounts

The Licensee (National Grid Company plc) is required by Condition B1 of the Transmission Licence granted under section 6 (1) (b) of the Electricity Act 1989 ("the Transmission Licence") to prepare regulatory accounts for each financial year which give a true and fair view of the assets, liabilities, reserves and provisions of, or reasonably attributable to, the consolidated transmission business (as defined in the Transmission Licence), and of the revenues, costs and cash flows of, or reasonably attributable to, the consolidated transmission business for the financial year. Following the publication of Audit 5/03 (Reporting to Regulators of Regulated Entities) by the Institute of Chartered Accountants in England and Wales, our auditors have presented a 'fairly presents' audit opinion.

The Directors have prepared Regulatory Accounts that incorporate the consolidated transmission business and the interconnectors business (as defined in the Transmission Licence), together referred to as "the Separate Businesses" of the Licensee.

The Regulatory Accounts present details only in respect of the Separate Businesses of the Licensee and do not show information in respect of the other business operations of the Licensee.

Directors responsibilities in respect of the Regulatory Accounts

The Directors are responsible for ensuring that the Separate Businesses keep accounting records which disclose with reasonable accuracy the financial position of the Separate Businesses and which enable the Licensee to ensure that the regulatory accounts comply with Condition B1 of the Transmission Licence.

The Directors have general responsibility for taking reasonable steps to safeguard the assets of National Grid Company plc and its subsidiary undertakings ("the Group"), certain of which may for Regulatory Accounts purposes be allocated or apportioned to the Separate Businesses, and for taking reasonable steps to prevent and detect fraud and other irregularities.

The Directors consider that in preparing the Regulatory Accounts, suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used and that applicable accounting and financial reporting standards have been followed.

Independent Accountants' statement to National Grid Company plc

We have examined the summary Regulatory Accounts of National Grid Company plc ("the Company") on pages 4 to 11 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and the related notes to the summary Regulatory Accounts.

Our audit report on the full Regulatory Accounts was made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of the Transmission Licence. Our audit work on the full Regulatory Accounts was undertaken so that we might state to the Company and the Regulator those matters that we agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Transmission Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for our audit report on the full Regulatory Accounts, or for the opinions we have formed.

This statement on the summary Regulatory Accounts, including the opinion, has been prepared for, and only for, the Company. To the fullest extent permitted by law, we do not accept or assume responsibility in making this statement to anyone other than the Company for our examination, for our report on the summary Regulatory Accounts, or for the opinions we have formed.

Basis of preparation

The summary Regulatory Accounts have been extracted from the full Regulatory Accounts for the year ended 31 March 2005. The full Regulatory Accounts were prepared under the historical cost convention and in accordance with Condition B1 of the Company's Transmission Licence and the accounting policies set out in the statement of accounting policies on pages 4 and 5.

The Regulatory Accounts present details only in respect of the Separate Businesses (as defined on page 2) of the Licensee and do not show information in respect of the other business operations of the Licensee.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of Generally Accepted Accounting Principles in the United Kingdom ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

Respective responsibilities of the Regulator, the Directors and Auditors

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The Directors' are responsible for preparing the summary Regulatory Accounts

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Condition B1 of the Transmission Licence are set out in the statement of Directors' responsibilities on page 2.

Our responsibility is to report to you our opinion on the consistency of the summary Regulatory Accounts with the full Regulatory Accounts.

Basis of audit opinion

We conducted our audit of the full Regulatory Accounts with regard to Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales and in accordance with Auditing Standards issued by the Auditing Practices Board except that, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

We conducted our review of the summary Regulatory Accounts with regard to Bulletin 1999/6 'The Auditors' Statement on The Summary Financial Statement' issued by the Auditing Practices Board.

Our review of the summary Regulatory Accounts comprised only of an assessment of whether the summary Regulatory Accounts are consistent with the full Regulatory Accounts and have been properly extracted from the full Regulatory Accounts.

Our opinions on the full Regulatory Accounts and the summary Regulatory Accounts are separate from our opinion on the statutory accounts of the Company on which we reported on 19 May 2005 which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "Statutory" audit) was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

Opinion

In our opinion the summary Regulatory Accounts set out on pages 4 to 11 are consistent with, and have been properly extracted from, the full Regulatory Accounts for the year ended 31 March 2005 on which we issued an unqualified report on 7 December 2005.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
7 December 2005

a) The maintenance and integrity of the National Grid Company plc website is the responsibility of the Directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions

Accounting policies

a) Basis of preparation

The regulatory accounts give the information prescribed by Condition B1 of the Transmission Licence and have been prepared in accordance with applicable accounting and financial reporting standards, and under the historical cost convention.

b) Charges, allocations and apportionments

In preparing these accounts, categories of revenues, costs, assets, liabilities and provisions have been credited, charged or allocated specifically to the Separate Businesses, wherever appropriate. Due to the integrated nature of National Grid Company plc's activities, it is necessary to apportion certain elements of these categories to determine those amounts reasonably attributable to each separate business as an individual activity. Elements not attributable to an individual activity, such as taxation, pension scheme asset/(deficit), capital liabilities and interest thereon, have been excluded and hence the disclosures that would otherwise have been necessary under the Companies Act 1985 and accounting standards have not been made.

c) Tangible fixed assets and depreciation

Tangible fixed assets are included in the balance sheets at their historic cost less accumulated depreciation. Costs include payroll and finance costs incurred which are directly attributable to the construction of tangible fixed assets.

Contributions received towards the cost of tangible fixed assets are included in creditors as deferred income and credited on a straight line basis to the profit and loss account over the life of the assets.

No depreciation is provided on freehold land and assets in the course of construction. Other tangible fixed assets 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 assets are as follows:

	Years
Plant and machinery	
Transmission plant	
- Towers	40 or 60
- Substation plant, overhead lines and cables	40 or 50
- Protection, control and communication equipment	15 or 25
Cross-Channel link	15 to 60
Freehold and leasehold properties	up to 40
Motor vehicles and office equipment	3 or 5

d) Stocks

Stocks, which primarily comprise consumable stores, are stated at the lower of cost and net realisable value.

e) Turnover

Turnover primarily represents the amounts derived from the transmission of electricity and the provision of related services. It includes inter-business and inter-company transactions, and is stated net of value added tax. No liability is recognised when revenues exceed the maximum amount permitted by regulatory agreement and reductions will be made to future prices to reflect this over-recovery.

Accounting policies (continued)

f) Share based payments

The Company's ultimate parent company, National Grid Transco plc, issues equity-settled share-based payments to certain employees of the company.

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

g) Research and development

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

h) Leases

Operating lease payments are charged to the profit and loss account on a straight line basis over the term of the lease.

i) Ultimate parent undertaking

The ultimate parent undertaking is National Grid Transco plc.

Operating profit and loss statements

for the years ended 31 March

	Note	Transmission		Interconnectors	
		2005	Restated 2004	2005	2004
		£m	£m	£m	£m
Turnover		1,348.9	1,283.7	72.4	64.7
Operating costs	1	(811.5)	(804.9)	(36.1)	(35.9)
Operating profit					
Before exceptional reorganisation costs		537.4	478.8	36.3	28.8
Exceptional reorganisation costs		-	(9.1)	-	-
Total operating profit		537.4	469.7	36.3	28.8

All activities relate to continuing operations.

Statements of total recognised gains and losses

for the years ended 31 March

	Transmission		Interconnectors	
	2005	Restated 2004	2005	2004
	£m	£m	£m	£m
Profit for the year	537.4	469.7	36.3	28.8
Prior year adjustment	(38.1)	-	-	-
Total recognised gains and losses since last annual report	499.3	469.7	36.3	28.8

During the year ended 31 March 2005, the Group adopted Financial Reporting Standard (FRS) 20 "Share-based Payment".

The restatement of the prior year numbers relates to the implementation of FRS 20 in the year. In the prior year the effect of the implementation was to reduce the prior year total operating profit by £8.1m with a corresponding entry to profit and loss reserve such that the overall effect on net assets in the year was nil. For years ending prior to 1 April 2003 further restatements totalling £30.0m have been recognised again with no effect on net assets. The cumulative adjustment of £38.1m is reflected in the statement of total recognised gains and losses.

Balance sheets

at 31 March

	Notes	Transmission		Interconnectors	
		2005 £m	Restated 2004 £m	2005 £m	2004 £m
Tangible fixed assets	2	4,186.3	3,985.9	121.8	127.4
Current assets					
Stocks		11.5	11.1	-	-
Debtors	3	5,522.7	5,262.8	598.3	551.4
Cash		-	-	0.8	-
		5,534.2	5,273.9	599.1	551.4
Creditors (amounts falling due within one year)	4	(367.9)	(387.8)	(8.9)	(3.0)
Net current assets		5,166.3	4,886.1	590.2	548.4
Total assets less current liabilities		9,352.6	8,872.0	712.0	675.8
Creditors (amounts falling due after more than one year)	5	(86.4)	(141.8)	(0.2)	(0.3)
Provisions for liabilities and charges	6	(4.9)	(6.3)	-	-
Net assets employed		9,261.3	8,723.9	711.8	675.5
Capital employed	7	9,261.3	8,723.9	711.8	675.5

The accounts on pages 4 to 11 inclusive were approved by the Board of Directors of National Grid Company plc on 19 May 2005 and were signed on its behalf by :

N Winsor Director

A Chapman Director

Cash flow statements

for the years ended 31 March

	Note	Transmission		Interconnectors	
		2005 £m	Restated 2004 £m	2005 £m	2004 £m
Net cash inflow from operating activities	8	665.4	746.2	44.4	32.2
Capital expenditure					
Net payments to acquire tangible fixed assets		(410.2)	(431.3)	(0.4)	(0.6)
Receipts from disposals of tangible fixed assets		-	-	-	-
Net cash outflow for capital expenditure and financial investments		(410.2)	(431.3)	(0.4)	(0.6)
Net cash inflow before financing		255.2	314.9	44.0	31.6
Represented by:					
Movement in cash and deposits		-	-	0.8	-
Movement in inter-business balances		255.2	314.9	43.2	31.6
Total movement in cash and inter-business balances		255.2	314.9	44.0	31.6

The restatement of the prior year numbers relates to the implementation of Financial Reporting Standard (FRS) 20 "Share-based Payment".

Notes to the accounts

1. Operating costs

	Transmission		Interconnectors	
	2005	Restated 2004	2005	2004
	£m	£m	£m	£m
Total operating costs comprise:				
Depreciation	201.1	199.0	6.0	6.0
Payroll costs	79.3	73.1	0.6	0.4
Other operating charges:				
-Rates	87.7	88.4	3.0	3.0
-Balancing Services Incentive Scheme direct costs	302.7	279.0	-	-
-Other operating charges	140.7	165.4	26.5	26.5
	531.1	532.8	29.5	29.5
	811.5	804.9	36.1	35.9

Operating costs in respect of the transmission business include research and development costs amounting to £2.6m (2004: £3.0m).

Of the total Group audit fee, £472,000 (2004: £305,000) is attributable to the Separate Businesses and is included within other operating charges, of which £26,000 (2004: £25,000) relates specifically to the audit of the Regulatory accounts, £430,000 (2004: £265,000) to the audit of the consolidated statutory accounts of National Grid Company plc and £16,000 (2004: £15,000) relates to other Regulatory Reporting.

There were no exceptional reorganisation costs incurred for the year ended 31 March 2005 (2004: £9.1m).

Notes to the accounts

2. Tangible fixed assets

	Transmission £m	Interconnectors £m
Cost at 1 April 2004	6,025.5	391.4
Additions	401.5	0.4
Disposals	(16.9)	(4.0)
Transfers	-	4.0
Cost at 31 March 2005	6,410.1	391.8
Depreciation at 1 April 2004	(2,039.6)	(264.0)
Charge for the year	(201.1)	(6.0)
Disposals	16.9	4.0
Transfers	-	(4.0)
Depreciation at 31 March 2005	(2,223.8)	(270.0)
Net book value at 31 March 2005	4,186.3	121.8
Net book value at 31 March 2004	3,985.9	127.4

	2005 £m	2004 £m	2005 £m	2004 £m
The net book value comprises:				
Land and buildings	90.1	81.1	7.2	-
Plant and machinery	3,413.2	3,208.1	113.2	125.9
Assets in the course of construction	622.1	631.6	1.0	1.4
Motor vehicles and office equipment	60.9	65.1	0.4	0.1
	4,186.3	3,985.9	121.8	127.4

	2005 £m	2004 £m	2005 £m	2004 £m
The net book value of land and buildings comprises:				
Freehold	81.6	74.3	7.2	-
Long leasehold (over 50 years)	2.7	2.7	-	-
Short leasehold (under 50 years)	5.8	4.1	-	-
	90.1	81.1	7.2	-

The freehold property shown within the Interconnector business represents a reclassification from plant and machinery in the year.

Notes to the accounts

3. Debtors

	Transmission		Interconnectors	
	2005	2004	2005	2004
	£m	£m	£m	£m
Trade debtors	9.3	37.4	7.0	4.9
Inter-separate business balances (see below)	5,404.0	5,148.8	583.5	540.3
Other debtors	17.5	17.2	-	-
Prepayments and accrued income	91.9	59.4	7.8	6.2
	5,522.7	5,262.8	598.3	551.4

Included within transmission other debtors are amounts falling due after more than one year of £8.2m (2004: £12.2m).

Inter-separate business balances substantially represent accumulated net income which has not been remitted to the Transmission and Interconnector businesses because cash is generally received within the corporate division of National Grid Company plc rather than within the Separate Businesses. From 1 April 2004 the Interconnector business has held its own bank account for dealing with external parties only.

4. Creditors (amounts falling due within one year)

	Transmission		Interconnectors	
	2005	2004	2005	2004
	£m	£m	£m	£m
Trade creditors and accruals	236.5	186.2	-	-
Deferred income	54.6	91.3	5.5	1.9
Social security and other taxes	17.3	13.9	3.4	1.1
Other creditors	59.5	96.4	-	-
	367.9	387.8	8.9	3.0

5. Creditors (amounts falling due after more than one year)

	Transmission		Interconnectors	
	2005	2004	2005	2004
	£m	£m	£m	£m
Deferred Income	84.9	130.2	0.2	0.3
Other creditors	1.5	11.6	-	-
	86.4	141.8	0.2	0.3

6. Provisions for liabilities and charges

	Transmission	Interconnectors
	£m	£m
At 1 April 2004	6.3	-
Utilised in the year	(1.4)	-
At 31 March 2005	4.9	-

The provision balances at 31 March 2005 and 31 March 2004 relate to onerous lease costs in respect of a vacant property. The balance is expected to be utilised over the next 9 years.

Notes to the accounts

7. Movement in capital employed

	Transmission £m	Interconnectors £m
At 1 April 2004 (restated)	8,723.9	675.5
Operating profit for the year	537.4	36.3
At 31 March 2005	9,261.3	711.8

8. Cash flow statements

Reconciliation of operating profit to net cash inflow from operating activities

	Transmission		Interconnectors	
	2005 £m	Restated 2004 £m	2005 £m	2004 £m
Operating profit	537.4	469.7	36.3	28.8
Depreciation	201.1	199.0	6.0	6.0
(Increase) / decrease in stock	(0.4)	2.7	-	-
Increase in debtors	(4.7)	(49.4)	(3.7)	(3.7)
(Decrease)/increase in creditors	(66.6)	125.9	5.8	1.1
Decrease in provisions	(1.4)	(1.7)	-	-
Net cash inflow from operating activities	665.4	746.2	44.4	32.2