National Grid Gas plc

DN Regulatory Accounting Statements 2005/2006

Contents

Cautionary Statements

Relationship of regulatory accounting statements with statutory accounts

The financial information contained in these regulatory accounting statements does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for National Grid Gas plc for the year ended 31 March 2006, to which the financial information relates, will be delivered to the Registrar of Companies.

The Auditors have made a report under Section 235 of the Companies Act 1985 on those statutory accounts which was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985. The auditors' opinion on the National Grid Gas plc statutory accounts is addressed to, and for the benefit of, the members of National Grid Gas plc and not for any other person or purpose. The auditors have clarified, in giving their opinion on those statutory accounts, that it has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. In giving their opinion, they do not accept or assume responsibility for any other purpose or to any other person to whom their audit report on the statutory accounts is shown or into whose hands it may come save where expressly agreed by their prior consent in writing.

The statutory accounts of National Grid Gas plc can be obtained from the Company Secretary's Office, National Grid plc, 1-3 The Strand, London WC2N 5EH.

Scope of regulatory accounting statements

These regulatory accounting statements are only in respect of certain businesses of National Grid Gas plc, as described in the Operating and financial review on page 3. Reconciliations between certain financial information included in these regulatory accounting statements and the equivalent financial information for National Grid Gas plc as a whole, are provided in note 2 to these regulatory accounting statements.

Basis of preparation of regulatory accounting statements

These regulatory accounting statements contain arbitrary apportionments of certain revenues costs, assets, liabilities and shareholders' equity which are not specifically attributable to the businesses and activities reported in these regulatory accounting statements, but which, nevertheless, are required by the gas transporter licence under which these regulatory accounting statements are prepared, to be reported against those businesses and activities. Further details of these items are provided in the Basis of preparation on page 24.

The bases used to allocate the revenues, costs, assets, liabilities and shareholders' equity of National Grid Gas plc to the businesses reported on in these regulatory accounting statements have been determined in accordance with the requirements of the gas transporter licence under which these regulatory accounting statements have been prepared. These bases may differ from those used to determine the segmental analysis provided in the annual report and accounts of National Grid Gas plc.

Definition of regulatory businesses

The regulatory businesses reported on in these regulatory accounting statements are defined in accordance with the gas transporter licence under which they are prepared and differ in some respects from the business definitions used in National Grid Gas's annual report and accounts.

The Obligation to Produce Regulatory Accounting Statements

National Grid Gas plc is the holder of two gas transporter licences: one in respect of its gas transmission (NTS) business and one in respect of its gas distribution network (DN) businesses. Under Standard Special Condition A30 of each of these licences, National Grid Gas plc is required to prepare and publish annual regulatory accounting statements setting out the financial position and performance of each of the regulatory businesses covered by that licence.

These regulatory accounting statements are in respect of National Grid Gas's DN businesses, including its gas metering businesses. National Grid Gas also prepares and publishes regulatory accounting statements in respect of its NTS business, including its LNG storage business. Together, these two sets of regulatory accounting statements must comprise all the businesses and activities of National Grid Gas, except for the four gas distribution networks which National Grid Gas sold on 1 June 2005.

Restructuring of the regulatory accounts

The year ended 31 March 2006 is the first year for which the requirement to prepare separate regulatory accounting statements for the NTS and DN businesses applies. Previously, they were reported as a single consolidated transportation business.

National Grid Gas is now required to allocate taxation, borrowings, and shareholders' equity across all its regulated businesses for the purpose of preparing regulatory accounting statements. Previously, these items were not so allocated and were reported in total for National Grid Gas.

As a result of these significant changes in presentation, audited prior year comparative information is not available for the NTS or DN businesses. However, prior year information for these businesses has been restated on the same basis as the information for the year ended 31 March 2006, in so far as reasonably practicable, and is presented on an unaudited basis.

Operating and Financial Review

This Operating and Financial Review describes the main trends and factors underlying the development, performance and position of the businesses reported in these regulatory accounting statements during the year ended 31 March 2006 as well as those likely to affect their future development, performance and position. It has been prepared in line with the guidance provided in the Reporting Statement on the Operating and Financial Review issued by the UK Accounting Standards Board in January 2006.

About National Grid Gas

Principal operations

National Grid Gas plc is a part of National Grid plc. Its principal operations are in regulated gas networks and comprise the transmission and distribution of gas and the provision of gas metering services within Great Britain.

Company name

National Grid Gas plc changed its name from Transco plc on 10 October 2005.

History

National Grid Gas originated from the restructuring of the UK gas industry in 1986. In 2005, following the sales of four UK regional gas distribution networks, National Grid was adopted as a single name for all of its principal businesses.

Key milestones

1986	British Gas incorporated as a public limited company
1997	British Gas demerged Centrica
1999	Financial and restructuring programme completed leading to creation of a new parent company, BG Group, separation of the regulated Transco business from the other businesses of BG Group and the establishment of a financial ring-fence around Transco
2000	Lattice Group, including Transco, demerged from BG Group
2002	Merger of Lattice Group and National Grid to form National Grid Transco
2005	Sales of four regional gas distribution networks
2005	National Grid Transco renamed National Grid and National Grid adopted as the group brand name
2005	Transco renamed National Grid Gas

Businesses

These DN regulatory accounting statements include the following regulatory businesses and activities of National Grid Gas:

Distribution network (DN) businesses	Provide gas distribution services in four geographic regions: the North West of England; the West Midlands; the East of England; and North London
Metering business	Provides regulated gas metering services throughout Great Britain.
Meter reading business	Provides meter reading services for third parties and for National Grid Gas's DN and NTS businesses.
De-minimis activities	Other business activities carried out in association with the DN and metering businesses which are not subject to direct regulation by Ofgem.
Other activities	Other activities carried out in association with the DN and metering businesses with the specific consent of Ofgem.

External market environment

The principal market in which National Grid Gas operates is the gas energy market in the UK.

Gas energy market in the UK

The supply of gas in the UK is competitive in that consumers can contract with different suppliers to obtain the energy they need. Those suppliers are then responsible for sourcing that energy from gas producers or importers as appropriate, as well as arranging for that energy to be delivered through physical delivery networks. These networks, including the ones that National Grid Gas operates, are monopolies in their local areas as, for the majority of consumers, there are no methods of receiving energy other than through those networks.

Energy is transported through the national transmission system (NTS) to regional gas DNs that then deliver that energy to consumers. National Grid Gas is the owner and operator of the NTS and of four of the eight regional DNs in Great Britain, and transports gas through its networks on behalf of gas shippers. Contractual arrangements between the shippers and National Grid Gas are set out in the Uniform Network Code.

Energy market developments

The UK is entering a period of changing supply patterns for both gas and electricity, as more reliance is placed on imported gas. The decline in UK continental shelf gas reserves and the Government's emphasis on combating climate change mean that there is a continued trend towards greater use of imported gas for both consumption and for power generation.

These changes will have an impact on the NTS and National Grid Gas's DNs. In particular, significant investment is likely to be required to link new power plants and gas import facilities with domestic, business and industrial consumers.

Regulatory environment

As a result of National Grid Gas's position in, and importance to, the UK economy, its NTS and DN businesses are subject to UK and European Union laws and regulations.

Its businesses are regulated under the Gas Act 1986 by the Office of Gas and Electricity Markets (Ofgem). Ofgem operates under the direction and governance of the Gas and Electricity Markets Authority, and has established price control mechanisms that restrict the amount of revenue that can be earned by regulated businesses, typically covering five-year price control periods.

National Grid Gas's businesses are covered by safety legislation which is enforced by the Health and Safety Executive (HSE). Gas operations work under a permissioning regime, whereby National Grid Gas's organisation, processes and procedures are documented in safety cases that are subject to acceptance by the HSE.

National Grid Gas has securities which are listed on the London Stock Exchange and on the New York Stock Exchange. Accordingly, it is regulated by the Financial Services Authority in the UK and by the Securities and Exchange Commission in the US.

More information on the regulatory environment in which National Grid Gas operates is provided in the business discussions on pages 7 to 10.

Regulatory developments

Regulatory developments during the year included:

- on 1 May 2005, National Grid Gas was granted separate gas transporter licences for its NTS business and its DN business (and each of the DNs that it subsequently sold), replacing the single integrated transmission and distribution licence that it held previously. A new Uniform Network Code was introduced by Ofgem, establishing the mechanisms for the operation of the UK gas delivery market participants; and
- Ofgem has extended the current gas distribution price control review originally scheduled to end on 31 March 2007 to 31 March 2008. The next five year price control review period will commence on 1 April 2008.

Business drivers

National Grid Gas's principal activities comprise the operation of highly complex gas networks. As a consequence, there are many factors that influence the financial returns it obtains. The Directors consider the following to be the main business drivers:

Price controls	The prices National Grid Gas charges for use of the NTS and the DNs are determined in accordance with regulator-approved price controls. The negotiation of these arrangements has a significant impact on the revenues we obtain from our operations. In addition, these arrangements include incentives that permit it to earn additional revenues based on its performance or penalise it if it does not meet various targets. The length of these arrangements is significant to National Grid Gas in that they provide stability to its operations and allow it to plan ahead and invest with confidence that it will obtain financial returns. These price controls typically cover periods of five years.
Safety and reliability	National Grid Gas's ability to operate safely and reliably is very important to it, its employees, its customers, the public and its regulators. Its financial performance is affected by performance in these areas.
Efficiency	National Grid Gas's objective, and that of its regulators, is for it to deliver services as efficiently as possible. This allows National Grid Gas to limit price increases or to reduce prices to its customers and improve its own financial performance to the benefit of shareholders.
Capital investment	Capital investment is a significant driver for organic growth. The prices National Grid Gas charges for transportation services include an allowed return for capital investment determined in accordance with its price controls. These provide incentives for it to enhance the quality and reach of its networks through capital improvements.
Acquisitions and disposals	National Grid Gas considers disposals where the Directors believe that the price on offer is better than the long-term return that National Grid Gas can obtain itself or where a business does not fit with its long-term strategy.
Responsibility	National Grid Gas's reputation is important to it. Delivering sustainable value depends on the trust and confidence of its stakeholders and this can only be earned by conducting its business in a responsible manner

A number of other factors also affect National Grid Gas's financial performance, but are less significant than the principal business drivers above, or are mitigated by the way operations are structured:

Volumes	Changes in the quantities of gas delivered through the NTS and the DNs may result in an increase or decrease in revenues. Volumes are affected by weather, consumer demand and network availability as well as other factors. The impact of changing volumes may sometimes be offset by changes in costs or may sometimes result in an under- or over-recovery against allowable revenue, with a corresponding increase or decrease in revenue in future periods.
Commodity and pass-through costs	National Grid Gas is affected by movements in commodity prices to the extent that they affect its own energy requirements, the most significant of which relates to gas purchases required for the operation of the NTS and the DNs. National Grid Gas is allowed to recover certain costs through charges to customers. The timing of recovery of these costs can vary between financial periods leading to an under or over-recovery within any particular financial period.
Inflation	Without action to improve efficiency, National Grid Gas's operating costs increase each year as a result of wage increases and inflation in external costs. In general, its revenues also increase each year, although not necessarily at the same rate, depending on regulatory or contractual arrangements. As a consequence, its ability to control costs and improve efficiency is important to National Grid Gas's ability to increase operating profits. Its price controls are linked to retail price inflation.
Seasonality	Revenues from the NTS and the DNs are weighted towards the end of the financial year, as gas demand is typically higher during the winter months. Otherwise, seasonality does not have a significant impact on revenues. With the exception of commodity costs, operating costs are generally not seasonal.
Interest rates	The costs of financing National Grid Gas's operations are affected by changes in prevailing interest rates, as some of its debt is at floating rates. Some of the exposure to interest rates is hedged with fixed rate debt and derivative financial instruments to maintain a proportion of debt at fixed interest rates.

Objectives and strategy

National Grid Gas's principal objective is to create value for National Grid's shareholders, by helping National Grid achieve its goal of being the world's premier network utility.

To achieve its principal objective, National Grid Gas is committed to operating its businesses to the highest standards of safety, reliability and efficiency and to acting in a responsible way that contributes to society. The Directors have established operating objectives in the following areas:

Safety	Safety is paramount. National Grid Gas's most important goals are to ensure that members of the public are not injured as a direct result of its operations and to deliver a working environment where there are zero work-related injuries or illnesses. These goals also include reducing the risks of transporting gas and improving the health of staff so they are fit for work every day.
Reliability	National Grid Gas's principal operations are critical to the functioning of the UK economy. The reliability of gas networks, and the quality of service to customers, are therefore the next highest priorities after safety.

Efficiency	By improving efficiency National Grid Gas can constrain the cost of its operations borne by customers and improve returns to shareholders. It continually seeks improvements in efficiency throughout its businesses. This includes enhancing the performance of staff through their development and training.
Responsibility	National Grid Gas is committed to operating in a responsible way and we have adopted high ethical and governance standards, we take actions to minimise the environmental impact of our operations and to remediate contaminated land, promote inclusion and diversity in our workforce, and invest in the communities in which we operate.

To achieve these objectives, National Grid Gas's strategy is to focus on the ownership and operation of large complex networks by:

- using operational expertise to outperform benchmarks and regulatory targets;
- managing regulatory relationships to benefit customers and shareholders; and
- using a disciplined approach to investment to maximise returns.

National Grid Gas uses its skills and assets to create value for shareholders through investing for growth in and improving the efficiency of its existing businesses.

Key performance indicators

The Directors measure the achievement of objectives through the use of qualitative assessments and through the monitoring of quantitative indicators, termed key performance indicators (KPIs). In line with operating objectives, both financial and non-financial KPIs are used.

KPIs are used as the primary measures of whether principal operating objectives have been achieved. The scale and size of National Grid Gas's operations means that many other detailed performance measures are used in addition to the KPIs listed below. Qualitative assessments are used to judge progress against objectives in areas where numerical measures are less relevant.

Value	Objective	Key performance indicator
Safety	Zero work- related injuries	Employee lost time injury frequency rate
	Reduce risks from transporting gas	Standards of service for responding to gas escapes
		Length of gas distribution mains replaced
	Zero work-related ill health	Sickness absence rate
Reliability	Operational reliability	Business-specific reliability and service quality measures
Efficiency	Operate efficiently	Adjusted operating profit*
		Achieve real reduction of 35% in DN controllable costs by 31 March 2007
Responsibility	Reduce environmental impact	Number of significant direct environmental incidents
		Greenhouse gas emissions per £m of revenue
		Total amount of fines from environmental prosecutions
	Employ an inclusive and diverse work- force	Percentage of female employees
		Percentage of ethnic minority employees
Shareholder value	Improve financial performance	Operating cash flows
	Invest for future growth	Capital expenditure

* Adjusted operating profit is equal to operating profit excluding exceptional items and remeasurements.

National Grid Gas's overall performance against its KPIs is set out in its annual report and accounts 2005/06.

Resources

National Grid Gas's key strengths and resources include:

- the skills and expertise of its people;
- its processes and techniques for managing large complex networks;
- its relationships with customers, regulators and other stakeholders;
- the ability of its people to work together to achieve its objectives;
- the control and/or ownership of the assets used in its networks; and
- its financial position, together with the committed and uncommitted borrowing facilities available to it.

National Grid Gas's strategy for developing its people is discussed below. The principal assets of businesses included in these regulatory accounting statements are described in more detail in the performance section of this Operating and Financial Review on pages 9 to 10 and the financial position is described on pages 11 to 13.

Developing National Grid Gas's people

Development of people is undertaken on a National Grid group-wide basis.

People development forums provide the opportunity for management teams to discuss the performance and potential of their teams. This allows for the identification of individual development needs and business skill requirements.

A new career development programme was launched in April 2005 for operations engineers to develop their skills as line managers. In addition, National Grid's flagship leadership development programme is to be extended to middle management in 2006. Further development is under way through an emerging leaders programme.

National Grid's recruitment processes for apprentices, graduates and university placements in the UK, continues to build on the previous successes of developing talent from within and addressing the decline in the number of graduates in technical engineering subjects.

Employee engagement

Following National Grid's first group-wide employee opinion survey in 2004, it identified a number of areas for improvement. These included improving opportunities for dialogue across the National Grid group, developing a better understanding of National Grid group strategy among employees, managing change better, improving performance management, demonstrating our values in all that we do and continuing to progress inclusion and diversity.

National Grid has established a core set of three behavioural values that apply across all of its operations: Respect, Integrity and Ownership.

National Grid has also refined its employee briefing processes and publications. National Grid's intranet sites and National Grid's UK employee newspaper have been re-launched. It has also introduced a National Grid group-wide publication, 'National Grid World', to provide employees with a broader view of National Grid group activities.

Inclusion and diversity
In January 2005, National Grid launched its Inclusion and Diversity programme, setting out how it intends to develop and operate its business in a way that results in a more inclusive and diverse culture. It aims to ensure that all employees, regardless of race, gender, nationality, age, disability, sexual orientation, religion or background, have the opportunity to develop to their full potential.

National Grid has taken a number of steps to make this vision a reality. It has established a number of employee groups, including networks for women and minority employees. It is hoped these will help identify and remove any barriers that exist for these groups of employees. In particular, National Grid is committed to increasing the number of women in senior management across the National Grid group from the existing 18.3% through a variety of measures including mentoring, development programmes and continued commitment to flexible working.

Employee development is extremely important to National Grid and it has begun a programme of training for all of its managers about the knowledge and behaviour required to manage a diverse workforce such that all employees feel included and able to contribute effectively.

Safety
The approach to safety and occupational health is set out in National Grid's Group Vision for Safety. This is underpinned by group-wide policies and strategy statements that are available on National Grid's website.

National Grid Gas's objective is to achieve zero work-related injuries, zero work-related ill health and zero injuries to the public. While this objective is demanding, it is believed achievable.

Overall, National Grid Gas's aim is to develop a culture in which acting safely becomes second nature.

Reliability
National Grid Gas's approach to maintaining and improving reliability involves:
- investing in infrastructure and systems to provide the operational tools and techniques necessary to manage its assets and operations to high standards and investing in the renewal of assets;
- investing in the skills and capabilities of its people to give them the ability to operate its networks to a high degree of service excellence; and
- maintaining a constant focus on reliability as one of its principal objectives, ensuring it is proactive about planning to ensure reliability and that it reacts quickly to factors that could compromise reliability.

Efficiency
National Grid Gas continually reviews its operations to identify opportunities to improve the operational productivity of its assets and people, and to identify areas in which it can reduce costs or restrict cost increases. Planning ahead is essential in its approach to maintaining and improving efficiency. For example, in November 2005 National Grid decided to establish a multi-function shared services organisation for its businesses in the UK, including National Grid Gas, comprising supply chain management and significant parts of human resources and finance.

Responsibility
National Grid's Framework for Responsible Business defines the principles by which National Grid Gas's manages its business and its day-to-day dealings with its customers, employees, shareholders, suppliers and local communities. It is underpinned by National Grid group-wide policies and position statements that are also available on National Grid's website. The Directors of National Grid believe strong corporate governance is essential to operating responsibly and achieving business goals. National Grid's approach to corporate governance is described in that company's annual report and accounts.

Ethics
National Grid has set out the ethical standards it expects each employee to meet while conducting business for the group in its Code of Business Conduct applicable to all its UK employees, including National Grid Gas.

Allegations of misconduct are investigated and reported to National Grid's Business Conduct Committee. National Grid aims to ensure that reported breaches are thoroughly and promptly investigated and, where appropriate, acted upon and any necessary improvements implemented. The National Grid Board Risk & Responsibility Committee receives a twice yearly report on the number and type of inquiries and allegations.

Environmental management
National Grid Gas is committed to a year-by-year improvement in its environmental performance. National Grid's group-wide environmental policy sets out the key areas being addressed, and National Grid Gas has implemented environmental management systems certified to the international standard ISO 14001 to help deliver improvements in these areas.

All of National Grid Gas's employees work to systems certified to ISO 14001.

Climate change
National Grid Gas is committed to making a contribution towards minimising climate change and National Grid's public position statement, Energy Delivery and Climate Change, sets out how the group proposes to address the issue of greenhouse gas emissions in particular. Following its publication, National Grid established a group-wide Climate Change Strategy Group, which has established a long-term strategy that maps out how the group will achieve a 60% reduction in emissions well in advance of the target date of 2050 set by the UK Government.

Contaminated land
National Grid Gas owns and holds within its DN business a portfolio of contaminated land comprising former manufactured gas plants and former gas holder stations. Sites can sometimes have a complex mix of contamination dating back over 100 years. The main focus of the remediation programme is on managing the environmental risk.

Community investment
The role of National Grid Gas as a good corporate citizen is one that complements and adds value to strategic ambitions and as such must be delivered through a consistent and integrated approach.

The National Grid group's Community Investment Policy provides a framework for ensuring investment delivers benefits for its business and the communities involved. All community investment by National Grid Gas must develop its business, support its employees, support communities and enhance its reputation. To achieve these benefits, National Grid Gas focuses investment on three key themes to ensure that the impact of the investment is maximised: Skills and Education, Environment and Energy, and Community Development.

Stakeholder engagement
National Grid Gas has a diverse range of stakeholders including customers, regulators, government and local communities. It adopts an open and constructive approach to dealings with external audiences.

Risk and uncertainties

As well as the opportunities National Grid Gas has to grow and develop its business, it faces a number of risks and uncertainties in attaining objectives.

The most significant risk factors identified relate to:
- changes in laws or regulations;
- breaches in environmental or health and safety law or regulations;
- network failure or inability to carry out critical non-network operations;
- achievement of business performance objectives;
- reputation damage from disruptions to supply, even if outside National Grid Gas's control;
- business development activities;
- movements in interest rates;
- restrictions in borrowings and debt arrangements or changes in credit ratings;
- pension scheme funding requirements;
- changes in tax rates; and
- changes in accounting standards.

National Grid operates a group-wide risk management process which provides for a consistent approach to the assessment, recording and reporting of key risks in a visible, structured and continuous manner. This process helps to safeguard National Grid Gas's assets and is designed to manage, rather than eliminate material risks to the achievement of business objectives, while also recognising that any such process can only provide reasonable and not absolute assurance against material misstatement or loss. This process complies with the Turnbull working party guidance (revised October 2005).

Commentary on financial risks and risk management is provided in the section on financial position and financial management on pages 11 to 13.

Other developments

Other developments during the year that may affect National Grid Gas include a European Union Directive concerning measures to safeguard security of natural gas supply which was due for implementation in May 2006. This will ensure that member states have in place, and publish, policies and standards on gas security of supply. In addition, the Gas Regulation on conditions for access to gas networks was adopted by the European Union in September 2005 and applies from 1 July 2006. There are also a number of European Directives and Regulations in development covering many issues including harmonisation of access to gas systems and infrastructure development, where the precise impact on our businesses in the future is currently uncertain. The Directors expect the impact of these regulations on National Grid Gas's businesses to be minimal.

About the businesses

Principal activities

The business activities of National Grid Gas reported on in these regulatory accounting statements comprise:

DN businesses	Comprise the development, administration, maintenance and operation of National Grid Gas's four regional DNs and the supply of gas transportation services in the following four geographic areas: the North West of England; the West Midlands; the East of England; and North London. Each of these four DNs is subject to a separate price control.
	Together, the DNs comprise almost half of Great Britain's gas distribution system, consisting of approximately 82,000 mile of distribution pipe.
	Gas is transported on behalf of approximately 70 active gas shippers from the NTS through DNs to around 11 million consumers.
	The DN businesses manage the national emergency number (0800 111 999) for National Grid Gas's networks, the sold networks and the other gas transporters. During 2005/06 around 2.5 million calls to the national emergency number were handled.
Metering business	Comprises the provision of regulated gas metering services in Great Britain, which includes the provision, installation and maintenance of gas metering equipment. It is subject to price control in respect of the provision of domestic metering services
	Services are provided to an asset base of around 20 million domestic, commercial and industrial gas meters.
Meter reading business	Comprises the reading of consumers' gas meters and the provision of meter reads, both to third parties and to owners of gas transportation businesses. It is subject to price control only in respect of the provision of daily meter reading services.
De-minimis activities	Comprise the aggregate of any other businesses or activities undertaken by National Grid Gas, which do not form part of its regulated DN businesses, the NTS business, the metering business, the meter reading business, the LNG storage business, or any other activity undertaken with the specific consent of Ofgem, and which are treated as attributable to the DN businesses, the metering business or the meter reading business. De-minimis activities are not subject to price control, but must be carried on within the terms of the licence. These terms include restrictions on the level of activity with respect to the overall level of the regulated businesses.
Other activities	Comprise other activities for which Ofgem has given specific consent in accordance with standard special condition A36 of the licence, which would otherwise be classified as part of the de-minimis activities and which are treated as attributable to the DN businesses, the metering business or the meter reading business. They include the provision of common services to other companies in the National Grid group and the provision of specified services to the four distribution networks sold by National Grid Gas on 1 June 2005. These consents have been given for specific periods of time, but may be extended at the discretion of Ofgem.

External and regulatory environment
In Great Britain, gas is piped from the NTS into each of the eight DNs, which in turn distribute gas to consumers. Four of the DNs are owned by National Grid Gas and four are independently owned.

Detailed arrangements for the gas industry are provided through the Uniform Network Code, which defines the obligations, responsibilities and roles of the industry participants.

National Grid Gas holds a single gas distribution transporter licence, which authorises it to operate its four DNs, the metering business and the meter reading business. Each DN has its own separate price control, which establishes the prices National Grid Gas can charge for the services provided by each network.

Ofgem established an estimate of the separate regulatory asset value associated with each DN's distribution assets by allocating an estimate of National Grid Gas's Gas Distribution business regulatory asset value as at 1 April 2002. This was done in a way aimed at minimising short-term regional differentials in transportation charges.

Ofgem has established price caps which apply to the charges National Grid Gas may make for domestic gas metering services.

Business drivers
The business drivers specific to the businesses covered by these regulatory accounting statements include:

Business driver	Description
Price controls	The price controls that apply to the DNs take into account Ofgem's estimates of operating expenditure, capital expenditure, replacement expenditure and allowed rate of return (which is currently set at a real pre-tax rate of 6.25% on our regulatory asset value). As at 31 March 2006, the DN regulatory asset value is estimated at approximately £5.9 billion.
Factors driving revenue	The DN price control formulae specify a maximum allowed revenue for each DN. Each formula retains a 65% fixed, 35% variable revenue associated with transportation volume changes, a mains replacement incentive mechanism and the pass-through of prescribed rates and gas transporter licence fees. In any year, revenue can be more or less than is allowed under the price control formula, although it should be set to recover allowed revenue. Any difference is carried forward and future charges are adjusted accordingly
	The majority of National Grid Gas's domestic meters are covered by long-term contracts with gas suppliers. These contracts provide gas suppliers with the flexibility to replace our meters whilst reducing the risk of asset stranding.
Replacement expenditure	Replacement expenditure maintains the safety of the DNs, by the replacement of older gas pipes with modern pipes. Ofgem treats 50% of projected replacement expenditure as recoverable during the year and 50% as recoverable over future years. Each DN is subject to its own mains replacement incentive mechanism and retains 33% of any outperformance against Ofgem's annual cost targets as additional return or, alternatively, bears 50% of any overspend if it underperforms.
Capital expenditure	To ensure supply security and to meet growing customer demand. Central co-ordination ensures capital investment is effective and efficient.

Standards of service
Ofgem has established standards of service for DN operations. These include:
- overall standards of service, for example answering 90% of all calls to the national gas emergency number within 30 seconds of the call being connected and informing 97% of all consumers when they are due to be reconnected after an unplanned interruption;
- connections standards of service that require National Grid Gas to provide connections to consumers to agreed timescales; and
- guaranteed standards of service for other transportation services. Compensation is paid to customers for any failures to meet these guaranteed standards.

Current and future developments
Network sales
On 1 June 2005, the planned sales of four of National Grid Gas's eight DNs (Scotland, Wales and West, North of England and South of England), were successfully completed at a price of £5.8 billion, a considerable premium to the regulatory asset value. From the cash sale proceeds National Grid returned £2 billion to its shareholders and repaid around £1.9 billion of debt.

National Grid Gas is working with the sold DNs in their exit from existing transitional agreements. These agreements came into place prior to completion of the network sales and include the provision of a front office managed service and a system operation service to the sold DNs.

Regulatory price control reviews
Ofgem has extended the current five-year gas distribution price control for a further year through an extension price control to cover the year ending 31 March 2008. Discussions have commenced with Ofgem in relation to this extension period. The next full price control period will now cover the period from 1 April 2008 to 31 March 2013.

Business improvements
Following completion of the 'Way Ahead' restructuring programme, a series of strategic development initiatives has been delivered in support of National Grid Gas's aim to be the most efficient UK gas distribution network. Centralisation of many key processes has enabled National Grid Gas to place increased emphasis on safety and efficiency while sharing best practice across the organisation and delivering its office rationalisation programme. This has resulted in the consolidation of 14 regional office locations into three key centres – Warwick, Hinckley and Northampton.

Centralising asset management, job scheduling and dispatch processes has achieved economies of scale while maintaining local alignment of the operational workforce to satisfy consumer requirements.

Systems operation for the DNs has been integrated into the business during the year. New connections work associated with domestic premises has also been integrated, which has resulted in improved efficiency, as well as meeting the requirements of customers on a more consistent basis.

Performance during the year

In accordance with the requirements of the licence, the performance of the businesses included within these regulatory accounting statements is considered in aggregate.

General operating performance

Safety performance

Against the significant safety improvements seen over the past three years, it is reported with great sadness that there were two fatalities directly associated with National Grid Gas's DN operations during 2005/06.

In October 2005, an employee died whilst working in the London DN. There is an investigation into the incident and National Grid Gas is working closely with the Health and Safety Executive. Procedures and equipment for use while working in gaseous environments have been reviewed and an action plan has been implemented under the management of a Group Director.

There has also been one public fatality resulting directly from DN operations: an elderly person died after being hit by a National Grid Gas vehicle.

Over the past 12 months National Grid Gas has continued to see an encouraging improvement in its safety performance. Within the businesses reported in these regulatory accounting statements, 28 of employees received injuries that resulted in them taking time off work during 2005/06 compared with 61 in 2004/05, a 54% reduction.

The lost time injury frequency rate provides a more accurate indicator of year-on-year performance than an absolute measure because it takes into account changing employee numbers. The number of employee lost time injuries per 100,000 hours worked in 2005/06 fell to 0.17, a 54% improvement when compared with the previous year.

There has also been a significant reduction in the number of contractor lost time injuries (LTIs), falling from 57 in 2004/05 to 41 in 2005/06, a 28% decrease.

National Grid Gas has reinforced existing safety procedures in DN operations by focusing on areas of activity where there is most risk of serious injuries. National Grid Gas believes these procedures will help drive continual improvements in key areas.

National Grid Gas has continued to focus on employees' health by promoting physical well-being, and highlighting mental health issues such as stress. National Grid Gas has also published a stress management standard and implemented a drugs and alcohol policy.

Around 2.2% of available work days were lost due to sickness absence compared with 2.8% for the previous year.

Responsibility

This year has again seen external endorsement of the National Grid group's responsible business approach. National Grid continues to feature in the Dow Jones Sustainability World and FTSE4Good indices. National Grid is one of only two multi-utilities listed in the Dow Jones Sustainability World Index, confirming that our approach to responsible business is indeed world class.

In May 2006, National Grid was placed equal fourth in Business in the Community's fourth Corporate Responsibility Index, a leading UK benchmark of responsible business, the only company to be ranked in the top five for three years running.

Environmental management

The number of significant environmental incidents in 2005/06 arising directly from operations was one, compared with seven in the previous year.

There were no prosecutions by enforcing bodies resulting from these incidents.

Contaminated land

National Grid Gas is responsible for a number of contaminated sites, which are managed on its behalf by SecondSite Properties, a fellow subsidiary undertaking of National Grid.

Together with the Environment Agency, National Grid Gas has sought judicial review to clarify the legal position with regard to the remediation of a site in Bawtry, Yorkshire, following a decision by the Environment Agency that National Grid Gas plc is an appropriate party to be involved in the clean up of the land. The site has a long and complex history of ownership. On 17 May 2006, the High Court ruled in the Environment Agency's favour. National Grid Gas has appealed this decision, which National Grid Gas believes is incorrect in law. The appeal is not expected to be heard before early 2007.

Climate change

The largest sources of direct emissions by National Grid Gas continue to be methane leakage and venting from the DNs. During 2005/06, National Grid Gas's overall emissions per £million of revenue amounted to some 1,529 tonnes CO_2 equivalent compared with 1,829 tonnes for the previous year.

Inclusion and diversity

At 31 March 2006, 19.4% of National Grid Gas's employees were females and 4.5% were from ethnic minority groups compared with 15.7% and 3.3% at 31 March 2005.

Community investment

The London Benchmarking Group model has been adopted by National Grid to provide a framework for measuring and reporting of community contributions. Processes are now in place so that community spend across the National Grid group can be captured and categorised according to the model, and spend against our agreed themes can be reported as described on page 6.

During 2005/06, National Grid Gas has invested some £421,000 in support of community initiatives and relationships.

Business operating performance

Actual gas consumption rose to 347 TWh in 2005/06, compared with 344 TWh in 2004/05 due to the weather being colder in 2005/06. However, underlying levels of gas demand, excluding the effects of weather, fell from 357 TWh in 2004/05 to 346 TWh in 2005/06, due to the increasing levels of gas supply prices during 2005/06 affecting usage. The reduction was experienced across all types of consumers, but was particularly noticeable for larger users.

Progress against operating performance objectives during the year included the following notable items:

Objective	Performance
Safety	As described above there was one employee fatality during 2005/06.
	Lost time injuries fell from 61 in 2004/05 to 28 in 2005/06, a 54% decrease. The lost time injury frequency rate fell from 0.37 to 0.17.
	The targets on safety-related standards were again exceeded – more than 97% of 'uncontrolled' gas escapes (where the gas leak cannot be controlled by turning the gas supply off at the meter) were attended within one hour, and more than 98% of 'controlled' gas escapes (where the gas leak can be controlled at the meter) were attended within two hours.
	In excess of 1,710 km of gas pipes were decommissioned in 2005/06, in line with the target of 1,724 km, compared with 1,458 km in 2004/05.
Reliability	Over the year all connections standards of service were achieved along with all other standards of service set by Ofgem that relate to gas transportation services.
Efficiency	Performance under the current DN exit incentive scheme during 2005/06 and the incentive mechanism for mains replacement was broadly neutral.
	During the year ended 31 March 2006, National Grid Gas made around 50,000 new connections to its networks.

Financial performance

National Grid Gas reports its financial results and position in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union. A summary of the effects of implementing IFRS and the principal differences from results for the year ended 31 March 2005 previously reported under UK GAAP is on page 14.

Use of adjusted profit measures

National Grid Gas separately discloses items of income and expenditure that are material, either by their nature or their size, and are relevant to an understanding of National Grid Gas's financial performance. These include exceptional income or charges that do not relate to the underlying financial performance of National Grid Gas and remeasurement gains or losses arising from changes in the value of derivative financial instruments, recorded at fair value in the balance sheet.

In considering the financial performance of National Grid Gas's businesses, 'business performance' or 'adjusted' profit measures are used. References to 'adjusted operating profit', 'adjusted profit before taxation' and 'adjusted earnings' are stated before exceptional items and mark-to-market remeasurements of financial instruments.

The Directors believe that the use of these adjusted measures best illustrates the underlying business performance of National Grid Gas. Excluding exceptional items and mark-to-market remeasurements of derivative financial instruments removes their distorting impact in order to provide a clearer comparison from year to year.

Remeasurements arise on financial instruments as these are recorded in the balance sheet at their fair values. Financial remeasurements relate to the changes in the fair values of derivative financial instruments resulting principally from changes in interest rates.

The principal movements between 2004/05 and 2005/06 can be summarised as follows:

	Revenue £m	Operating costs £m	Operating profit £m
2004/05 results	1,423	(969)	454
Add back 2004/05 exceptional items	-	106	106
2004/05 adjusted results	1,423	(863)	560
Weather	29	-	29
Transportation price increases	33	-	33
Underlying transportation volumes	(17)	-	(17)
Gas commodity costs	-	(17)	(17)
Other	29	(34)	(5)
2005/06 adjusted results	1,497	(914)	583
2005/06 exceptional items	-	(27)	(27)
2005/06 results	1,497	(941)	556

Revenues increased by £74 million in 2005/06 compared with 2004/05.

There was a £45 million increase in revenue recovered under the DN transportation price control formula. The weather in 2005/06 was colder than 2004/05, contributing £29 million of the increase, and an average price rise of 4.6% was implemented on 1 October 2005 resulting in a further £33 million increase. These were partly offset by a £17 million reduction in underlying volumes of gas transported.

Other revenues increased by £29 million in 2005/06 compared with 2004/05, primarily because of new revenues from the post sale provision of services to the four DNs sold on 1 June 2005, partly offset by a fall in metering revenues reflecting reducing market share.

Total operating costs, excluding exceptional items, increased by £51 million in 2005/06 compared with 2004/05, including £17 million due to the effects of higher gas commodity prices.

Adjusted operating profit was £23 million higher in 2005/06 than 2004/05, an increase of 4%.

Exceptional charges of £27 million in 2005/06 and £106 million in 2004/05 predominantly related to restructuring costs under the Way Ahead programme.

Operating profit was £102 million higher in 2005/06 than 2004/05, reflecting the movements in revenues, operating costs and exceptional items explained above.

Capital expenditure

Gross capital investment in the DN and metering businesses was £509 million in 2005/06 compared with £449 million in 2004/05.

	Years ended 31 March	
	2006 £m	2005 £m
DN reinforcement and extension	**149**	127
DN replacement expenditure	**295**	255
Metering	**65**	67
Capital investment	**509**	449

DN reinforcement and extension expenditure increased from £127 million in 2004/05 to £149 million in 2005/06 because of a higher level of investment in the reinforcement of high pressure pipelines, such projects being dependent on forecasts of future demand, as well as higher expenditure on new connections and the replacement of commercial vehicles.

DN replacement expenditure increased from £255 million in 2004/05 to £295 million in 2005/06 in line with the planned increase in the long-term iron mains replacement programme agreed with the HSE.

Metering capital expenditure decreased from £67 million in 2004/05 to £65 million in 2005/06.

Annual capital expenditure is expected to remain at approximately £0.5 billion per year, in line with the year ended 31 March 2006, over the medium term. This reflects expenditure to maintain the safety of the DNs.

Legal and related matters

In June 2005, Ofgem announced that certain aspects of the domestic gas metering business were to be investigated by it under the Competition Act 1998. Information requested as part of this investigation was provided to Ofgem in September 2005.

On 17 May 2006, Ofgem issued a statement of objections detailing why it believes National Grid's conduct is in breach of the Competition Act. We shall be responding to the statement of objections in due course.

Financial position and financial management

Going concern

Having made enquiries, the Directors consider that National Grid Gas has adequate resources to continue in business for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing these regulatory accounting statements.

Capital structure

Balance sheet

The balance sheet at 31 March 2006 can be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment and non-current intangible assets	5,756	-	5,756
Other non-current assets and liabilities	4,025	(863)	3,162
Current assets and liabilities	345	(525)	(180)
Deferred tax	-	(1,122)	(1,122)
Total before net debt	10,126	(2,510)	7,616
Net debt	335	(2,678)	(2,343)
Total as at 31 March 2006	**10,461**	**(5,188)**	**5,273**
Total as at 31 March 2005	7,014	(4,881)	2,133

The increase in net assets from £2,133 million at 31 March 2005 to £5,273 million at 31 March 2006 resulted from the profit for the year of £350 million, changes in allocation of funding between National Grid Gas's regulatory businesses of £3,029 million and other changes in equity of £3 million, partially offset by net expenses recognised directly in equity of £12 million, attributed dividends paid of £203 million and the effect of the implementation of IAS 39 of £27 million.

Net debt and gearing

Net debt decreased by £0.1 billion from £2.4 billion at 31 March 2005 to £2.3 billion at 31 March 2006, primarily as a result of debt repayments following the disposals of the four regional gas networks for £5.8 billion, partly offset by an increase of £0.1 billion relating to the adoption of IAS 39.

The composition of net debt at 31 March 2006 is shown in note 26 to the regulatory accounting statements.

Gearing at 31 March 2006 and 31 March 2005, calculated as net debt at that date expressed as a percentage of net debt plus net assets shown in the balance sheet, amounted to 31% and 53% respectively. By comparison, the gearing ratio, adjusted for the inclusion of regulated businesses at their estimated regulatory asset values (adjusted gearing ratio), amounted to 25% at 31 March 2006 compared with 39% 31 March 2005.

National Grid Gas believes this adjusted ratio is a more relevant measure of gearing than one based on book values alone, because the book values do not reflect the economic value of the regulated business assets. A reconciliation of the adjustments necessary to calculate adjusted net assets is shown in the following table:

	2006 £m	2005 £m
Net assets per balance sheet	**5,273**	2,133
Adjustment for regulatory asset values	**2,300**	2,200
Deferred tax	**(690)**	(660)
Adjusted net assets	**6,883**	3,673

Shareholders' equity
Shareholders' equity rose from £2,133 million at 31 March 2005 to £5,273 million at 31 March 2006. This increased for the same reasons that net assets increased.

Liquidity and treasury management

Cash flow
Cash flows from National Grid Gas's operations are largely stable over a period of years, but they do depend on the timing of customer payments. National Grid Gas's DN operations are subject to multi-year price control agreements with the regulator, Ofgem. This results in essentially stable cash flows. However, weather conditions can affect cash flows in those businesses, with abnormally mild or cold weather driving volumes down or up respectively.

Over time, National Grid Gas expects to fund investment expenditure from its operating cash flows, through price control agreements with Ofgem.

Cash flow forecasting
Both short- and long-term cash flow forecasts are produced frequently to assist in identifying the liquidity requirements of National Grid Gas. These forecasts are supplemented by a financial headroom position, details of which are supplied to the Finance Committee of the National Grid Board regularly to demonstrate funding adequacy for at least a 12 month period. National Grid Gas also maintains a minimum level of committed facilities in support of that objective.

Credit facilities and unutilised Commercial Paper and Medium Term Note Programmes
National Grid Gas has both committed and uncommitted facilities that are available for general corporate purposes. At 31 March 2006, National Grid Gas plc had a US$2.5 billion US Commercial Paper Programme (unutilised) and a US$1.25 billion Euro Commercial Paper Programme (unutilised); and National Grid Gas plc and National Grid Gas Holdings plc had a joint Euro Medium Term Note Programme of €10 billion (€6.6 billion unissued).

At 31 March 2006, National Grid Gas had £840 million of long term committed facilities (undrawn), £25 million of short-term (364 day) committed facilities (undrawn) and £0.9 billion of uncommitted borrowing facilities (undrawn).

Treasury policy
The funding and treasury risk management of National Grid Gas is carried out on its behalf by a central department operating under policies and guidelines approved by the Board of National Grid. The Finance Committee, a committee of the Board of National Grid, is responsible for regular review and monitoring of treasury activity and for approval of specific transactions, the authority for which may be delegated. The National Grid group has a Treasury function that raises all the funding for the National Grid group and manages interest rate and foreign exchange rate risk.

There is a separate financing programme for National Grid Gas.

The Finance Committees of both National Grid and of National Grid Gas approve all funding programmes. The Treasury function is not operated as a profit centre. Debt and treasury positions are managed in a non-speculative manner, such that all transactions in financial instruments or products are matched to an underlying current or anticipated business requirement.

The use of derivative financial instruments is controlled by policy guidelines set by the Board of National Grid. Derivatives entered into in respect of gas commodities are used in support of the business' operational requirements and the policy regarding their use is explained below.

National Grid Gas had borrowings outstanding at 31 March 2006 amounting to £3,712 million (31 March 2005: £5,276 million) of which £2,605 million (2005: £2,391 million) has been attributed to the businesses reported in these regulatory accounting statements. The table in note 21 shows the expected maturity of these attributed borrowings.

National Grid Gas has in place appropriate committed facilities, and believes that the maturing amounts in respect of its contractual obligations as shown in Commitments and Contingencies can be met from these facilities, operating cash flows and other refinancings that it reasonably expects to be able to secure in the future. National Grid Gas's financial position enables it to borrow on the wholesale capital and money markets and most of its borrowings are through public bonds and commercial paper.

National Grid Gas places surplus funds on the money markets, usually in the form of short-term fixed deposits that are invested with approved banks and counterparties. Details relating to National Grid Gas's cash, short-term investments and other financial assets at 31 March 2006 are shown in note 17 to the regulatory accounting statements.

National Grid Gas plc has a credit rating of A2/A/A+ provided by Moody's, S&P and Fitch respectively.

In connection with the proposed acquisition of KeySpan by National Grid, the outlook for the ratings of National Grid Gas has been moved to 'Creditwatch with negative implications' by S&P. Moody's have placed the ratings of National Grid Gas plc on negative outlook. Fitch have placed the ratings of National Grid Gas on rating watch negative.

It is a condition of the regulatory ring-fence around National Grid Gas plc that it uses reasonable endeavours to maintain an investment grade credit rating. At these ratings, it should have good access to the capital and money markets for future funding when necessary.

The main risks arising from National Grid Gas's financing activities are set out below. The Board of National Grid and the Finance Committee of that Board review and agree policies for managing each risk and they are summarised below.

Refinancing risk management
The Board of National Grid controls refinancing risk mainly by limiting the amount of financing obligations (both principal and interest) arising on borrowings in any financial year. This policy restricts National Grid Gas from having an excessively large amount of debt to refinance in a given time-frame. During the year, a mixture of short-term and long-term debt was issued.

Interest rate risk management
The interest rate exposure of National Grid Gas arising from its borrowings and deposits is managed by the use of fixed and floating rate debt, interest rate swaps, swaptions and forward rate agreements. National Grid Gas's interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints so that, even with large movements in interest rates, neither the interest cost nor the total financing cost can exceed pre-set limits.

The performance of the Treasury function in interest rate risk management is measured by comparing the actual total financing costs of its debt with those of a passively-managed benchmark portfolio.

Foreign exchange risk management
National Grid Gas has a policy of hedging certain contractually committed foreign exchange transactions over a prescribed minimum size. It covers a minimum of 75% of such transactions expected to occur up to six months in advance and a minimum of 50% of transactions six to twelve months in advance. Cover generally takes the form of forward sale or purchase of foreign currencies and must always relate to underlying operational cash flows.

The currency and average interest rate compositions of National Grid Gas's financial liabilities and assets are shown in note 17 to the accounts.

Counterparty risk management
Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. The Finance Committee of National Grid has agreed a policy for managing such risk, which is controlled through credit limits, approvals and monitoring procedures. Where multiple transactions are entered into with a single counterparty, a master netting arrangement can be put in place to reduce National Grid Gas's exposure to credit risk of that counterparty. At the present time National Grid Gas uses standard International Swap Dealers Association (ISDA) documentation, which provides for netting in respect of all transactions governed by a specific ISDA agreement with a counterparty, when transacting interest rate and exchange rate derivatives.

Derivative financial instruments held for purposes other than trading
As part of its business operations, National Grid Gas is exposed to risks arising from fluctuations in interest rates and exchange rates. National Grid Gas uses financial instruments (derivatives) to manage exposures of this type and they are a useful tool in reducing risk. National Grid Gas's policy is not to use derivatives for trading purposes. Derivative transactions can, to varying degrees, carry both counterparty and market risk.

National Grid Gas enters into interest rate swaps to manage the composition of floating and fixed rate debt and so hedge the exposure of borrowings to interest rate movements. In addition, National Grid Gas enters into bought and written option contracts on interest rate swaps. These contracts are known as swaptions.

National Grid Gas also enters into foreign currency swaps to manage the currency composition of borrowings and so hedge the exposure to exchange rate movements. Certain agreements are combined foreign currency and interest rate swap transactions. Such agreements are known as cross currency swaps.

National Grid Gas enters into forward rate agreements to hedge interest rate risk on short-term debt and money market investments. Forward rate agreements are commitments to fix an interest rate that is to be paid or received on a notional deposit of specified maturity, starting at a future specified date.

More details on derivative financial instruments are provided in note 17 to the regulatory accounting statements.

Valuation and sensitivity analysis
National Grid Gas calculates the fair value of debt and derivative instruments by discounting all future cash flows by the market yield curve at the balance sheet date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the case of instruments that include options, the Black's variation of the Black-Scholes model is used to calculate fair value.

The valuation techniques described above for interest rate swaps and currency swaps are a standard market methodology. These techniques do not take account of the credit quality of either party but this is not considered to be a significant factor unless there is a material deterioration in the credit quality of either party.

In relation to swaptions, National Grid Gas only uses swaptions for hedging purposes with a European style exercise. As a consequence, the Black's variation of the Black-Scholes model is considered to be sufficiently accurate for the purpose of providing fair value information in relation to these types of swaptions. More sophisticated valuation models exist but National Grid Gas does not believe it is necessary to employ these models, given the extent of its activities in this area.

For debt and derivative instruments held, National Grid Gas utilises a sensitivity analysis technique to evaluate the effect that changes in relevant rates or prices will have on the market value of such instruments.

Interest rate sensitivity
Details of the sensitivity of National Grid Gas's income statement and equity to changes in UK interest rates are set out in note 17. Under the assumptions set out in note 17, a 0.10% change in UK interest rates would affect the income statement by £8 million, but would have no effect on equity.

Commodity contracts

Commodity derivatives
In the normal course of the DN business, National Grid Gas is party to commodity derivatives. These have included gas futures, gas options and gas forwards that are used to manage commodity prices associated with its gas delivery operations.

These financial exposures are monitored and managed as an integral part of National Grid Gas's financial risk management policy. At the core of this policy is a condition that National Grid Gas will engage in activities at risk only to the extent that those activities fall within commodities and financial markets to which it has a physical market exposure in terms and volumes consistent with its core business. National Grid Gas does not issue or intend to hold derivative instruments for trading purposes, and holds such instruments consistent with its various licence and regulatory obligations.

Commitments and contingencies

National Grid Gas's commitments and contingencies outstanding at 31 March and in respect of the businesses reported in these regulatory accounting statements are summarised in the table below:

	2006 £m	2005 £m
Future capital expenditure contracted but not provided for	213	12
Total operating lease commitments	80	50

Retirement arrangements

The substantial majority of National Grid Gas's employees are members of the National Grid UK Pension Scheme, formerly named the Lattice Group Pension Scheme (the 'Scheme').

The Scheme has both a defined benefit section, which is closed to new entrants, and a defined contribution section, which is offered to all new employees.

An actuarial valuation of the Scheme is being carried out as at 31 March 2006 and has not yet been completed.

The last completed full actuarial valuation of the Scheme was as at 31 March 2003. This concluded that the pre-tax deficit was £879 million (£615 million net of tax) in the defined benefit section on the basis of the funding assumptions adopted by the actuary. An interim annual assessment of the

Scheme was conducted at 31 March 2005. This assessment showed that the deficit has decreased in the defined benefit section on the basis of the funding assumptions adopted by the actuary.

It has been agreed that no funding of the deficit identified in the 2003 actuarial valuation will need to be provided to the Scheme until the outcome of the actuarial valuation at 31 March 2007 is known. At this point, National Grid will pay the gross amount of any deficit up to a maximum amount of £520 million (£364 million net of tax) into the scheme. National Grid Gas's share of these payments is £468m (£328m net of tax). Until the 31 March 2007 actuarial valuation has been completed, National Grid has arranged for banks to provide the trustees of the Scheme with letters of credit. The main conditions under which these letters of credit could be drawn relate to events which would imperil the interests of the Scheme, such as National Grid Gas becoming insolvent or National Grid failing to make agreed payments into the fund. Employer cash contributions for the ongoing cost of the Scheme are currently being made at a rate of 23.7% of pensionable payroll.

Details of material litigation to which National Grid Gas was a party at 31 March 2006

National Grid Gas was not party to litigation that was considered to be material at 31 March 2006.

Related party transactions

National Grid Gas provides services to and receives services from related parties. In the year ended 31 March 2006, the businesses reported in these regulatory accounting statements charged £23 million and received charges of £165 million from National Grid Gas's related parties (other than Directors), compared with £25 million and £172 million respectively in 2004/05.

Further information relating to related party transactions is contained within note 27 to the regulatory accounting statements.

Accounting policies

Basis of accounting

The regulatory accounting statements present the results for the years ended 31 March 2006 and 2005 and the financial position as at 31 March 2006 and 2005 of the regulatory businesses therein. They have been prepared using the accounting policies shown, in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Adoption of IFRS

With effect from 1 April 2005, the regulatory accounting statements are presented in accordance with IFRS.

The principal differences to National Grid Gas's results and financial position reported under IFRS compared to UK GAAP are as follows:

Replacement expenditure	Replacement expenditure, primarily relating to DNs, was expensed under UK GAAP but is capitalised under IFRS
Intangible assets	Computer software assets are included within tangible fixed assets under UK GAAP, but are disclosed as other intangible assets under IFRS
Deferred taxation	Deferred tax under UK GAAP was recorded based on timing differences. Under IFRS deferred tax is recorded based on temporary differences, in most cases being the difference between an asset or liabilities' carrying value in the balance sheet and its associated tax basis.

Summary of the impact of adoption of IFRS on the businesses reported on in these regulatory accounting statements

The impact of the adoption of IFRS on net assets at 31 March 2005 can be summarised as follows:

	31 March 2005 £m
Net assets under UK GAAP	644
Replacement expenditure	1,516
Deferred taxation	(27)
Net assets reported under IFRS	2,133

The impact of the adoption of IFRS on the profit for the year ended 31 March 2005 can be summarised as follows:

	2005 £m
Profit for the year under UK GAAP	84
Replacement expenditure	125
Deferred taxation	(5)
Profit for the year reported under IFRS	204

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

Accounting for financial instruments
On 1 April 2005, National Grid Gas implemented new accounting policies for financial instruments on the adoption of IAS 32 and IAS 39. As a consequence, derivative financial instruments are recorded on the balance sheet at fair value, with changes in those values recorded in the income statement or in equity. The new accounting policies are described on pages 27 and 28.

The impact of the adoption was to increase net debt by £118 million from £2,384 million to £2,502 million, and to reduce net assets by £27 million as described in note 1 to the regulatory accounting statements.

As permitted by IFRS 1, National Grid Gas adopted IAS 32 and IAS 39 with no restatement of comparatives, and so the balance sheet at 31 March 2005 and the income statement for the year then ended have not been restated for these changes in accounting policies.

Choices made in adopting IFRS
National Grid Gas was required to make a number of choices on the adoption of IFRS. The principal choices available and the choices adopted which are relevant to these regulatory accounting statements were as follows:

Option	Choices available	Choices adopted
Date of transition to IFRS	1 April 2003	1 April 2004
	1 April 2004	
Financial instruments	Adopt IAS 39 retrospectively	Adopt IAS 39 on 1 April 2005
	Adopt IAS 39 on 1 April 2004	
	Adopt IAS 39 on 1 April 2005	
Carrying value of assets at date of transition	Depreciated cost (adjusted for IFRS changes)	Depreciated cost (adjusted for IFRS changes) in most cases
	Fair value at date of transition	
Share-based payments	Recognise all active grants retrospectively	Recognise all active grants retrospectively (already adopted under UK GAAP with FRS 20)
	Recognise only grants since 7 November 2002	

Critical accounting policies
The application of accounting principles requires National Grid Gas to make estimates, judgments and assumptions that may affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the accounts. On an ongoing basis, estimates are evaluated using historical experience, consultation with experts and other methods that National Grid Gas considers reasonable in the particular circumstances to ensure compliance with IFRS. Actual results may differ significantly from these estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known.

Certain of National Grid Gas's accounting policies have been identified as critical accounting policies, as these policies involve particularly complex or subjective decisions or assessments. The discussion of critical accounting policies below should be read in conjunction with the description of the accounting policies set out in these regulatory accounting statements.

National Grid Gas's critical accounting policies and accounting treatments are considered to be:

Estimated asset economic lives	The reported amounts for amortisation of intangible fixed assets and depreciation of property, plant and equipment can be materially affected by the judgments exercised in determining their estimated economic lives. Intangible asset amortisation and depreciation of property, plant and equipment amounted to £11 million and £286 million respectively in 2005/06 and £10 million and £285 million respectively in 2004/05.
Carrying value of assets and potential for impairment	The carrying value of assets recorded in the consolidated balance sheets could be materially reduced if an impairment were to be assessed as being required. Total assets at 31 March 2006 were £10,461 million, including £5,749 million of property, plant and equipment, £7 million of other intangible assets and £4,023 million owed by National Grid Gas's immediate parent undertaking. Impairment reviews are carried out either when a change in circumstance is identified that indicates an asset might be impaired. An impairment review involves calculating either or both of the fair value or the value-in-use of an asset or group of assets and comparing with the carrying value in the balance sheet. These calculations involve the use of assumptions as to the price that could be obtained for, or the future cash flows that will be generated by, an asset or group of assets, together with an appropriate discount rate to apply to those cash flows.
Revenue accruals	Revenue includes an assessment of transportation services supplied to customers between the date of the last meter reading and the year end. Changes to the estimate of the transportation services supplied during this period would have an impact on the reported results of National Grid Gas. Estimates of unbilled revenues amounted to £92 million at 31 March 2006 compared with £58 million at 31 March 2005.
Assets and liabilities carried at fair value	Certain assets and liabilities, principally financial investments and derivative financial instruments, are carried in the balance sheet at their fair value rather than historical cost. The fair value of financial investments is based on market prices, as are those of derivative financial instruments where market prices exist. Other derivative financial instruments are valued using financial models, which include judgments on, in particular, future movements in exchange and interest rates as well as equity prices.
Hedge accounting	National Grid Gas uses derivative financial instruments to hedge certain economic exposures arising from movements in exchange and interest rates or other factors that could affect either the value of National Grid Gas's assets or liabilities or affect future cash flows. Movements in the fair values of derivative financial instruments may be accounted for using hedge accounting where National Grid Gas meet the relevant eligibility, documentation and effectiveness testing requirements. If a hedge does not meet the strict criteria for hedge accounting, or where there is ineffectiveness or partial ineffectiveness, then the movements will be recorded in the income statement immediately instead of being recognised in the Statement of Recognised Income and Expense or by being offset by adjustments to the carrying value of debt.
Exceptional items	Exceptional items, in particular restructuring costs, are items of income or

	expense which are identified as being material or one-off in nature that need to be separately identified in the income statement. Restructuring costs principally comprise severance or other costs necessary to complete a major programme of restructuring. Judgement is required in deciding the classification of items as exceptional.
Provisions	Provision is made for liabilities that are uncertain in estimates. These include provisions for the cost of environmental restoration and remediation, and restructuring. Calculations of these provisions are based on estimated cash flows relating to these costs, discounted at an appropriate rate where the impact of discounting is material. The total costs and timing of cash flows relating to environmental liabilities are based on management estimates supported by the use of external consultants. At 31 March 2006, recorded provisions totalled £74 million (2005: £105 million), including £44 million (2005: £41 million) in respect of environmental liabilities.
Tax estimates	National Grid Gas's tax charge is based on the profit for the year and tax rates in effect. The determination of appropriate provisions for taxation requires National Grid Gas to take into account anticipated decisions of tax authorities and estimate National Grid Gas's ability to utilise tax benefits through future earnings and tax planning. National Grid Gas's estimates and assumptions may differ from future events.

In order to illustrate the impact that changes in assumptions could have on National Grid Gas's results and financial position, the following sensitivities are presented:

Asset economic lives	An increase in the useful economic lives of assets of one year on average would reduce the annual depreciation charge on property, plant and equipment by £9 million and our annual amortisation charge on intangible assets by £3 million.
Revenue accruals	A 10% change in the estimate of unbilled revenues at 31 March 2006 would result in an increase or decrease in recorded net assets and profit for the year by approximately £6 million net of tax.
Assets carried at fair value	A 10% change in assets and liabilities carried at fair value would result in an increase or decrease in the carrying value of derivative financial instruments of £8 million.
Hedge accounting	If the gains and losses arising on derivative financial instruments during the year ended 31 March 2006 had not achieved hedge accounting then the profit for the year would have been £8 million lower than that reported net of tax and net assets would have been £1 million higher.
Provisions	A 10% change in the estimates of future cash flows estimated in respect of provisions for liabilities would result in an increase or decrease in net assets of approximately £7 million.

Accounting developments

New IFRS accounting standards and interpretations adopted in 2005/06

In preparing these regulatory accounting statements, National Grid Gas has complied with International Financial Reporting Standards, International Accounting Standards and interpretations applicable for periods beginning on or after 1 April 2005.

Capital resource disclosures	'*Amendment to IAS 1 Presentation of Financial Statements'* requires new disclosures about entities management of their capital resources and compliance with capital requirements.
Pensions, costs, assets and liabilities	*'Amendment to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures'* removes the requirement for National Grid Gas to recognise a proportionate share of the actuarial gains and losses and assets and liabilities of the National Grid UK Pension Scheme.
Cash flow hedges	*'Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Cash Flow Hedge Accounting of Forecast Intragroup Transactions'* allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in consolidated financial statements, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.
Financial instrument disclosures	*IFRS 7 'Financial Instruments: Disclosures'* replaces the disclosure requirements in IAS 32 and locates in one place all disclosures relating to financial instruments. The new requirements incorporate many of IAS 32's disclosures as well as additional qualitative and quantitative disclosures on the risks arising from financial instruments.

Forthcoming changes in IFRS

The following accounting standards and interpretations have not yet been adopted, but are expected to be adopted by National Grid Gas in future periods. Implementation of the following interpretations is not expected to have a material impact on National Grid Gas's results, assets or liabilities.

Leases	International Financial Reporting Interpretations Committee (IFRIC) 4 *'Determining whether an arrangement contains a lease'* provides guidance on determining whether arrangements which convey the right to use an asset in return for a series of payments should be accounted for in accordance IAS 17 'Leases'.
Share-based payments	IFRIC 8 *'Scope of IFRS 2'* addresses the issue of whether IFRS 2 'Share Based Payment' applies to transactions in which the entity cannot identify specifically some or all of the goods or services received.
Embedded derivatives	IFRIC 9 '*Reassessment of Embedded Derivatives'* prohibits reassessment of the treatment of embedded derivatives subsequent to initial recognition unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required

Corporate Governance Statement

National Grid group corporate governance

As a part of the National Grid group of companies, National Grid Gas is subject to corporate governance as detailed in the annual report and accounts of National Grid. National Grid's corporate governance policies comply with best practice for a company quoted on the London and New York Stock exchanges.

These corporate governance policies include:

- published governance policies;
- independent Non-executive Directors;
- a rigorous succession process for Executive Directors;
- appropriate training for Directors;
- monitoring of the performance of the Board;
- separation of the roles of Chairman and Group Chief Executive;
- appointment of a Senior Independent Director;
- clear definition of the role and responsibilities of the Board, including the establishment of an Executive Committee and a Finance Committee;
- independent Audit, Nominations, Remuneration, and Risk & Responsibility Committees comprised of Non-executive Directors; and
- a group-wide risk management process.

Business separation

Special Condition C20 of National Grid Gas's NTS gas transporter licence requires that National Grid Gas maintains managerial and operational systems such that:

- the DN businesses do not gain unfair commercial advantage by reason of the way National Grid Gas conducts its NTS business, as required by Standard Special Condition A6; and
- cross-subsidy between the NTS business and the DN businesses is avoided, as required by Standard Special Condition A35.

National Grid Gas's policy on business separation is set out in its Compliance Statement prepared pursuant to paragraph 2 of Special Condition C20 of its NTS gas transporter licence. How National Grid Gas complies with this statement is described below.

Managerial independence of the NTS business from the DN business

National Grid Gas has adopted an organisational structure in respect of the NTS to secure that Standard Special Condition A6 is not breached through any inappropriate managerial decision in relation to the NTS. To secure this:

- each of the NTS business and the DN business has management which is independent of the other transportation business operated by the licensee. Each has a separate lead director, who is responsible solely for the operational and financial performance of the transportation business in respect of which he has been appointed. Each such lead director is part of and is supported by a separate managerial board: one for each of the NTS business and the DN business. Those managerial boards are responsible for directing the affairs and taking all substantial business decisions relating to the business in respect of which they have been established. Each of those managerial boards contains at least two National Grid Gas Executive Directors, and each board member fulfils their role in relation to the taking of such decisions as if he or she were a director of a legally incorporated company whose sole business is the business in respect of which the managerial board he or she is a member has been established;
- two separate Compliance Committees have been appointed, to which the Business Separation Compliance Officer (whose role is described below) reports: one to deal with matters relating to the NTS business and one to deal with matters relating to the DN business. Each Compliance Committee includes the Director of Regulation (or equivalent position) having responsibility for National Grid Gas. To ensure separate reporting lines, each Compliance Committee reports directly to the board of National Grid Gas; and
- each of the two Compliance Committees also report to the Audit Committee of National Grid plc.

National Grid Gas has appointed a Business Separation Compliance Officer to perform inter alia all of the duties set out at paragraph 6 of Special Condition C21. The Business Separation Compliance Officer also:

- reviews recommendations to and decisions made by the management boards;
- where appropriate, provide advices and guidance to the members of the management boards who are also Directors of National Grid Gas in respect of compliance with the conditions; and
- where appropriate and, in particular, in the event that the advice given to the members of the management boards who are also Directors of National Grid Gas is not followed by those Directors, makes a report to the Compliance Committee that has been appointed to oversee the decisions of the relevant management board in respect of the conditions and automatically forward a copy of any such report to the Audit Committee.

The independence of the Business Separation Compliance Officer is secured through:

- reporting to the General Counsel of National Grid plc;
- a separate reporting line to the Compliance Committees established in respect of the NTS business and the DN business; and
- a strong stewardship link to the Audit Committee of National Grid plc.

The Audit Committee reviews the activities of the Business Separation Compliance Officer twice yearly and, additionally, considers with immediate effect any breaches or potential breaches of the Compliance Statement, brought to its attention by the Business Separation Compliance Officer.

Operational independence of the NTS business from DN business

National Grid Gas has implemented appropriate systems to ensure that its staff involved in the operation of the NTS do not unduly discriminate in favour of National Grid Gas's DN business over DNs owned by other parties in the way that they make operational decisions, consistently with paragraph 1 of Standard Special Condition A6.

In particular, National Grid Gas:

(i) conducts the NTS System Operation activities and the DN business System Operation activities in geographically separate locations;
(ii) has implemented an appropriate degree of targeted operational separation, as detailed below; and
(iii) has implemented a code of compliance for making operational decisions, which applies to the staff of the NTS business and the DN business.

NTS accommodation and information systems

National Grid Gas has implemented appropriate controls so that no commercially sensitive information concerning the NTS business becomes available to the DN business as a result of access by the staff or agents of the DN business to premises occupied by the staff and agents of the NTS business or information systems used by the NTS business.

Use of equipment, facilities, property and personnel employed by the NTS business
National Grid Gas has ensured that no unfair commercial advantage and/or cross subsidy is provided to the DN business by the NTS business through:

- the transparent and cost reflective allocation of the charges for resources of the NTS which are utilised for the provision of works or services to the DN business; and
- ensuring that any use of NTS resources by the DN business is charged at an appropriate rate to avoid any discrimination or cross-subsidy in favour of the DN business.

Transfer of employees from the NTS business
The transfer of employees from the NTS business to the DN business is managed so as to ensure that any NTS employee who transfers to the DN business does not possess commercially sensitive information that was acquired less than three months before the date of any such transfer.

Emergency assistance
In the event of an emergency, it may be necessary for the NTS business and the DN business system operations to be run from one control room for the duration of the emergency, in accordance with emergency procedures. During this time and for a limited period while the emergency is being dealt with, information about the NTS business and the DN business may be visible to each other for the duration of the emergency. The DN business will be required not to use any confidential information received during such emergency for any purpose not connected with the emergency.

Compliance Rules
National Grid Gas has put in place a set of Compliance Rules which include guidance on:

- NTS business operational decisions;
- disclosure of commercially sensitive information about the NTS business;
- managing the delivery of NTS commercial agreements; and
- correct allocation of costs to avoid cross subsidy between the NTS business and the DN business

Any deliberate breach of the Compliance Rules is treated by National Grid Gas as a disciplinary offence.

Directors' Report

Board of Directors

Roger Urwin (60)
Chairman
Appointed a Director of National Grid Gas plc in October 2002, he is also Group Chief Executive of National Grid. He was Managing Director and Chief Executive of London Electricity from 1990 to 1995. He is a Non-executive Director of Utilico Investment Trust plc and is a Fellow of the Royal Academy of Engineering. He has announced his intention to retire from National Grid at the end of 2006.

Steve Holliday (49)
Chief Executive
Appointed a Director of National Grid Gas plc in October 2002 and Chief Executive in April 2003. He is also Deputy Group Chief Executive of National Grid and is responsible for UK gas distribution and business services. He was formerly an Executive Director of British Borneo Oil and Gas. Previously, he spent 19 years with the Exxon group, where he held senior positions in the international gas business and operational areas such as refining and shipping. His international experience includes a four-year spell in the US. He also developed business opportunities in countries as diverse as China, Australia, Japan, Brazil and the former Soviet Union. He is also a Non-executive Director of Marks and Spencer Group plc. Following the announcement of Roger Urwin's retirement he was appointed Group Chief Executive designate, becoming Deputy Group Chief Executive on 1 April 2006.

Mark Fairbairn (47)
Chief Operating Officer
Appointed a director of National Grid Gas plc in June 2003. He joined National Grid in 1989 from BNFL. Within National Grid he held a variety of senior roles in Asset Management, Systems Operation and Engineering Services. He was instrumental in achieving significant improvements on Safety and Environmental issues within National Grid and was awarded the OBE in 2002 for his services to the Electrical Industry in respect of his leadership of the fundamental changes implemented for the introduction of the New Electrical Trading Arrangements (NETA).

Adam Wiltshire (41)
Finance Director
Appointed a Director of National Grid Gas plc in June 2006 and is responsible for all financial aspects and Corporate Governance issues within National Grid Gas plc. A Chartered Accountant, he joined National Grid Gas in 1999 and has held a number of finance related posts.

Steve Lucas (52)
Executive Director
Appointed a Director of National Grid Gas plc in December 1999, he is also Group Finance Director of National Grid. Previously he had been Executive Director, Finance of Lattice Group since its demerger from BG Group plc in 2000. Prior to this, he was Treasurer of BG Group plc having joined British Gas plc in 1994. A Chartered Accountant, he worked in private practice in the City of London until 1983. He then joined Shell International Petroleum Company, occupying a number of finance management roles, including seven years in Africa and the Far East. Steve is also a Non-executive Director of Compass Group plc.

Chris Murray (50)
Executive Director
Appointed a director of National Grid Gas plc in June 2005. He is also Network Operations Director for National Grid UK transmission and he was previously National Grid Gas plc's director for the West Midlands distribution network. Prior to this, he held several senior positions in the energy industry including Chief Executive Officer of Phoenix Natural Gas in Northern Ireland and General Manager of Accord Energy. He is a Member, and past Section Chairman, of the Institute of Gas Engineers and Managers and is a Member of the Institute of Directors.

Nick Winser (45)
Executive Director
Appointed a Director of National Grid Gas plc in July 2003, he is also Executive Director of National Grid responsible for UK and US transmission operations. He was previously Chief Operating Officer of US transmission for National Grid Transco plc. He joined National Grid Company plc in 1993, becoming Director of Engineering in 2001. Prior to this, he had been with Powergen since 1991 as principal negotiator on commercial matters, having joined the Central Electricity Generating Board in 1983 where he served in a variety of technical engineering roles.

During the period covered by these regulatory accounting statements the following resigned as directors of National Grid Gas plc: Jim O'Sullivan, Engineering and Safety Director, in July 2005 and Colin Buck, Finance Director, in June 2006.

Alison Kay
Company Secretary
Alison Kay was appointed Company Secretary on 21 October 2002. She is also Company Secretary of National Grid Electricity Transmission plc.

Other information

Unless otherwise indicated, the following information relates to National Grid Gas as a whole and not just to the businesses reported on within these regulatory accounting statements.

Business Review

Accompanying this Directors' Report is an Operating and Financial Review (OFR). The OFR has been prepared in accordance with 'Reporting Statement: Operating and Financial Review', issued by the UK Accounting Standards Board, and the Directors therefore consider that this will fulfil the requirement for a Business Review. The OFR also includes information in respect of financial risks under the heading 'Liquidity and treasury management' and employee involvement and employment practices principally on pages 5 and 6.

Principal activities

National Grid Gas's principle activities are the transmission and distribution of gas and the provision of gas metering services.

Company name

National Grid Gas plc changed its name from Transco plc on 10 October 2005.

Material interests

At no time during the year has any Director had any material interest in a contract within the Group, being a contract of any significance in relation to the Group's business.

Substantial shareholders

National Grid Gas plc is a wholly owned subsidiary undertaking of National Grid Gas Holdings plc, formerly Transco Holdings plc. The ultimate parent company of National Grid Gas is National Grid plc, formerly National Grid Transco plc.

Directors' remuneration

The aggregate amount of emoluments paid to Directors in respect of qualifying services to National Grid Gas plc for 2006 was £2,490,520 (2005: £2,372,748). The amount paid in respect of compensation for loss of office in 2006 was £284,510 (2005: £nil). Directors' emoluments include amounts in respect of accrued bonus which had not yet been approved at the date of these accounts.

Five Directors exercised share options during 2006 (2005: three Directors).

A number of the current Directors are also directors and employees of National Grid plc or a subsidiary undertaking of that company and are paid by these companies.

As at 31 March 2006, retirement benefits were accruing to seven Directors under a defined benefit scheme (2005: six defined benefit schemes, one defined contribution scheme).

The aggregate emoluments for the highest paid Director were £572,517 for 2006 (2005: £543,389); and total accrued annual pension at 31 March 2006 for the highest paid Director was £195,000 (2005: £220,731). The amount of contributions paid in respect of defined contribution pension schemes was £17,300 (2005: £20,400).

National Grid Gas does not have a Remuneration Committee, National Grid Gas's Directors being remunerated in line with the policy developed by the National Grid Remuneration Committee, details of which may be found in that company's annual report and accounts.

Directors' interests

Roger Urwin, Steve Holliday, Steve Lucas and Nick Winser are also Directors of National Grid plc and details of their interests in the shares of National Grid plc appear in that company's annual report and accounts. Interests of the other directors are set out in the annual report and accounts of National Grid Gas plc.

None of the Directors (nor any person connected with them) has a beneficial interest or non-beneficial interest in the share capital of National Grid Gas plc.

Dividends

An interim dividend of £310 million was paid during the year (2005: £500 million) and the Directors have proposed a final dividend of £1,500 million (2005: £nil). Of the interim dividend paid during the year, £203 million (2005: £187 million) and is reported in these regulatory accounting statements.

Donations

Charitable donations of £421,000 were made during the year in support of community initiatives and relationships in the UK (2005: £243,000).

No donations were made in the UK and EU for the purposes of the Political Parties, Elections and Referendums Act 2000.

Payment to suppliers

It is National Grid Gas's policy to include in contracts or other agreements, terms of payment with suppliers. Once agreed, the Company aims to abide by these terms of payment. The average creditor payment period at 31 March 2006 was 27 days (29 days at 31 March 2005).

Employee share ownership

National Grid Gas facilitates share ownership among its employees by the operation of both sharesave and share incentive plans.

Research and development

Expenditure on research and development by National Grid Gas was £2 million during the year (2005: £4 million).

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to be re-appointed auditors of National Grid Gas.

Audit information

So far as the Directors in office at the date of the signing of this report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Statement of Directors' Responsibilities for Preparing Regulatory Accounting Statements

The Directors of National Grid Gas plc are required by the condition, as amended by consents received from Ofgem, to prepare regulatory accounting statements for each financial period, which comply with the obligations set out on page 1 above.

The Directors consider that, in preparing the regulatory accounting statements, National Grid Gas plc has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and all applicable accounting standards have been followed.

The Directors have responsibility for preparing the regulatory accounting statements on the going concern basis, unless it is inappropriate to presume that National Grid Gas plc will continue in business. Therefore, the regulatory accounting statements have been prepared on the going concern basis.

The Directors have responsibility for ensuring that National Grid Gas plc and its related undertakings keep accounting records in such a form that the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, each of the businesses are separately identifiable in the books of National Grid Gas and its related undertakings from those of any other business.

The Directors have responsibility for ensuring that the regulatory accounting statements fairly present the financial position, financial performance and cash flows of, or reasonably attributable to, each business.

The Directors have responsibility to ensure that, so far as is reasonably practicable, the regulatory accounting statements have the same content and format in respect of the businesses to which they relate as the annual accounts of National Grid Gas plc; that they conform to best commercial accounting practices including all relevant accounting standards issued or adopted by the Accounting Standards Board or by the International Accounting Standards Board as the case may be, currently in force and that the accounting policies used are stated.

The Directors have responsibility to ensure that the regulatory accounting statements show separately and in appropriate detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions that have been charged from or to any non-National Grid Gas business of National Grid, or that have been determined by apportionment, where they relate to goods or services received or supplied for the purposes of the businesses.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and to detect fraud and other irregularities.

The Directors, having prepared the regulatory accounting statements, have requested the Auditors to take whatever steps and to undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

The Directors confirm that the Audit Committee of National Grid plc continues to review the adequacy of the system of internal financial controls adopted by National Grid Gas.

The Directors are responsible for ensuring that the regulatory accounting statements are published and where they are published on the Internet, for the maintenance and integrity of the website. Uncertainty regarding legal requirements is compounded, as information published on the Internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

Independent Auditors' Report to the Gas and Electricity Markets Authority and the Directors of National Grid Gas plc

We have audited the regulatory accounting statements of National Grid Gas plc (the Company) for the year ended 31 March 2006 on pages 24 to 80 which comprise the accounting policies, income statements, balance sheets, statements of recognised income and expense, cash flow statements and the related notes to the regulatory accounting statements.

This report is made, on terms that have been agreed, solely to the Company and the Gas and Electricity Markets Authority ('the Authority') in accordance with Standard Special Condition A30 of the Regulatory Licence granted to the Company, being the Gas Transporter Licence in respect of the Distribution Networks dated 1 May 2005. Our audit work has been undertaken so that we might state to the Company and the Authority those matters we have agreed to state to them in our report, in order to: (a) assist the Company to meet its obligations under the Regulatory Licence to procure such a report; and (b) to facilitate the carrying out by the Authority of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility or liability in respect of our work to anyone other than those parties whom we have agreed in writing may have the benefit of our work, whom have accepted our engagement terms and to whom we have assumed a duty of care under written arrangements entered into with such parties.

Basis of preparation

The regulatory accounting statements have been prepared under the historical cost convention and in accordance with the Condition and the accounting policies set out on pages 24 to 29.

Note 31 includes disclosure of the revenues and costs of de-minimis business and other activities and note 32 includes disclosure of amounts charged to or from other businesses of National Grid plc or amounts determined by apportionment. The Condition requires these disclosures to be made to the Authority, but allow the Company to remove these disclosures from the information made available to the public as per paragraph 10 of the Condition.

The regulatory accounting statements are separate from the statutory financial statements of the Company.

Respective responsibilities of the Gas and Electricity Markets Authority, the Directors and Auditors

The nature, form and content of regulatory accounting statements are determined by the Authority. It is not appropriate for the auditors or the directors to assess whether the nature of the information being reported upon is suitable or appropriate for the Authority's purposes. Accordingly we make no such assessment.

The directors of the Company are responsible for preparing the regulatory accounting statements and for compliance with the Condition, as described on page 5.

Our responsibility is to audit the regulatory accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except as stated in the 'Basis of audit opinion', below and having regard to the guidance contained in Audit 05/03 "Reporting to Regulators of Regulated Entities".

We report to you our opinion as to whether the regulatory accounting statements have been properly prepared in accordance with the Condition and, in respect of each of its DN businesses, the metering business, the meter reading business, the de-minimis business and the other activities, whether they fairly present the financial position, financial performance and cash flows of, or reasonably attributable to those businesses. We also report to you if, in our opinion, the other information presented (as defined below) is not consistent with the regulatory accounting statements, if the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the regulatory accounting statements, on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the regulatory accounting statements. The other information comprises: the Cautionary statements; the Obligation to produce regulatory accounting statements; the Operating and financing review; the Corporate governance statement and the Directors' report.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the regulatory accounting statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the regulatory accounting statements and of whether the accounting policies are consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory accounting statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of the regulatory accounting statements are determined by the Authority, we did not evaluate the overall adequacy of the presentation of information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Our opinion on the regulatory accounting statements is separate from our opinion on the statutory financial statements of the Company on which we reported on 30 June 2006, 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 auditors' 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.

The Condition requires the regulatory accounting statements to be drawn up on the basis set out therein, including the separate disclosure of amounts charged to or from other businesses of National Grid plc or determined by apportionment. The Directors of National Grid Gas plc are responsible for determining the bases of charges and apportionments, which requires a number of judgements and assumptions to be made. We do not give an opinion on the appropriateness of the bases of charges and apportionments.

Unaudited comparatives

We draw your attention to the fact that all 2005 comparatives included in these regulatory accounting statements are unaudited. Our opinion is not qualified in this respect. Further detail is provided in accounting policies note (a) 'Basis of preparation of regulatory accounting statements' on page 24.

Opinion

In our opinion, on the basis set out above, the regulatory accounting statements fairly present in accordance with the Condition and the accounting policies set out on pages 24 to 29, the assets, liabilities, reserves and provisions of National Grid Gas's DN businesses, metering business, meter reading business, de-minimis activities and other activities at 31 March 2006 and the revenues and costs of its DN businesses, metering business, meter reading business, de-minimis activities and other activities for the year then ended and have been properly prepared in accordance with the Condition and the accounting policies.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

18 October 2006

1. The maintenance and integrity of the Company web site is the responsibility of the Directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Authority; 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 accounting statements since they were initially presented on the web sites.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and regulatory accounting statements may differ from legislation in other jurisdictions.

Accounting Policies

a) Basis of preparation of regulatory accounting statements

These regulatory accounting statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and Interpretations adopted by the European Union, and standard special condition A30 (the condition) of National Grid Gas plc's DN gas transporter licence issued under the Utilities Act 2000 (the licence). They are prepared on the basis of all IFRSs and Interpretations that are mandatory for periods ending 31 March 2006 and in accordance with applicable United Kingdom law and Article 4 of the IAS regulation. The 2005 comparative financial information has also been prepared on this basis, with the exception of certain standards, details of which are given below, for which comparative information has not been restated.

In respect of the comparative financial information disclosed, IFRS 1 requires that estimates made under IFRS must be consistent with estimates made for the same date under UK GAAP except where adjustments are required to reflect any differences in accounting policies.

These regulatory accounting statements are prepared on an historical cost basis, except for the revaluation of certain financial instruments from 1 April 2005 onwards.

The licence under which these regulatory accounting statements are prepared was issued in May 2005 and these are the first regulatory accounting statements that fully reflect the requirements of the condition contained in that licence. The presentation of financial information in these regulatory accounting statements is significantly different to that in the regulatory accounting statements for the year ended 31 March 2005. Comparative information included within these regulatory accounting statements has been restated and presented in accordance with the requirements of the current condition, but has not been audited.

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

Restructuring of the regulatory accounting statements

In May 2005, National Grid Gas was issued with amended gas transporter licences by Ofgem including new requirements with respect to the preparation and publication of regulatory accounting statements, these changes to be fully effective for the year ending 31 March 2006. Previously, National Grid Gas's gas transportation activities were reported as a single business in the regulatory accounting statements. The regulatory accounting statements for 2005/06 ('restructured regulatory accounting statements') must separately report the activities of the component businesses of the gas transportation activity, being the NTS business and the four DNs. Furthermore, the NTS business and the LNG storage business must be reported in a separate set of regulatory accounting statements from the DN businesses. It has been agreed with Ofgem that the metering business and the meter reading business will be reported in the DN regulatory accounting statements.

These regulatory accounting statements are the first set of regulatory accounting statements prepared in accordance with this new structure. Comparative information for 2005 has been restated onto this new structure, according to the principles set out below, but has not been audited.

Attribution of revenues, costs, assets, liabilities and equity

The condition requires that all the revenues, costs, assets, liabilities and equity of National Grid Gas are attributed to the regulatory businesses reported in the regulatory accounting statements of National Grid Gas. Those revenues, costs, assets, liabilities and equity which are not directly attributable to specific regulatory businesses, have been apportioned between one or more regulatory businesses according to whether they are related items or unrelated items.

Related items

Related items comprise all those revenues, costs, assets and liabilities of National Grid Gas which are not directly attributable to a specific regulatory business, but where there is a reasonable basis for apportioning those revenues, costs, assets or liabilities between the regulatory businesses. These items comprise activities in respect of the DNs carried out on a centralised basis and shared services.

These revenues, costs, assets and liabilities are apportioned between regulatory businesses in accordance with the activities giving rise to the income, costs, assets or liabilities.

Unrelated items

Unrelated items comprise all those revenues, costs, assets, liabilities and equity of National Grid Gas which are not directly attributable to a specific regulatory business, and where there is no reasonable basis for apportioning those revenues, costs, assets, liabilities and equity between the regulatory businesses. These items mainly comprise corporate activities, financial items, taxation, dividends, share capital and reserves.

These revenues, costs, assets, liabilities and equity are apportioned between regulatory businesses using the following arbitrary bases:

- Corporate costs charged to National Grid Gas by National Grid are apportioned between the regulatory businesses using the same metrics as National Grid uses to determine the allocated charge to National Grid Gas.
- The non-current amount owed by National Grid Gas Holdings plc is apportioned between the regulatory businesses in the ratio of their estimated regulatory values.
- Net debt at 1 April 2005, which comprises borrowings and bank overdrafts, less cash, cash equivalents and financial investments at that date, has been apportioned between regulatory businesses in the ratio of estimated regulatory values at that date. No amounts were apportioned to the de-minimis business or to other activities. The amounts at subsequent period ends are determined by separately adjusting these initially apportioned amounts by the cash generated or used by each regulatory business, movements in fair value of net debt allocated to each business and other funding movements. Other funding movements comprise the movements arising from the sale of four DNs on 1 June 2005, which were apportioned between the regulatory businesses relative to net debt at 1 April 2005. The adjustments to net debt at 1 April 2005 as a consequence of adopting IAS 39 were apportioned between the regulatory businesses relative to net debt at 1 April 2005.
- Interest is apportioned between the regulatory businesses according to the relative level of net debt determined according to the principles set out above.
- Current and deferred taxation are apportioned between the regulatory businesses relative to he results of undertaking notional current and deferred tax computations for each regulatory business. The estimated capital allowances pools at 1 April 2005 have been apportioned between the regulatory businesses in the ratio of estimated regulatory values at that date. Current tax liabilities have been apportioned relative to current tax charges and tax paid or recovered is determined by balance.
- Equity dividends funded from profits for the year have been apportioned on the basis of profits for the year. Equity dividends funded from retained earnings have been apportioned on the basis of relative equity.
- The total equity of National Grid Gas at 1 April 2005, comprising called up share capital, share premium account, retained profits and other reserves, is determined as a balancing item at that date. The amounts at subsequent period ends are determined by separately adjusting these initially allocated amounts by the equity movements derived for each regulatory business as a consequence of all other allocations, including transfer to the regulatory businesses of funds received by National Grid Gas from the sale of four DNs on 1 June 2005.

Outer Met Area
A geographical area on the boundary of the East of England DN and the London DN, the Outer Met Area, forms part of the London DN for managerial, operational and cost accounting purposes. For regulatory and income accounting purposes, the Outer Met Area is treated as part of the East of England DN. Accordingly, the relevant operating costs, assets and liabilities are reported in these regulatory accounting statements as part of the East of England DN. These operating costs, assets and liabilities are deemed to be 9% of the transportation business operating costs, assets and liabilities of the London DN.

IFRS transitional arrangements
National Grid Gas's transition date to IFRS is 1 April 2004. The rules for first-time adoption of IFRS are set out in IFRS 1 'First-time adoption of International Financial Reporting Standards'. In preparing these restructured regulatory accounting statements, which are National Grid Gas's first IFRS regulatory accounting statements, these transition rules have been applied in converting them from the old format regulatory accounting statements previously prepared under generally accepted accounting principles in the United Kingdom ('UK GAAP'). As there were no previous UK GAAP regulatory accounting statements with the content of the restructured regulatory accounting statements, information is not provided on the impact of adopting IFRS. Information on the overall impacts on National Grid Gas can be found in that company's annual report and accounts for 2005/06.

IFRS 1 generally requires full retrospective application of the Standards and Interpretations in force at the first reporting date. However, IFRS 1 allows certain exemptions in the application of particular Standards to prior periods in order to assist companies with the transition process. National Grid Gas has applied the following exemptions in respect of these regulatory accounting statements:

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

(ii) IFRS 3 'Business combinations' has not been applied to business combinations that occurred before the date of transition.

Other choices made on the adoption of IFRS:

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

(ii) For Share-based payments, all active grants were recognised retrospectively. See accounting policies note (q) Share-based payments.

New IFRS accounting standards and interpretations adopted in 2005/06
In preparing these regulatory accounting statements, National Grid Gas has complied with all IFRSs applicable for periods beginning on or after 1 January 2005. In addition, National Grid Gas has adopted the following amendments to standards:

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

Amendment to IAS 19 'Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures'. The amendment allows entities which are members of a group defined benefit pension scheme, such as National Grid Gas, to account for the scheme as if it were a defined contribution scheme and not recognise a share of the assets and liabilities or actuarial gains and losses in respect of the scheme.

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

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

New IFRS accounting standards and interpretations not yet adopted
IFRIC 4 'Determining whether an arrangement contains a lease' provides guidance on determining whether arrangements which convey the right to use an asset in return for a series of payments should be accounted for in accordance IAS 17 'Leases'. Implementation of this Interpretation is not expected to have a material impact on National Grid Gas's results or assets and liabilities.

IFRIC 8 'Scope of IFRS 2' addresses the issue of whether IFRS 2 'Share Based Payment' applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. Implementation of this Interpretation is not expected to have a material impact on National Grid Gas's results or assets and liabilities.

IFRIC 9 'Reassessment of Embedded Derivatives' prohibits reassessment of the treatment of embedded derivatives subsequent to initial recognition unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. Implementation of this Interpretation is not expected to have a material impact on National Grid Gas's results or assets.

b) Basis of consolidation

These regulatory accounting statements incorporate the financial statements of National Grid Gas plc and its subsidiaries ('Group undertakings'). A subsidiary is defined as an entity controlled by National Grid Gas plc.

Control is achieved where National Grid Gas plc has the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities.

Where necessary, adjustments are made to bring the accounting policies used under relevant local GAAP in the individual financial statements of National Grid Gas plc and subsidiaries into line with those used by the Group under IFRS.

The results of subsidiaries acquired during the year and covered by the accounting requirements of the condition are included in the regulatory accounting statements from the effective date of acquisition. The results of subsidiaries disposed of during the year, or which otherwise cease to be covered by the accounting requirements of the condition, are included in the regulatory accounting statements up to the effective date of disposal, or the date when those accounting requirements cease to apply.

c) Foreign currencies

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

As set out in note (o) below, as permitted by IFRS 1, prior to 1 April 2005 National Grid Gas adopted UK GAAP for hedge accounting and, consequently, monetary assets and liabilities denominated in foreign currencies were translated at hedged rates instead of closing exchange rates.

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

On consolidation, the assets and liabilities of overseas financing operations 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 National Grid Gas's translation reserve.

d) Intangible assets other than goodwill

Identifiable intangible assets other than goodwill 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.

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:

	Years
Software	3 to 5

e) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and any impairment losses.

Cost includes payroll costs and finance costs incurred which are directly attributable to the construction of property, plant and equipment.

Property, plant and equipment include assets in which National Grid Gas'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, or enhancements to, or replacement of existing assets.

Contributions received towards the cost of property, plant and equipment are included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the estimated economic life 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, apart from certain meters, which are depreciated on a sum-of-the-digits basis, are depreciated on a straight-line basis at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown below:

	Years
Plant and machinery:	
Mains, services and regulating equipment	30 to 100
Meters	10 to 18
Freehold and leasehold buildings	up to 50
Motor vehicles and office equipment	up to 10

f) 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, National Grid Gas estimates the recoverable amount of the cash generating unit to which that asset belongs.

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

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

Tests for impairment are carried out only if there is some indication that the carrying value of the assets may have been impaired.

Impairments are recognised in the income statement and, where material, are disclosed separately.

g) Taxation

Current tax

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

Deferred tax

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

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that 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 (other than a business combination) of 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 except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

h) Discontinued operations and non-current assets held for sale

Cash flows and operations that relate to a major component of the business, or geographical area of operations, that have been sold or are classified as held for sale are shown separately from the continuing operations of National Grid Gas.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. No depreciation is charged on assets and disposal groups classified as held for sale.

i) 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.

j) Environmental costs

Provision is made for environmental costs, based on future estimated expenditures, discounted to present values.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures are recognised in the income statement.

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

k) Revenues

Revenues primarily represent the sales value derived from the distribution of gas together with the sales value derived from the provision of gas metering services to customers during the year and exclude value added tax and intra-group sales.

Revenues include an assessment of transportation services supplied to customers between the date of the last meter reading and the year end.

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

l) Pensions

The substantial majority of National Grid Gas employees are members of the defined benefit section of the National Grid UK Pension Scheme. There is no contractual arrangement or stated policy for charging the net defined benefit cost of the scheme to National Grid Gas. Accordingly National Grid Gas accounts for the scheme as if it were a defined contribution scheme. The pension charge for the year represents the contributions payable to the scheme for the period.
National Grid Gas does not recognise a share of the assets and liabilities or the actuarial gains and losses of the Scheme.

m) Leases

Rentals under operating leases are charged to the profit and loss account 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.

n) 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 National Grid Gas after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs.

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

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

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

Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs plus accrued interest less any repayments, and subsequently stated at amortised cost. Any difference between the proceeds after direct issue costs and the redemption value is recognised in the income statement over the life of the borrowing. Prior to 1 April 2005, accrued interest is presented as part of current liabilities and not combined with the principal amounts payable.

Derivative financial instruments are recognised initially at fair value, and are subsequently also measured at fair value. Changes in the fair value of derivative financial instruments are included in the income statement to the extent hedge accounting is not applied.

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

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

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

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

o) Hedge accounting and derivative financial instruments

National Grid Gas enters into both derivative financial instruments ('derivatives') and non-derivative financial instruments in order to manage its interest rate and foreign currency exposures and commodity price risks in respect of expected energy usage. The principal derivatives used include interest rate swaps, forward rate agreements, currency swaps, forward foreign currency contracts, and interest rate swaptions.

All derivative transactions are undertaken, or maintained, with a view to providing a commercial hedge of the interest, currency or commodity price risks associated with National Grid Gas's underlying business activities and the financing of those activities.

With effect from 1 April 2005, derivatives are carried in the balance sheet at their fair value.

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

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 an asset or a liability results from a forecasted transaction or firm commitment being hedged, the amounts deferred in equity are included in the initial measurement of that non-monetary asset or liability.

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

Exchange gains or losses arising on financial instruments that are designated and effective as hedges of National Grid Gas's 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.
Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement in the same periods in which the previously hedged item affects net profit or loss. For fair value hedges the cumulative adjustment recorded to its carrying value at the date hedge accounting is discontinued is amortised to the income statement using the effective interest method.

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

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Prior to 1 April 2005, National Grid Gas adopted UK GAAP accounting principles for hedge accounting and for derivatives. Derivatives used for hedging purposes were not recorded on the balance sheet as assets or liabilities. Monetary assets and liabilities in foreign currencies were retranslated at hedged rates instead of closing rates. Exchange gains and losses relating to the hedge of the net investment in overseas subsidiaries were recorded directly in equity.

As permitted by the provisions of IFRS 1, the comparative balance sheets and income statements for the year ended 31 March 2005 have not been restated to reflect the adoption of IAS 39 or IAS 32.

p) Restructuring costs

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

q) Share-based payments

National Grid Gas issues equity-settled share-based payments to certain employees.

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

r) Exceptional items

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

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

(s) Cash and cash equivalents

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

(t) Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimation is contained in the accounting policies and/or the Notes to the Regulatory Accounting 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:

- The categorisation of certain items as exceptional and the definition of adjusted earnings – note 5.
- The exemptions adopted under IFRS including, in particular, those relating to business combinations – accounting policies note (a) Basis of preparation of regulatory accounting statements.

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

- Review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – accounting policies notes (d) intangible assets other than goodwill, (e) Property, plant and equipment and (f) Impairment of assets.
- Valuation of financial instruments and derivatives – note 17.
- Revenue recognition and assessment of unbilled revenue – accounting policies note (k) Revenues.
- Recoverability of deferred tax assets – accounting policies note (g) Taxation and note 14.
- Environmental liabilities – note 24.

Income Statements

For the years ended 31 March	Notes	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Total revenue		252	414	203	234	316	16	4	65	1,504	254	378	195	222	339	17	4	16	1,425
Less inter-business revenue		-	-	-	-	-	(2)	-	(5)	(7)	-	-	-	-	-	(2)	-	-	(2)
Group revenue		252	414	203	234	316	14	4	60	1,497	254	378	195	222	339	15	4	16	1,423
Operating costs	4	(163)	(228)	(115)	(144)	(219)	(10)	(4)	(58)	(941)	(163)	(214)	(149)	(150)	(263)	(10)	(4)	(16)	(969)
Operating profit																			
Before exceptional items		96	195	93	96	97	4	-	2	583	118	185	82	94	76	5	-	-	560
Exceptional items	5	(7)	(9)	(5)	(6)	-	-	-	-	(27)	(27)	(21)	(36)	(22)	-	-	-	-	(106)
Total operating profit		89	186	88	90	97	4	-	2	556	91	164	46	72	76	5	-	-	454
Interest income and similar income	9	10	16	8	9	16	-	-	-	59	2	3	1	2	2	-	-	-	10
Interest expense and other finance costs																			
Before exceptional items and remeasurements	9	(30)	(48)	(25)	(28)	(44)	-	-	-	(175)	(32)	(49)	(25)	(29)	(33)	-	-	-	(168)
Exceptional items and remeasurements	9	(1)	(3)	(1)	(2)	(3)	-	-	-	(10)	-	-	-	-	-	-	-	-	-
Profit before taxation																			
Before exceptional items and remeasurements		76	163	76	77	69	4	-	2	467	88	139	58	67	45	5	-	-	402
Exceptional items and remeasurements	5	(8)	(12)	(6)	(8)	(3)	-	-	-	(37)	(27)	(21)	(36)	(22)	-	-	-	-	(106)
Total profit before taxation		68	151	70	69	66	4	-	2	430	61	118	22	45	45	5	-	-	296
Taxation																			
Before exceptional items and remeasurements	10	(14)	(34)	(15)	(14)	(12)	(1)	-	(1)	(91)	(27)	(40)	(18)	(22)	(15)	(1)	-	-	(123)
Exceptional items and remeasurements	10	2	4	2	2	1	-	-	-	11	8	6	11	7	(1)	-	-	-	31
Total taxation		(12)	(30)	(13)	(12)	(11)	(1)	-	(1)	(80)	(19)	(34)	(7)	(15)	(16)	(1)	-	-	(92)
Profit for the year after taxation																			
Before exceptional items and remeasurements		62	129	61	63	57	3	-	1	376	61	99	40	45	30	4	-	-	279
Exceptional items and remeasurements	5	(6)	(8)	(4)	(6)	(2)	-	-	-	(26)	(19)	(15)	(25)	(15)	(1)	-	-	-	(75)
Profit for the year		56	121	57	57	55	3	-	1	350	42	84	15	30	29	4	-	-	204

All operations are continuing operations.

The notes on pages 35 to 80 form part of these regulatory accounting statements.

Balance Sheets

At 31 March	Notes	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Non-current assets																			
Intangible assets	12	**2**	**2**	**1**	**1**	**1**	**-**	**-**	**-**	**7**	4	5	2	3	1	-	-	-	15
Property, plant and equipment	13	**1,164**	**1,704**	**958**	**1,094**	**829**	**-**	**-**	**-**	**5,749**	1,092	1,615	916	1,031	895	-	-	-	5,549
Other receivables	15	**730**	**1,184**	**595**	**657**	**859**	**-**	**-**	**-**	**4,025**	234	374	186	209	251	-	-	-	1,254
Derivative financial assets	17	**16**	**25**	**12**	**15**	**15**	**-**	**-**	**-**	**83**	-	-	-	-	-	-	-	-	-
Total non-current assets		**1,912**	**2,915**	**1,566**	**1,767**	**1,704**	**-**	**-**	**-**	**9,864**	1,330	1,994	1,104	1,243	1,147	-	-	-	6,818
Current assets																			
Inventories	18	**2**	**2**	**1**	**1**	**3**	**-**	**-**	**-**	**9**	2	2	1	1	2	-	-	-	8
Trade and other receivables	19	**53**	**87**	**38**	**48**	**95**	**1**	**1**	**13**	**336**	22	32	45	36	45	1	-	-	181
Financial investments	16	**6**	**9**	**4**	**5**	**5**	**-**	**-**	**-**	**29**	1	2	1	1	1	-	-	-	6
Derivative financial assets	17	**13**	**20**	**10**	**12**	**12**	**-**	**-**	**-**	**67**	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	20	**30**	**48**	**23**	**27**	**27**	**-**	**-**	**1**	**156**	-	1	-	-	-	-	-	-	1
Total current assets		**104**	**166**	**76**	**93**	**142**	**1**	**1**	**14**	**597**	25	37	47	38	48	1	-	-	196
Total assets		**2,016**	**3,081**	**1,642**	**1,860**	**1,846**	**1**	**1**	**14**	**10,461**	1,355	2,031	1,151	1,281	1,195	1	-	-	7,014
Current liabilities																			
Borrowings	21	**(140)**	**(217)**	**(107)**	**(123)**	**(123)**	**-**	**-**	**(3)**	**(713)**	(109)	(180)	(92)	(109)	(298)	-	-	-	(788)
Derivative financial liabilities	17	**(6)**	**(10)**	**(5)**	**(6)**	**(6)**	**-**	**-**	**-**	**(33)**	-	-	-	-	-	-	-	-	-
Trade and other payables	22	**(81)**	**(137)**	**(52)**	**(71)**	**(111)**	**(1)**	**(1)**	**(18)**	**(472)**	(77)	(138)	(67)	(77)	(128)	(11)	-	-	(498)
Current tax liabilities		**-**	**(7)**	**-**	**-**	**(20)**	**-**	**-**	**-**	**(27)**	-	(2)	-	-	(6)	(1)	-	-	(9)
Provisions	24	**(7)**	**(8)**	**(5)**	**(6)**	**-**	**-**	**-**	**-**	**(26)**	(25)	(18)	(18)	(20)	-	-	-	-	(81)
Total current liabilities		**(234)**	**(379)**	**(169)**	**(206)**	**(260)**	**(1)**	**(1)**	**(21)**	**(1,271)**	(211)	(338)	(177)	(206)	(432)	(12)	-	-	(1,376)
Non-current liabilities																			
Borrowings	21	**(369)**	**(574)**	**(283)**	**(325)**	**(332)**	**-**	**(1)**	**(8)**	**(1,892)**	(292)	(482)	(238)	(249)	(342)	-	-	-	(1,603)
Derivative financial liabilities	17	**(8)**	**(12)**	**(6)**	**(7)**	**(7)**	**-**	**-**	**-**	**(40)**	-	-	-	-	-	-	-	-	-
Other non-current liabilities	23	**(182)**	**(288)**	**(146)**	**(150)**	**(49)**	**-**	**-**	**-**	**(815)**	(171)	(273)	(141)	(142)	(42)	-	-	-	(769)
Deferred tax liabilities	14	**(224)**	**(310)**	**(187)**	**(219)**	**(182)**	**-**	**-**	**-**	**(1,122)**	(218)	(303)	(179)	(208)	(201)	-	-	-	(1,109)
Provisions	24	**(19)**	**(12)**	**(4)**	**(13)**	**-**	**-**	**-**	**-**	**(48)**	(8)	(6)	(5)	(5)	-	-	-	-	(24)
Total non-current liabilities		**(802)**	**(1,196)**	**(626)**	**(714)**	**(570)**	**-**	**(1)**	**(8)**	**(3,917)**	(689)	(1,064)	(563)	(604)	(585)	-	-	-	(3,505)
Total liabilities		**(1,036)**	**(1,575)**	**(795)**	**(920)**	**(830)**	**(1)**	**(2)**	**(29)**	**(5,188)**	(900)	(1,402)	(740)	(810)	(1,017)	(12)	-	-	(4,881)
Net assets/(liabilities)		**980**	**1,506**	**847**	**940**	**1,016**	**-**	**(1)**	**(15)**	**5,273**	455	629	411	471	178	(11)	-	-	2,133
Total equity	25	**980**	**1,506**	**847**	**940**	**1,016**	**-**	**(1)**	**(15)**	**5,273**	455	629	411	471	178	(11)	-	-	2,133

These regulatory accounting statements on pages 24 to 80 inclusive, which are based on the Annual Report and Accounts 2005/06 of National Grid Gas plc, as approved by its Board on 30 June 2006, were signed on 16 October 2006 by:

Mark Fairbairn Chief Operating Officer

Adam Wiltshire Finance Director

Statement of Recognised Income and Expense

For the years ended 31 March	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Net losses taken to equity in respect of cash flow hedges	(1)	(3)	(1)	(2)	(3)	-	-	-	(10)	-	-	-	-	-	-	-	-	-
Transferred to profit or loss on cash flow hedges	(1)	-	-	-	(1)	-	-	-	(2)	-	-	-	-	-	-	-	-	-
Tax on items taken directly to or transferred from equity	-	1	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-
Net expense recognised directly in equity	(2)	(2)	(1)	(2)	(4)	-	-	-	(11)	-	-	-	-	-	-	-	-	-
Profit for the year	56	121	57	57	55	3	-	1	350	42	84	15	30	29	4	-	-	204
Total recognised income and expense for the year	54	119	56	55	51	3	-	1	339	42	84	15	30	29	4	-	-	204
Effect of change in accounting policy – IAS 39(i)	(5)	(7)	(4)	(4)	(7)	-	-	-	(27)	-	-	-	-	-	-	-	-	-

(i) The Group has adopted IAS 32 ‘Financial Instruments: Disclosure and Presentation’ and IAS 39 ‘Financial Instruments: Recognition and Measurement’ prospectively with effect from 1 April 2005, in accordance with the transition provisions of IFRS 1. An analysis of the impact that the adoption of IAS 39 had on net assets is provided in note 1.

Cash Flow Statements

For the years ended 31 March	Notes	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Cash flows from operating activities																			
Operating profit		**89**	**186**	**88**	**90**	**97**	**4**	**-**	**2**	**556**	91	164	46	72	76	5	-	-	454
Adjustments for:																			
Exceptional items		**7**	**9**	**5**	**6**	**-**	**-**	**-**	**-**	**27**	27	21	36	22	-	-	-	-	106
Depreciation and amortisation		**39**	**55**	**25**	**34**	**144**	**-**	**-**	**-**	**297**	40	58	31	35	130	1	-	-	295
Changes in working capital		**(18)**	**(25)**	**(16)**	**(18)**	**(10)**	**-**	**(1)**	**(11)**	**(99)**	3	(9)	-	(2)	(12)	(1)	-	-	(21)
Cash flows relating to exceptional items		**(20)**	**(17)**	**(23)**	**(16)**	**-**	**-**	**-**	**-**	**(76)**	(15)	(12)	(19)	(12)	-	-	-	-	(58)
Cash generated from / (used in) operations		**97**	**208**	**79**	**96**	**231**	**4**	**(1)**	**(9)**	**705**	146	222	94	115	194	5	-	-	776
Tax paid		**6**	**(27)**	**20**	**12**	**(80)**	**(1)**	**-**	**-**	**(70)**	1	(21)	22	12	(55)	(4)	-	-	(45)
Net cash inflow / (outflow) from operating activities		**103**	**181**	**99**	**108**	**151**	**3**	**(1)**	**(9)**	**635**	147	201	116	127	139	1	-	-	731
Cash flows from investing activities																			
Purchases of intangible assets		**(1)**	**-**	**-**	**(1)**	**(1)**	**-**	**-**	**-**	**(3)**	(1)	(2)	(1)	(2)	(1)	-	-	-	(7)
Purchases of property, plant and equipment		**(118)**	**(154)**	**(78)**	**(105)**	**(57)**	**-**	**-**	**-**	**(512)**	(92)	(131)	(74)	(76)	(66)	-	-	-	(439)
Disposals of property, plant and equipment		**1**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	-	-	-	-	-	-	-	-	-
Purchases of financial investments		**(5)**	**(7)**	**(3)**	**(4)**	**(4)**	**-**	**-**	**-**	**(23)**	-	-	-	-	-	-	-	-	-
Sales of financial investments		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	6	9	4	5	6	-	-	-	30
Loan to immediate parent undertaking		**(496)**	**(809)**	**(409)**	**(449)**	**(608)**	**-**	**-**	**-**	**(2,771)**	(9)	(14)	(7)	(8)	(10)	-	-	-	(48)
Net cash used in investing activities		**(619)**	**(969)**	**(490)**	**(559)**	**(670)**	**-**	**-**	**-**	**(3,307)**	(96)	(138)	(78)	(81)	(71)	-	-	-	(464)
Net cash flow from operating activities less cash used in investing activities		**(516)**	**(788)**	**(391)**	**(451)**	**(519)**	**3**	**(1)**	**(9)**	**(2,672)**	51	63	38	46	68	1	-	-	267

Cash Flow Statements (Continued)

For the years ended 31 March	Notes	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 Unaudited £m
Cash flows from financing activities																			
Net increase/(decrease) in borrowings and derivatives		**602**	**942**	**467**	**532**	**610**	**(1)**	**1**	**11**	**3,164**	(24)	(22)	(17)	(23)	146	-	-	-	60
Interest received		**10**	**16**	**8**	**9**	**16**	**-**	**-**	**-**	**59**	3	5	2	2	3	-	-	-	15
Interest paid		**(33)**	**(53)**	**(28)**	**(30)**	**(49)**	**-**	**-**	**-**	**(193)**	(28)	(45)	(23)	(26)	(29)	-	-	-	(151)
Dividends paid to shareholders		**(33)**	**(70)**	**(33)**	**(33)**	**(31)**	**(2)**	**-**	**(1)**	**(203)**	-	-	-	-	(187)	-	-	-	(187)
Net cash generated from / (used in) financing activities		**546**	**835**	**414**	**478**	**546**	**(3)**	**1**	**10**	**2,827**	(49)	(62)	(38)	(47)	(67)	-	-	-	(263)
Net increase / (decrease) in cash and cash equivalents		**30**	**47**	**23**	**27**	**27**	**-**	**-**	**1**	**155**	2	1	-	(1)	1	1	-	-	4
Cash and cash equivalents at start of the year		**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	(2)	-	-	1	(1)	(1)	-	-	(3)
Cash and cash equivalents at end of the year	20	**30**	**48**	**23**	**27**	**27**	**-**	**-**	**1**	**156**	-	1	-	-	-	-	-	-	1

Notes to the Regulatory Accounting Statements

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

a) Adoption of IAS 39 and IAS 32

On 1 April 2005 National Grid Gas adopted IAS 39 and IAS 32. IAS 39 requires certain financial instruments to be recorded in the balance sheet at fair value rather than historical cost. Note 18 contains the disclosures required by IAS 39, IAS 32 and IFRS 7.

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

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

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

The following table shows the impact of adopting IAS 39 and the total net debt and net assets included in these regulatory accounting statements. The impact on net debt by business is shown in note 26(a) and the impact on net assets by business in note 25.

	At 31 March 2005	IAS 39 transition adjustment at 1 April 2005 (i) (ii)	IAS 39 reclassifications at 1 April 2005 (iii)	Post-IAS 39 at 1 April 2005
	£m	£m	£m	£m
Cash and cash equivalents	1	-	-	1
Financial investments	6	-	-	6
Borrowings	(2,391)	(73)	(75)	(2,539)
	(2,384)	(73)	(75)	(2,532)
Derivative financial assets	-	51	8	59
Derivative financial liabilities	-	(33)	4	(29)
Net debt	(2,384)	(55)	(63)	(2,502)
Accrued interest	(63)	-	63	-
Deferred gains and losses	(10)	10	-	-
Other assets and liabilities	4,590	18	-	4,608
Net assets	2,133	(27)	-	2,106

(i) On the adoption of IAS 39, derivative financial assets and liabilities are recognised on the balance sheet, with corresponding adjustments to retained earnings or to other reserves within equity (in respect of derivatives qualifying as cash flow hedges or net investment hedges) or to the carrying value of debt (in respect of derivatives qualifying as fair value hedges). The impact on other assets and liabilities principally relates to the deferred tax effect of these adjustments.

(ii) Up to 31 March 2005, deferred gains and losses relating to hedged financial instruments were carried forward in the balance sheet and reflected in the income statement in line with those hedged financial instruments. Under IAS 39, deferred gains and losses relating to qualifying hedge relationships are recorded in equity (for cash flow hedges and net investment hedges) or by adjusting the carrying value of the hedged financial instrument (for fair value hedges) or in the income statement if hedge accounting is not achieved.

(iii) Up to 31 March 2005, accrued interest was presented separately within creditors from the financial instruments to which it relates. Under IAS 32 and IAS 39 the carrying value of borrowings and derivative financial assets and liabilities includes the related accrued interest balance.

2. Reconciliation to the annual report and accounts of National Grid Gas plc

These regulatory accounting statements only comprise certain businesses and activities of National Grid Gas plc. They do not include those businesses and activities which are reported in the NTS regulatory accounting statements or those four DNs which were sold on 1 June 2005. Reconciliations between these regulatory accounting statements and the National Grid Gas plc Annual Report and Accounts 2005/06 are provided below. Copies of the National Grid Gas plc Annual Report and Accounts 2005/06 are available from the Company Secretary, 1-3 Strand, London WC2N 5EH.

	These regulatory accounting statements 2006 £m	NTS regulatory accounting statements 2006 £m	Sold DNs 2006 £m	Inter -business 2006 £m	National Grid Gas annual report and accounts 2006 £m	These regulatory accounting statements 2005 £m	NTS regulatory accounting statements 2005 £m	Sold DNs 2005 £m	Inter -business 2005 £m	National Grid Gas annual report and accounts 2005 £m
Income statements										
Revenue	**1,504**	**756**	-	**(16)**	**2,244**	1,425	594	-	(23)	1,996
Total operating profit/(loss)	**556**	**280**	**(1)**	**-**	**835**	454	261	(66)	-	649
Net finance costs	**(126)**	**(52)**	**(31)**	**-**	**(209)**	(158)	(51)	(116)	-	(325)
Taxation	**(80)**	**(56)**	**-**	**-**	**(136)**	(92)	(58)	59	-	(91)
Profit for the year from discontinued operations	**-**	**-**	**2,494**	**-**	**2,494**	-	-	296	-	296
Profit for the year	**350**	**172**	**2,462**	**-**	**2,984**	204	152	173	-	529
Balance sheets										
Non-current assets	**9,864**	**3,931**	**-**	**-**	**13,795**	6,818	2,565	6,117	-	15,500
Current assets	**597**	**378**	**44**	**-**	**1,019**	196	82	124	-	402
Total assets	**10,461**	**4,309**	**44**	**-**	**14,814**	7,014	2,647	6,241	-	15,902
Current liabilities	**(1,271)**	**(708)**	**(16)**	**-**	**(1,995)**	(1,381)	(790)	(1,039)	-	(3,210)
Non-current liabilities	**(3,917)**	**(1,382)**	**(14)**	**-**	**(5,313)**	(3,500)	(1,207)	(3,081)	-	(7,788)
Total liabilities	**(5,188)**	**(2,090)**	**(30)**	**-**	**(7,308)**	(4,881)	(1,997)	(4,120)	-	(10,998)
Net assets	**5,273**	**2,219**	**14**	**-**	**7,506**	2,133	650	2,121	-	4,904
Called up share capital					**45**					45
Share premium account					**204**					204
Retained earnings					**5,985**					3,323
Cash flow hedges					**(60)**					-
Other reserves					**1,332**					1,332
Total shareholders' equity	**5,273**	**2,219**	**14**	**-**	**7,506**	2,133	650	2,121	-	4,904
Cash flow statements										
Net cash inflow/(outflow) from operating activities	**635**	**176**	**(60)**	**-**	**751**	731	228	528	-	1,487
Net cash (used in)/from investing activities	**(3,307)**	**(1,317)**	**6,567**	**-**	**1,943**	(464)	(134)	(426)	-	(1,024)
Net cash from/(used in) financing activities	**2,827**	**1,206**	**(6,508)**	**-**	**(2,475)**	(263)	(92)	(99)	-	(454)
Net increase/(decrease) in cash and cash equivalents	**155**	**65**	**(1)**	**-**	**219**	4	2	3	-	9
Cash and cash equivalents at start of year	**1**	**2**	**1**	**-**	**4**	(3)	-	(2)	-	(5)
Cash and cash equivalents at end of year	**156**	**67**	**-**	**-**	**223**	1	2	1	-	4

The NTS regulatory accounting statements are published on the Investors pages of the National Grid plc website: www.nationalgrid.com.

Sold DNs represent the results, assets and liabilities attributed to the four DNs sold by National Grid Gas on 1 June 2005. Further details of these sales are provided in the National Grid Gas Annual Report and Accounts 2005/06. These sold DNs are not presented as discontinued operations within these regulatory accounting statements, as they each hold their own separate gas transporter licence and are not within the scope of the gas transporter licence under which these regulatory accounting statements are prepared. The regulatory accounting statements for each of these four sold DNs are not prepared by National Grid Gas.

3. Metering business

The following table provides an analysis of the values of metering services provided in the geographical area of each DN owned by National Grid Gas, pursuant to Standard Special Condition A10 of National Grid Gas's gas transporter licences.

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Other (i) 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Other (i) 2005 unaudited £m	Total 2005 unaudited £m
Revenue	**10**	**14**	**9**	**9**	**274**	**316**	11	15	9	10	294	339

(i) Other comprises metering services provided other than in accordance with Standard Special Condition A10 or within the geographical areas of DNs which are not reported within these regulatory accounting statements.

4. Operating costs

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Before exceptional items																		
Depreciation of property, plant and equipment	**36**	**52**	**24**	**31**	**143**	**-**	**-**	**-**	**286**	39	55	28	33	130	-	-	-	285
Amortisation of intangible assets	**3**	**3**	**1**	**3**	**1**	**-**	**-**	**-**	**11**	2	3	2	2	-	1	-	-	10
Payroll costs	**39**	**53**	**28**	**35**	**9**	**1**	**1**	**17**	**183**	51	64	44	46	12	-	-	2	219
Other operating charges:																		
Purchases of gas	**11**	**14**	**9**	**8**	**-**	**-**	**-**	**-**	**42**	7	9	5	4	-	-	-	-	25
Rates	**25**	**49**	**19**	**24**	**-**	**-**	**-**	**-**	**117**	22	36	17	19	28	-	-	-	122
Other operating charges	**42**	**48**	**29**	**37**	**66**	**9**	**3**	**41**	**275**	17	28	18	25	93	9	3	8	201
	156	**219**	**110**	**138**	**219**	**10**	**4**	**58**	**914**	138	195	114	129	263	10	3	10	862
Exceptional items																		
Payroll costs	**5**	**7**	**4**	**5**	**-**	**-**	**-**	**-**	**21**	18	13	24	14	-	-	-	-	69
Other operating charges:																		
Other operating charges	**2**	**2**	**1**	**1**	**-**	**-**	**-**	**-**	**6**	9	8	12	8	-	-	-	-	37
	7	**9**	**5**	**6**	**-**	**-**	**-**	**-**	**27**	27	21	36	22	-	-	-	-	106
Total																		
Depreciation of property, plant and equipment	**36**	**52**	**24**	**31**	**143**	**-**	**-**	**-**	**286**	39	55	28	33	130	-	-	-	285
Amortisation of intangible assets	**3**	**3**	**1**	**3**	**1**	**-**	**-**	**-**	**11**	2	3	2	2	-	1	-	-	10
Payroll costs (note 6(a))	**44**	**60**	**32**	**40**	**9**	**1**	**1**	**17**	**204**	69	77	68	60	12	-	-	2	288
Other operating charges:																		
Purchases of gas	**11**	**14**	**9**	**8**	**-**	**-**	**-**	**-**	**42**	7	9	5	4	-	-	-	-	25
Rates	**25**	**49**	**19**	**24**	**-**	**-**	**-**	**-**	**117**	22	36	17	19	28	-	-	-	122
Other operating charges	**44**	**50**	**30**	**38**	**66**	**9**	**3**	**41**	**281**	26	36	30	33	93	9	3	8	238
	163	**228**	**115**	**144**	**219**	**10**	**4**	**58**	**941**	165	216	150	151	263	10	3	10	968

4. Operating costs (continued)

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Operating costs include:																		
Research and development costs	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	1	1	-	-	-	-	-	-	2
Operating lease rentals:																		
Plant and machinery	**2**	**2**	**1**	**1**	**-**	**-**	**-**	**-**	**6**	1	2	1	1	-	-	-	-	5
Other	**2**	**3**	**2**	**2**	**1**	**-**	**-**	**1**	**11**	2	3	2	2	1	-	-	1	11

Auditor's remuneration for the National Grid Gas group amounted to £0.5m (2005: £0.4m) for statutory audit services, £0.2m (1995: £0.2m) for regulatory reporting services, £0.2m (1995: £nil) for tax advisory services and £nil (1995: £0.3m) for other audit related services.

5. Exceptional items and remeasurements

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

	North West DN **2006** **£m**	East of England DN **2006** **£m**	West Midlands DN **2006** **£m**	North London DN **2006** **£m**	Metering **2006** **£m**	Meter Reading **2006** **£m**	De-minimis activities **2006** **£m**	Other activities **2006** **£m**	Total **2006** **£m**	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Exceptional items																		
Restructuring costs (i)	**7**	**9**	**5**	**6**	**-**	**-**	**-**	**-**	**27**	26	20	35	21	-	-	-	-	102
Environmental related provision (ii)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	1	1	1	1	-	-	-	-	4
Total exceptional items included within operating profit	**7**	**9**	**5**	**6**	**-**	**-**	**-**	**-**	**27**	27	21	36	22	-	-	-	-	106
Remeasurements – net losses on derivative financial instruments (iii)	**1**	**3**	**1**	**2**	**3**	**-**	**-**	**-**	**10**	-	-	-	-	-	-	-	-	-
Total exceptional items and remeasurements included within finance costs	**1**	**3**	**1**	**2**	**3**	**-**	**-**	**-**	**10**	-	-	-	-	-	-	-	-	-
Total exceptional items and remeasurements before taxation	**8**	**12**	**6**	**8**	**3**	**-**	**-**	**-**	**37**	27	21	36	22	-	-	-	-	106
Tax on restructuring costs (i)	**(2)**	**(3)**	**(2)**	**(1)**	**-**	**-**	**-**	**-**	**(8)**	(9)	(6)	(12)	(7)	-	-	-	-	(34)
Tax on environmental related provision (ii)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	(1)	-	(1)	-	-	-	-	(2)
Tax on derivative financial instrument remeasurements (iii)	**-**	**(1)**	**-**	**(1)**	**(1)**	**-**	**-**	**-**	**(3)**	-	-	-	-	-	-	-	-	-
Other exceptional tax charges (iv)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	1	1	1	1	1	-	-	-	5
Tax on exceptional items and remeasurements	**(2)**	**(4)**	**(2)**	**(2)**	**(1)**	**-**	**-**	**-**	**(11)**	(8)	(6)	(11)	(7)	1	-	-	-	(31)
Total exceptional items and remeasurements	**6**	**8**	**4**	**6**	**2**	**-**	**-**	**-**	**26**	19	15	25	15	1	-	-	-	75

(i) Restructuring costs relate to planned cost reduction programmes. For the year ended 31 March 2005, restructuring costs included pension curtailment costs of £42m arising as a result of redundancies.

(ii) During the year ended 31 March 2005, a review of the environmental provisions was undertaken to take into account the impact of changes to UK regulations on waste disposal. This review, together with related revisions to the expected expenditure profile, resulted in a charge of £4m in 2005.

(iii) Remeasurements – net losses on derivative financial instruments comprise non-cash gains and losses arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in equity or offset by adjustments to the carrying value of debt.

(iv) The exceptional tax charge in 2005 relates to the settlement of the liabilities arising from operating National Grid Gas's Qualifying Employee Share Ownership Trust.

6. Payroll costs and employees

a) Payroll costs

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Wages and salaries	**39**	**56**	**28**	**35**	**7**	**1**	**1**	**14**	**181**	45	61	35	41	9	-	-	2	193
Social security costs	**4**	**5**	**2**	**3**	**1**	**-**	**-**	**1**	**16**	4	5	3	3	1	-	-	-	16
Pension costs	**13**	**16**	**10**	**11**	**1**	**-**	**-**	**2**	**53**	22	19	27	17	2	-	-	-	87
Share-based payments	**1**	**1**	**1**	**1**	**-**	**-**	**-**	**-**	**4**	1	2	1	1	-	-	-	-	5
Severance costs	**1**	**1**	**1**	**1**	**-**	**-**	**-**	**-**	**4**	5	3	7	4	-	-	-	-	19
	58	**79**	**42**	**51**	**9**	**1**	**1**	**17**	**258**	77	90	73	66	12	-	-	2	320
Less:																		
Amounts capitalised	**(14)**	**(19)**	**(10)**	**(11)**	**-**	**-**	**-**	**-**	**(54)**	(8)	(13)	(5)	(6)	-	-	-	-	(32)
	44	**60**	**32**	**40**	**9**	**1**	**1**	**17**	**204**	69	77	68	60	12	-	-	2	288

b) Average number of employees

	North West DN 2006	East of England DN 2006	West Midlands DN 2006	North London DN 2006	Metering 2006	Meter Reading 2006	De-minimis activities 2006	Other activities 2006	Total 2006	North West DN 2005 unaudited	East of England DN 2005 unaudited	West Midlands DN 2005 unaudited	North London DN 2005 unaudited	Metering 2005 unaudited	Meter Reading 2005 unaudited	De-minimis activities 2005 unaudited	Other activities 2005 unaudited	Total 2005 unaudited
United Kingdom	**1,229**	**1,701**	**881**	**1,052**	**228**	**25**	**19**	**431**	**5,566**	1,311	1,759	1,028	1,242	-	193	-	58	5,591

Information is not available on the actual number of employees by regulatory business, as the regulatory businesses do not wholly correspond with the organisational structure of the Group. Therefore, National Grid Gas employee numbers have been apportioned between the different regulatory businesses relative to wages and salaries.

c) Key management compensation

As the amounts are relatively small, key management compensation is only shown for the aggregate of the businesses reported in these regulatory accounting statements.

	Total 2006 £m	Total 2005 unaudited £m
Salaries and short-term employee benefits	2	2
Post-employment benefits	1	2
Share based payments	1	1
	4	5

Key management comprises those Board Directors of National Grid Gas plc with a designated responsibility for gas distribution, metering or corporate activities, together with those Executive Directors of National Grid plc who have designated managerial responsibility for National Grid Gas's s gas distribution, metering or corporate activities.

d) Share option and award schemes

National Grid operates two principal forms of share option scheme in which National Grid Gas's employees and Directors participate. National Grid also operates a number of share award schemes under which shares have been awarded to employees or Directors of National Grid Gas including a Performance Share Plan (PSP) and a Share Matching Plan. Information on these schemes is only available for National Grid Gas as a whole and not in respect of the businesses and activities included in these regulatory accounting statements. The information in respect of National Grid Gas can be found in that Company's annual report and accounts, available from the Company Secretary, 1-3 Strand, London WC2N 5EH.

7. Directors emoluments

The businesses reported in these regulatory accounting statements are not entities with statutory Directors. Accordingly, there are no relevant Directors' emoluments. Details of the emoluments of the Directors of National Grid Gas are provided in the Director's report on page 20.

8. Pensions

Substantially all National Grid Gas's employees are members of the defined benefit section of the National Grid UK Pension Scheme (formerly named the Lattice Group Pension Scheme) (the 'scheme'). There is no contractual arrangement or stated policy for charging the net defined benefit cost of the scheme to National Grid Gas. Accordingly, National Grid Gas accounts for the scheme as if it were a defined contribution scheme.

Pension scheme

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

The latest full actuarial valuation as at 31 March 2006 is currently being carried out by Watson Wyatt LLP. The last completed full actuarial valuation was as at 31 March 2003. The projected unit method was used and the principal actuarial assumptions adopted were that the annual rate of inflation would be 2.5% and that future real increases in pensionable earnings would be 1.5%. Investments held in respect of pensions before they become payable would average 5.05% real annual rate of return and investments held in respect of pensions after they become payable would average 2.7% real rate of return and that pensions would increase at a real annual rate of 0.05%. The aggregate market value of the scheme's assets was £10,141m and the value of the assets represented approximately 92% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 March 2003 on an ongoing basis and allowing for projected increases in pensionable earnings.

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

It has been agreed that no funding of the deficit identified in the 2003 actuarial valuation will need to be provided to the scheme until the outcome of an actuarial valuation at 31 March 2007 is known. At this point, National Grid will pay the gross amount of any deficit up to a maximum amount of £520m (£364m net of tax) into the scheme. The Group's share of these payments would be £468m (£328m net of tax). Until the 31 March 2007, actuarial valuation has been completed, National Grid has arranged for banks to provide the trustees of the scheme with letters of credit. The main conditions under which these letters of credit could be drawn relate to events which would imperil the interests of the scheme, such as National Grid Gas plc becoming insolvent or National Grid failing to make agreed payments into the fund.

The following disclosures relate to the scheme as a whole and include amounts not recognised in these regulatory accounting statements, but which are recognised in the accounts of Lattice Group plc.

	2006	2005
	£m	£m
Amounts recognised in the balance sheet of Lattice Group plc		
Present value of fund obligations	**13,246**	12,644
Fair value of plan assets	**12,739**	11,853
	(507)	(791)
Present value of unfunded obligations	**(21)**	(18)
Liability in the balance sheet	**(528)**	(809)

8. Pensions (continued)

	2006 £m	2005 £m
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	**12,662**	12,349
Current service cost	**69**	91
Interest cost	**655**	664
Actuarial losses	**1,207**	92
Curtailment (gain)/loss on redundancies	**(23)**	18
Curtailment gain on the sale of DNs	**(168)**	-
Settlement on the sale of DNs	**(589)**	-
Gains on settlement	**(20)**	-
Special termination benefits	**43**	-
Curtailment cost – augmentations	**5**	-
Employee contributions	**8**	11
Benefits paid	**(582)**	(563)
Closing defined benefit obligation	**13,267**	12,662
Changes in the fair value of plan assets		
Opening fair value of plan assets	**11,853**	11,243
Expected return on plan assets	**694**	683
Actuarial gains/(losses)	**1,274**	386
Assets distributed on settlements and transfers	**(609)**	-
Employer contributions	**100**	93
Employee contributions	**8**	11
Benefits paid	**(581)**	(563)
Closing fair value of plan assets	**12,739**	11,853
Expected contributions to defined benefit plans in the following year	**45**	71

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

	2006 %	2005 %
Equities	**38.4**	39.6
Corporate bonds	**20.4**	18.0
Gilts	**31.0**	33.0
Property	**8.6**	8.0
Other	**1.6**	1.4
Total	**100.0**	100.0

8. Pensions (continued)

The principal assumptions used were:

	2006 **%**	2005 %
Discount rate (i)	**4.9**	5.4
Expected return on plan assets	**5.8**	6.2
Rate of increase in salaries	**3.9**	3.9
Rate of increase in pensions in payment and deferred pensions	**3.0**	3.0
Rate of increase in Retail Price Index	**2.9**	2.9

(i) For the year ended 31 March 2006, a 0.1% reduction in the discount rate would increase the current service cost by £2m and reduce the interest on liabilities by £1m.
(ii) A promotional age related scale has been used where appropriate.
(iii) The assumptions allow for future improvements in mortality.

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 the plan. The expected real returns on specific asset classes reflect historical returns, investment yields on the measurement date and general future return expectations, and have been set after taking advice from the scheme's actuaries. The long-term target asset allocation for the scheme is 40% equities, 52% bonds and 8% property and other.

9. Finance income and costs

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m
Interest income on financial instruments held at amortised cost	10	16	8	9	16	-	-	-	59
Interest income and similar income	10	16	8	9	16	-	-	-	59
Interest expense on financial liabilities held at amortised cost	(28)	(44)	(23)	(26)	(43)	-	-	-	(164)
Interest on derivatives	-	(1)	-	-	(1)	-	-	-	(2)
Other interest	(2)	(3)	(2)	(2)	-	-	-	-	(9)
Unwinding of discount on provisions	-	-	-	(1)	-	-	-	-	(1)
Less: interest capitalised	-	-	-	1	-	-	-	-	1
Interest expense	(30)	(48)	(25)	(28)	(44)	-	-	-	(175)
Net (losses)/gains on derivative financial instruments:									
On derivatives designated as fair value hedges	(1)	(3)	(1)	(2)	(3)	-	-	-	(10)
On derivatives designated as cash flow hedges	-	1	-	-	1	-	-	-	2
On derivatives not designated as hedges or ineligible for hedge accounting	-	(1)	-	-	(1)	-	-	-	(2)
Net losses on derivative financial instruments	(1)	(3)	(1)	(2)	(3)	-	-	-	(10)
Interest expense and other finance costs	(31)	(51)	(26)	(30)	(47)	-	-	-	(185)
Net finance costs	(21)	(35)	(18)	(21)	(31)	-	-	-	(126)
Comprising:									
Interest income and similar income	10	16	8	9	16	-	-	-	59
Interest expense and other finance costs:									
Before exceptional items and remeasurements	(30)	(48)	(25)	(28)	(44)	-	-	-	(175)
Exceptional items and remeasurements	(1)	(3)	(1)	(2)	(3)	-	-	-	(10)
	(21)	(35)	(18)	(21)	(31)	-	-	-	(126)

	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Interest income on financial instruments held at amortised cost	2	3	1	2	2	-	-	-	10
Interest income and similar income	2	3	1	2	2	-	-	-	10
Interest expense on financial liabilities held at amortised cost	(28)	(46)	(23)	(26)	(33)	-	-	-	(156)
Interest on derivatives	-	-	-	-	-	-	-	-	-
Other interest	(3)	(3)	(2)	(3)	-	-	-	-	(11)
Unwinding of discount on provisions	(1)	-	-	-	-	-	-	-	(1)
Less: interest capitalised	-	-	-	-	-	-	-	-	-
Interest expense	(32)	(49)	(25)	(29)	(33)	-	-	-	(168)
Net (losses)/gains on derivative financial instruments:									
On derivatives designated as fair value hedges	-	-	-	-	-	-	-	-	-
On derivatives designated as cash flow hedges	-	-	-	-	-	-	-	-	-
On derivatives not designated as hedges or ineligible for hedge accounting	-	-	-	-	-	-	-	-	-
Net losses on derivative financial instruments	-	-	-	-	-	-	-	-	-
Interest expense and other finance costs	(32)	(49)	(25)	(29)	(33)	-	-	-	(168)
Net finance costs	(30)	(46)	(24)	(27)	(31)	-	-	-	(158)
Comprising:									
Interest income and similar income	2	3	1	2	2	-	-	-	10
Interest expense and other finance costs:									
Before exceptional items and remeasurements	(32)	(49)	(25)	(29)	(33)	-	-	-	(168)
Exceptional items and remeasurements	-	-	-	-	-	-	-	-	-
	(30)	(46)	(24)	(27)	(31)	-	-	-	(158)

9. Finance income and costs (continued)

Interest income on financial instruments held at amortised cost comprises interest income from bank deposits and other financial assets.

Interest expense on financial liabilities held at amortised cost comprises interest on bank loans and overdrafts £10m (2005: £9m), interest on other borrowings £153m (2005: £146m) and interest on finance leases £1m (2005: £1m).

Interest on the funding attributable to assets in the course of construction was capitalised during the year at a rate of 6.0% (2005: 5.6%).

Ineffectiveness on fair value hedges includes a net loss of £9m from derivatives designated as fair value hedges and a net loss of £1m from the fair value adjustments to the carrying value of debt.

Net gains on derivatives designated as cash flow hedges includes net gains of £2m transferred from equity.

10. Taxation

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

	North West DN **2006** **£m**	East of England DN **2006** **£m**	West Midlands DN **2006** **£m**	North London DN **2006** **£m**	Metering **2006** **£m**	Meter Reading **2006** **£m**	De-minimis activities **2006** **£m**	Other activities **2006** **£m**	Total **2006** **£m**	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
United Kingdom																		
Corporation tax at 30%	**-**	**19**	**5**	**1**	**35**	**1**	**-**	**1**	**62**	3	12	(6)	1	28	1	-	-	39
Adjustment in respect of prior years (i)	**(4)**	**(7)**	**(3)**	**(4)**	**(5)**	**-**	**-**	**-**	**(23)**	(4)	(7)	(3)	(4)	(5)	-	-	-	(23)
Deferred tax	**16**	**18**	**11**	**15**	**(19)**	**-**	**-**	**-**	**41**	20	29	16	18	(7)	-	-	-	76
Taxation	**12**	**30**	**13**	**12**	**11**	**1**	**-**	**1**	**80**	19	34	7	15	16	1	-	-	92
Comprising:																		
Taxation – excluding exceptional items and remeasurements	**14**	**34**	**15**	**14**	**12**	**1**	**-**	**1**	**91**	27	40	18	22	15	1	-	-	123
Taxation – exceptional items and remeasurements (note 5)	**(2)**	**(4)**	**(2)**	**(2)**	**(1)**	**-**	**-**	**-**	**(11)**	(8)	(6)	(11)	(7)	1	-	-	-	(31)
	12	**30**	**13**	**12**	**11**	**1**	**-**	**1**	**80**	19	34	7	15	16	1	-	-	92

(i) The UK Corporation tax adjustment in respect of prior years includes a £nil (2005: £4m charge) that relates to exceptional items.

Taxation on items charged to equity

	North West DN **2006** **£m**	East of England DN **2006** **£m**	West Midlands DN **2006** **£m**	North London DN **2006** **£m**	Metering **2006** **£m**	Meter Reading **2006** **£m**	De-minimis activities **2006** **£m**	Other activities **2006** **£m**	Total **2006** **£m**	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Deferred tax credit on revaluation of cash flow hedges	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	-	-	-	-	-	-	-	-	-
Deferred tax credit on share options	**1**	**1**	**-**	**1**	**-**	**-**	**-**	**-**	**3**	-	-	-	-	-	-	-	-	-
	1	**2**	**-**	**1**	**-**	**-**	**-**	**-**	**4**	-	-	-	-	-	-	-	-	-

10. Taxation (continued)

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

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Profit before taxation before exceptional items and remeasurements	**76**	**163**	**76**	**77**	**69**	**4**	**-**	**2**	**467**	88	139	59	67	45	5	-	-	403
Multiplied by UK corporation tax rate of 30% (2005: 30%)	**23**	**49**	**23**	**23**	**20**	**1**	**-**	**1**	**140**	26	41	18	20	14	1	-	-	120
Effects of:																		
Adjustments in respect of current income tax of previous years	**(4)**	**(7)**	**(3)**	**(4)**	**(5)**	**-**	**-**	**-**	**(23)**	(4)	(7)	(3)	(4)	(5)	-	-	-	(23)
Expenses not deductible for tax purposes	**1**	**1**	**1**	**1**	**-**	**-**	**-**	**-**	**4**	1	1	1	1	-	-	-	-	4
Non-taxable income	**(1)**	**(2)**	**(1)**	**(1)**	**(1)**	**-**	**-**	**-**	**(6)**	-	-	-	-	-	-	-	-	-
Impact of employee share options	**(1)**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**	-	(1)	-	-	-	-	-	-	(1)
Other	**(4)**	**(6)**	**(5)**	**(5)**	**(2)**	**-**	**-**	**-**	**(22)**	4	6	2	5	6	-	-	-	23
Total taxation before exceptional items and remeasurements	**14**	**34**	**15**	**14**	**12**	**1**	**-**	**1**	**91**	27	40	18	22	15	1	-	-	123
Effective income tax rate before exceptional items and remeasurements	**18.4%**	**20.9%**	**19.7%**	**18.2%**	**17.4%**	**25.0%**	**-**	**50.0%**	**19.5%**	30.7%	28.8%	30.5%	32.8%	33.3%	20.0%	-	-	30.5%
Profit before taxation	**68**	**151**	**70**	**69**	**66**	**4**	**-**	**2**	**430**	61	118	22	45	45	5	-	-	296
Multiplied by UK corporation tax rate of 30% (2005: 30%)	**20**	**45**	**21**	**21**	**20**	**1**	**-**	**1**	**129**	18	35	7	14	14	1	-	-	89
Effects of:																		
Adjustments in respect of current income tax of previous years	**(4)**	**(7)**	**(3)**	**(4)**	**(5)**	**-**	**-**	**-**	**(23)**	(4)	(7)	(3)	(4)	(5)	-	-	-	(23)
Expenses not deductible for tax purposes	**1**	**1**	**1**	**1**	**-**	**-**	**-**	**-**	**4**	1	1	-	-	-	-	-	-	2
Non-taxable income	**(1)**	**(2)**	**(1)**	**(1)**	**(1)**	**-**	**-**	**-**	**(6)**	-	-	-	-	-	-	-	-	-
Impact of employee share options	**(1)**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**	-	(1)	-	-	-	-	-	-	(1)
Other	**(3)**	**(6)**	**(5)**	**(5)**	**(3)**	**-**	**-**	**-**	**(22)**	4	6	3	5	7	-	-	-	25
Total taxation	**12**	**30**	**13**	**12**	**11**	**1**	**-**	**1**	**80**	19	34	7	15	16	1	-	-	92
Effective income tax rate	**17.6%**	**19.9%**	**18.6%**	**17.4%**	**16.7%**	**25.0%**	**-**	**50.0%**	**18.6%**	31.1%	28.8%	31.8%	33.3%	35.6%	20.0%	-	-	31.1%

Factors that may affect future tax charges

National Grid Gas has no brought forward non-trading deficits (2005: £39m), which could reduce taxable profits in future years.

11. Dividends

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Ordinary dividends																		
Interim dividend for 2006	**33**	**70**	**33**	**33**	**31**	**2**	**-**	**1**	**203**	-	-	-	-	-	-	-	-	-
Interim dividend for 2005	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	187	-	-	-	187

In addition, the Directors are proposing a final dividend for 2006 of 38.03p per share which will absorb £1,500m of shareholders funds. The amount attributable to the businesses reported in these regulatory accounting statements, if any, has not yet been determined.

National Grid Gas plc is prohibited from declaring a dividend or other distribution unless it has certified to Ofgem that it is in compliance in all material respects with certain regulatory obligations, including a requirement to ensure it has sufficient financial resources and facilities to enable it to carry on its business and a requirement to use all reasonable endeavours to maintain an investment grade rating.

12. Intangible assets

	North West DN £m	East of England DN £m	West Midlands DN £m	North London DN £m	Metering £m	Meter Reading £m	De-minimis activities £m	Other activities £m	Total £m
Cost at 1 April 2004	6	9	4	4	-	1	-	-	24
Additions	1	2	2	2	1	-	-	-	8
Cost at 31 March 2005	7	11	6	6	1	1	-	-	32
Additions	1	-	-	1	1	-	-	-	3
Disposals	(1)	(1)	(1)	(1)	-	-	-	-	(4)
Cost at 31 March 2006	7	10	5	6	2	1	-	-	31
Amortisation at 1 April 2004	(2)	(3)	(1)	(1)	-	-	-	-	(7)
Amortisation charge for the year	(1)	(3)	(3)	(2)	-	(1)	-	-	(10)
Amortisation at 31 March 2005	(3)	(6)	(4)	(3)	-	(1)	-	-	(17)
Amortisation charge for the year	(3)	(3)	(1)	(3)	(1)	-	-	-	(11)
Disposals	1	1	1	1	-	-	-	-	4
Amortisation at 31 March 2006	(5)	(8)	(4)	(5)	(1)	(1)	-	-	(24)
Net book value at 31 March 2006	**2**	**2**	**1**	**1**	**1**	**-**	**-**	**-**	**7**
Net book value at 31 March 2005	4	5	2	3	1	-	-	-	15

Intangible assets comprise internally developed computer software and related licences.

13. Property, plant and equipment

Land and buildings

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 Unaudited £m
Cost at 1 April	9	12	5	5	-	-	-	-	31	7	9	4	4	-	-	-	-	24
Additions	2	2	2	1	-	-	-	-	7	1	1	1	1	-	-	-	-	4
Disposals	-	-	(1)	-	-	-	-	-	(1)	-	-	-	-	-	-	-	-	-
Reclassifications and transfers	-	-	-	-	1	-	-	-	1	1	2	-	-	-	-	-	-	3
Cost at 31 March	11	14	6	6	1	-	-	-	38	9	12	5	5	-	-	-	-	31
Depreciation at 1 April	(3)	(4)	(1)	(1)	-	-	-	-	(9)	(2)	(3)	(1)	(1)	-	-	-	-	(7)
Charge for the year	(1)	-	(1)	(1)	-	-	-	-	(3)	(1)	(1)	-	-	-	-	-	-	(2)
Disposals	-	-	1	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-
Reclassifications and transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation at 31 March	(4)	(4)	(1)	(2)	-	-	-	-	(11)	(3)	(4)	(1)	(1)	-	-	-	-	(9)
Net book value at 31 March	**7**	**10**	**5**	**4**	**1**	**-**	**-**	**-**	**27**	6	8	4	4	-	-	-	-	22
Which comprises:																		
Freehold	**7**	**8**	**5**	**3**	**1**	**-**	**-**	**-**	**24**	6	6	4	3	-	-	-	-	19
Long leasehold	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	-	1	-	-	-	-	-	-	1
Short leasehold	**-**	**1**	**-**	**1**	**-**	**-**	**-**	**-**	**2**	-	1	-	1	-	-	-	-	2
	7	**10**	**5**	**4**	**1**	**-**	**-**	**-**	**27**	6	8	4	4	-	-	-	-	22

Plant and machinery

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 Unaudited £m
Cost at 1 April	1,459	2,216	1,205	1,372	1,716	-	-	-	7,968	1,380	2,102	1,142	1,304	1,639	-	-	-	7,567
Additions	102	133	67	93	64	-	-	-	459	82	119	65	70	66	-	-	-	402
Disposals	(2)	(2)	3	(1)	(56)	-	-	-	(58)	(1)	(2)	(1)	(1)	(9)	-	-	-	(14)
Reclassifications and transfers	-	-	-	-	-	-	-	-	-	(2)	(3)	(1)	(1)	20	-	-	-	13
Cost at 31 March	1,559	2,347	1,275	1,464	1,724	-	-	-	8,369	1,459	2,216	1,205	1,372	1,716	-	-	-	7,968
Depreciation at 1 April	(401)	(648)	(312)	(367)	(821)	-	-	-	(2,549)	(374)	(608)	(290)	(341)	(689)	-	-	-	(2,302)
Charge for the year	(28)	(43)	(20)	(26)	(140)	-	-	-	(257)	(30)	(44)	(24)	(28)	(130)	-	-	-	(256)
Disposal of undertakings	(3)	(3)	(2)	(3)	-	-	-	-	(11)	-	-	-	-	-	-	-	-	-
Disposals	1	1	(3)	1	56	-	-	-	56	1	2	1	1	9	-	-	-	14
Reclassifications and transfers	1	5	-	1	-	-	-	-	7	2	2	1	1	(11)	-	-	-	(5)
Depreciation at 31 March	(430)	(688)	(337)	(394)	(905)	-	-	-	(2,754)	(401)	(648)	(312)	(367)	(821)	-	-	-	(2,549)
Net book value at 31 March	**1,129**	**1,659**	**938**	**1,070**	**819**	**-**	**-**	**-**	**5,615**	1,058	1,568	893	1,005	895	-	-	-	5,419

13. Property, plant and equipment (continued)

Assets in the course of construction

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Cost at 1 April	5	8	4	7	-	-	-	-	24	3	5	4	4	-	-	-	-	16
Additions	-	1	-	3	-	-	-	-	4	4	7	3	5	-	-	-	-	19
Disposals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassifications and transfers	(5)	(9)	(4)	(8)	-	-	-	-	(26)	(2)	(4)	(3)	(2)	-	-	-	-	(11)
Cost at 31 March	-	-	-	2	-	-	-	-	2	5	8	4	7	-	-	-	-	24
Net book value at 31 March	**-**	**-**	**-**	**2**	**-**	**-**	**-**	**-**	**2**	5	8	4	7	-	-	-	-	24

Motor vehicles and office equipment

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Cost at 1 April	87	114	58	59	-	-	-	-	318	81	107	54	54	-	-	-	-	296
Additions	11	13	6	6	-	-	-	-	36	4	5	3	4	-	-	-	-	16
Disposals	-	(1)	(1)	(1)	-	-	-	-	(3)	-	(1)	-	(1)	-	-	-	-	(2)
Reclassifications and transfers	(2)	(2)	(11)	(5)	43	-	-	-	23	2	3	1	2	-	-	-	-	8
Cost at 31 March	96	124	52	59	43	-	-	-	374	87	114	58	59	-	-	-	-	318
Depreciation at 1 April	(64)	(83)	(43)	(44)	-	-	-	-	(234)	(56)	(74)	(39)	(40)	-	-	-	-	(209)
Charge for the year	(7)	(9)	(3)	(4)	(3)	-	-	-	(26)	(8)	(10)	(4)	(5)	-	-	-	-	(27)
Disposals	-	1	1	1	-	-	-	-	3	-	1	-	1	-	-	-	-	2
Reclassifications and transfers	3	2	8	6	(31)	-	-	-	(12)	-	-	-	-	-	-	-	-	-
Depreciation at 31 March	(68)	(89)	(37)	(41)	(34)	-	-	-	(269)	(64)	(83)	(43)	(44)	-	-	-	-	(234)
Net book value at 31 March	**28**	**35**	**15**	**18**	**9**	**-**	**-**	**-**	**105**	23	31	15	15	-	-	-	-	84

13. Property, plant and equipment (continued)

Total property, plant and equipment

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m
Cost at 1 April	1,560	2,350	1,272	1,443	1,716	-	-	-	8,341
Additions	115	149	75	103	64	-	-	-	506
Disposals	(2)	(3)	1	(2)	(56)	-	-	-	(62)
Reclassifications and transfers	(7)	(11)	(15)	(13)	44	-	-	-	(2)
Cost at 31 March	1,666	2,485	1,333	1,531	1,768	-	-	-	8,783
Depreciation at 1 April	(468)	(735)	(356)	(412)	(821)	-	-	-	(2,792)
Charge for the year	(36)	(52)	(24)	(31)	(143)	-	-	-	(286)
Disposal of undertakings	(3)	(3)	(2)	(3)	-	-	-	-	(11)
Disposals	1	2	(1)	2	56	-	-	-	60
Reclassifications and transfers	4	7	8	7	(31)	-	-	-	(5)
Depreciation at 31 March	(502)	(781)	(375)	(437)	(939)	-	-	-	(3,034)
Net book value at 31 March	**1,164**	**1,704**	**958**	**1,094**	**829**	**-**	**-**	**-**	**5,749**

	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Cost at 1 April	1,471	2,223	1,204	1,366	1,639	-	-	-	7,903
Additions	91	132	72	80	66	-	-	-	441
Disposals	(1)	(3)	(1)	(2)	(9)	-	-	-	(16)
Reclassifications and transfers	(1)	(2)	(3)	(1)	20	-	-	-	13
Cost at 31 March	1,560	2,350	1,272	1,443	1,716	-	-	-	8,341
Depreciation at 1 April	(432)	(685)	(330)	(382)	(689)	-	-	-	(2,518)
Charge for the year	(39)	(55)	(28)	(33)	(130)	-	-	-	(285)
Disposal of undertakings	-	-	-	-	-	-	-	-	-
Disposals	1	3	1	2	9	-	-	-	16
Reclassifications and transfers	2	2	1	1	(11)	-	-	-	(5)
Depreciation at 31 March	(468)	(735)	(356)	(412)	(821)	-	-	-	(2,792)
Net book value at 31 March	1,092	1,615	916	1,031	895	-	-	-	5,549

The cost of property, plant and equipment at 31 March 2006 included £2m (2005: £1m) relating to interest capitalised.

The net book value of property, plant and equipment held under finance leases and included within motor vehicles and office equipment was £12m at 31 March 2006 (2005: £17m).

Included within trade and other payables and other non-current liabilities at 31 March 2006 are contributions to the cost of property, plant and equipment amounting to £23m (2005: £21m) and £770m (2005: £734m) respectively.

During the course of the year, the useful lives of some assets have been reviewed. These changes have resulted in a net reduction in the depreciation charge of £16m.

14. Deferred tax assets and liabilities

Deferred tax assets/(liabilities) by source

	Accelerated tax depreciation £m	Employee share options £m	Mark to market £m	Other net temporary differences £m	Total £m
Deferred tax assets at 1 April 2004	-	2	-	23	25
Deferred tax liabilities at 1 April 2004	(1,020)	-	-	(38)	(1,058)
At 1 April 2004	(1,020)	2	-	(15)	(1,033)
(Charged)/credited to income statement	(52)	2	-	(26)	(76)
At 31 March 2005	(1,072)	4	-	(41)	(1,109)
Deferred tax assets at 31 March 2005	-	4	-	8	12
Deferred tax liabilities at 31 March 2005	(1,072)	-	-	(49)	(1,121)
At 31 March 2005	(1,072)	4	-	(41)	(1,109)
First time adoption of IAS 39	-	-	(11)	24	13
At 1 April 2005	(1,072)	4	(11)	(17)	(1,096)
(Charged)/credited to income statement	(57)	1	3	12	(41)
Credited to equity	-	3	1	-	4
Transfers	22	2	-	(13)	11
At 31 March 2006	**(1,107)**	**10**	**(7)**	**(18)**	**(1,122)**
Deferred tax assets at 31 March 2006	-	10	-	13	23
Deferred tax liabilities at 31 March 2006	(1,107)	-	(7)	(31)	(1,145)
	(1,107)	10	(7)	(18)	(1,122)

Deferred tax assets/(liabilities) by business

	North West DN £m	East of England DN £m	West Midlands DN £m	North London DN £m	Metering £m	Meter Reading £m	De-minimis activities £m	Other activities £m	Total £m
Deferred tax assets at 1 April 2004	4	7	3	3	8	-	-	-	25
Deferred tax liabilities at 1 April 2004	(202)	(281)	(166)	(193)	(216)	-	-	-	(1,058)
At 1 April 2004	(198)	(274)	(163)	(190)	(208)	-	-	-	(1,033)
(Charged)/credited to income statement	(20)	(29)	(16)	(18)	7	-	-	-	(76)
At 31 March 2005	(218)	(303)	(179)	(208)	(201)	-	-	-	(1,109)
Deferred tax assets at 31 March 2005	2	3	1	2	4	-	-	-	12
Deferred tax liabilities at 31 March 2005	(220)	(306)	(180)	(210)	(205)	-	-	-	(1,121)
At 31 March 2005	(218)	(303)	(179)	(208)	(201)	-	-	-	(1,109)
First time adoption of IAS 39	2	4	1	1	5	-	-	-	13
At 1 April 2005	(216)	(299)	(178)	(207)	(196)	-	-	-	(1,096)
(Charged)/credited to income statement	(16)	(18)	(11)	(15)	19	-	-	-	(41)
Credited to equity	1	2	-	1	-	-	-	-	4
Transfers	7	5	2	2	(5)	-	-	-	11
At 31 March 2006	**(224)**	**(310)**	**(187)**	**(219)**	**(182)**	**-**	**-**	**-**	**(1,122)**
Deferred tax assets at 31 March 2006	3	6	2	3	9	-	-	-	23
Deferred tax liabilities at 31 March 2006	(227)	(316)	(189)	(222)	(191)	-	-	-	(1,145)
	(224)	(310)	(187)	(219)	(182)	-	-	-	(1,122)

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

15. Non-current other receivables

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Other debtors	**-**	**1**	**-**	**-**	**1**	**-**	**-**	**-**	**2**	-	-	-	1	1	-	-	-	2
Amounts owed by parent undertaking	**730**	**1,183**	**595**	**657**	**858**	**-**	**-**	**-**	**4,023**	234	374	186	208	250	-	-	-	1,252
	730	**1,184**	**595**	**657**	**859**	**-**	**-**	**-**	**4,025**	234	374	186	209	251	-	-	-	1,254

16. Financial investments

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Current																		
Loans and receivables	**6**	**9**	**4**	**5**	**5**	**-**	**-**	**-**	**29**	1	2	1	1	1	-	-	-	6

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

17. Financial Instruments

The following information on financial instruments largely comprises a simple apportionment of such information in respect of National Grid Gas plc and reported in that company's annual report and accounts. Accordingly, other than the analysis of book and fair values of financial instruments at 31 March, disclosures are only provided in total and not by regulatory business.

National Grid Gas's treasury policy, described in the Operating and Financial Review on pages 11 to 13, includes details of the objectives, policies and strategies of the Group associated with financial instruments.

National Grid Gas's counterparty exposure under derivative financial contracts at 31 March 2006 and attributed to the businesses reported in these regulatory accounting statements was £102m (2005: £54m).

National Grid Gas had no significant exposure to either individual counterparties or geographical groups of counterparties at 31 March 2006.

Book and fair values of financial instruments at 31 March

	North West DN **2006** **£m**	East of England DN **2006** **£m**	West Midlands DN **2006** **£m**	North London DN **2006** **£m**	Metering **2006** **£m**	Meter Reading **2006** **£m**	De-minimis activities **2006** **£m**	Other activities **2006** **£m**	Total **2006** **£m**	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Book values																		
Borrowings	**(509)**	**(791)**	**(390)**	**(448)**	**(455)**	**-**	**(1)**	**(11)**	**(2,605)**	(401)	(662)	(330)	(358)	(640)	-	-	-	(2,391)
Cash and cash equivalents	**30**	**48**	**23**	**27**	**27**	**-**	**-**	**1**	**156**	-	1	-	-	-	-	-	-	1
Financial investments																		
Loans and receivables	**6**	**9**	**4**	**5**	**5**	**-**	**-**	**-**	**29**	1	2	1	1	1	-	-	-	6
Trade and other receivables																		
Loans and receivables	**764**	**1,241**	**619**	**688**	**918**	**-**	**1**	**11**	**4,242**	243	384	220	232	259	-	-	-	1,338
Trade and other payables	**(61)**	**(101)**	**(33)**	**(53)**	**(91)**	**(1)**	**(1)**	**(9)**	**(350)**	(51)	(97)	(48)	(52)	(106)	(11)	-	-	(365)
Derivative financial assets	**29**	**45**	**22**	**27**	**27**	**-**	**-**	**-**	**150**	-	-	-	-	-	-	-	-	-
Derivative financial liabilities	**(14)**	**(22)**	**(11)**	**(13)**	**(13)**	**-**	**-**	**-**	**(73)**	-	-	-	-	-	-	-	-	-
Fair values																		
Borrowings	**(509)**	**(791)**	**(390)**	**(448)**	**(455)**	**-**	**(1)**	**(11)**	**(2,605)**	(433)	(715)	(357)	(388)	(692)	-	-	-	(2,585)
Cash and cash equivalents	**30**	**48**	**23**	**27**	**27**	**-**	**-**	**1**	**156**	-	1	-	-	-	-	-	-	1
Financial investments																		
Loans and receivables	**6**	**9**	**4**	**5**	**5**	**-**	**-**	**-**	**29**	1	2	1	1	1	-	-	-	6
Trade and other receivables																		
Loans and receivables	**764**	**1,241**	**619**	**688**	**918**	**-**	**1**	**11**	**4,242**	243	384	220	232	259	-	-	-	1,338
Trade and other payables	**(61)**	**(101)**	**(33)**	**(53)**	**(91)**	**(1)**	**(1)**	**(9)**	**(350)**	(51)	(97)	(48)	(52)	(106)	(11)	-	-	(365)
Derivative financial assets	**29**	**45**	**22**	**27**	**27**	**-**	**-**	**-**	**150**	11	17	9	10	16	-	-	-	63
Derivative financial liabilities	**(14)**	**(22)**	**(11)**	**(13)**	**(13)**	**-**	**-**	**-**	**(73)**	(5)	(9)	(4)	(5)	(9)	-	-	-	(32)

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

17. Financial Instruments (continued)

Currency and interest rate composition of financial assets and liabilities

The following tables set out the allocated carrying amount, by contractual maturity, of non-derivative financial instruments that are exposed to interest rate risks before taking into account currency and interest rate swaps.

At 31 March 2006

Fixed rate	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Liabilities							
Other bonds							
Sterling	(178)	(160)	(148)	(205)	-	(449)	(1,140)
Euro	(279)	(8)	(5)	(144)	-	-	(436)
US dollar	(144)	-	-	-	-	(339)	(483)
Other	(34)	-	(145)	(5)	-	(89)	(273)
Bank					-		
Sterling	(12)	-	-	-	-	-	(12)
Finance leases					-		
Sterling	(4)	(2)	-	(1)	-	-	(7)
	(651)	(170)	(298)	(355)	-	(877)	(2,351)

At 31 March 2006

Floating rate	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Liabilities							
Other bonds							
Sterling	-	-	(27)	-	-	-	(27)
Euro	-	(21)	-	-	-	-	(21)
US dollar	-	(4)	-	-	-	-	(4)
Other	(8)	-	-	-	-	-	(8)
Bank							
Sterling	(45)	-	-	-	-	(140)	(185)
Borrowings from fellow subsidiary undertakings							
Sterling	(9)	-	-	-	-	-	(9)
	(62)	(25)	(27)	-	-	(140)	(254)

17. Financial Instruments (continued)

Liquidity analysis

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

	Due within 1 year			Due between 1 and 2 years		
	Fixed interest £m	Floating interest £m	Repayment £m	Fixed interest £m	Floating interest £m	Repayment £m
Non-derivative financial liabilities						
Other bonds	(104)	(3)	(587)	(89)	(2)	(198)
Bank loans	-	(7)	(45)	-	(7)	-
Finance lease liabilities	-	-	(4)	-	-	(2)
Other non-interest bearing liabilities	-	-	(417)	-	-	(31)
	(104)	(10)	(1,053)	(89)	(9)	(231)
Derivative liabilities (net)						
Cross-currency interest rate swaps	(2)	-	(15)	(3)	-	(1)
Foreign exchange forward contracts	-	-	(2)	-	-	-
Interest rate swaps	(4)	(3)	-	(1)	(2)	-
	(6)	(3)	(17)	(4)	(2)	(1)
Derivative assets (net)						
Cross-currency interest rate swaps	11	-	34	10	-	(3)
Foreign exchange forward contracts	-	-	1	-	-	-
Interest rate swaps	1	-	-	1	-	-
	12	-	35	11	-	(3)
Total at 31 March 2006	**(98)**	**(13)**	**(1,035)**	**(82)**	**(11)**	**(235)**

	Due between 2 and 3 years			Due beyond 3 years		
	Fixed interest £m	Floating interest £m	Repayment £m	Fixed interest £m	Floating interest £m	Repayment £m
Non-derivative financial liabilities						
Other bonds	(71)	(1)	(339)	(608)	-	(1,584)
Bank loans	-	(7)	-	-	(22)	(140)
Finance lease liabilities	-	-	(1)	-	-	-
Other non-interest bearing liabilities	-	-	-	-	-	-
	(71)	(8)	(340)	(608)	(22)	(1,724)
Derivative liabilities (net)						
Cross-currency interest rate swaps	(1)	-	(1)	(7)	-	(15)
Foreign exchange forward contracts	-	-	-	-	-	-
Interest rate swaps	5	(3)	-	6	(16)	-
	4	(3)	(1)	(1)	(16)	(15)
Derivative assets (net)						
Cross-currency interest rate swaps	9	-	11	29	-	111
Foreign exchange forward contracts	-	-	-	-	-	-
Interest rate swaps	-	-	-	29	-	-
	9	-	11	58	-	111
Total at 31 March 2006	**(58)**	**(11)**	**(330)**	**(551)**	**(38)**	**(1,628)**

17. Financial Instruments (continued)

Sensitivity analysis at 31 March 2006

Financial instruments affected by market risk include borrowings, deposits, derivative financial instruments and commodity contracts. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity to changes in market variables, being UK interest rates.

The analysis excludes the impact of movements in market variables on the carrying value of provisions.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2006. As a consequence, this sensitivity analysis relates to the position as at 31 March 2006 and is not representative of the year then ended as all of these varied during the course of 2005/06.

The following assumptions were made in calculating the sensitivity analysis:

- the sensitivity to interest rates relates only to derivative financial instruments, as debt and deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments with no sensitivity assumed for RPI-linked debt;
- changes in the carrying value of derivatives from movements in interest rates designated as cash flow hedges are assumed to be recorded fully within equity;
- changes in the carrying value of derivative financial instruments designated as fair value hedges from movements in interest rates have an immaterial effect on the income statement and equity due to compensating adjustments in the carrying value of debt;
- changes in the carrying value of derivative financial instruments not in hedging relationships only affect the income statement;
- all other changes in the carrying value of derivative financial instruments designated as hedges are fully effective with no impact on the income statement;
- debt with a maturity below one year is floating rate for the accrued interest part of the calculation; and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12-month period for the accrued interest portion of the sensitivity calculations.

Using the above assumptions, a +/- 0.10% movement in UK interest rates would affect the income statement by £6m, but would not impact on equity.

Derivative financial instruments

National Grid Gas's hedging policies are set out on pages 12 and 13. National Grid Gas has entered into a number of derivative financial instruments as detailed below, which are designated as follows:

Fair value hedges

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

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

Cash flow hedges

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

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

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

Derivatives not in a formal hedge relationship

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

17. Financial Instruments (continued)

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within net (losses)/gains on derivative financial instruments.

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

	Maturity less than 1 year £m	Maturity 1-2 years £m	Maturity 2-3 years £m	Maturity 3-4 years £m	Maturity 4-5 years £m	Maturity over 5 years £m	Total fair value £m
Derivative financial assets							
Interest rate swaps	20	-	-	-	-	32	52
Cross-currency interest rate swaps	46	2	17	12	-	20	97
Foreign exchange forward contracts	1	-	-	-	-	-	1
Total at 31 March 2006	**67**	**2**	**17**	**12**	**-**	**52**	**150**
Derivative financial liabilities							
Interest rate swaps	(11)	-	(2)	(2)	-	(9)	(24)
Cross-currency interest rate swaps	(20)	(1)	(2)	(1)	-	(23)	(47)
Foreign exchange forward contracts	(2)	-	-	-	-	-	(2)
Total at 31 March 2006	**(33)**	**(1)**	**(4)**	**(3)**	**-**	**(32)**	**(73)**

The notional amounts of the above allocated derivatives assets and liabilities can be analysed as follows:

	Maturity less than 1 year £m	Maturity 1-2 years £m	Maturity 2-3 years £m	Maturity 3-4 years £m	Maturity 4-5 years £m	Maturity over 5 years £m	Total £m
Derivative financial assets							
Interest rate swaps	102	46	-	36	-	210	394
Cross-currency interest rate swaps	238	25	115	133	-	316	827
Foreign exchange forward contracts	27	-	-	-	-	-	27
Total at 31 March 2006	**367**	**71**	**115**	**169**	**-**	**526**	**1,248**
Derivative financial liabilities							
Interest rate swaps	301	35	203	226	-	300	1,065
Cross-currency interest rate swaps	188	5	15	6	-	118	332
Foreign exchange forward contracts	9	-	-	-	-	-	9
Total at 31 March 2006	**498**	**40**	**218**	**232**	**-**	**418**	**1,406**

17. Financial Instruments (continued)

	Assets		Liabilities	
	Fair value £m	Notional amount £m	Fair value £m	Notional amount £m
Fair value hedge derivative instruments				
Interest rate swaps	17	(166)	(5)	(573)
Cross-currency interest rate swaps	59	(535)	(41)	(311)
	76	(701)	(46)	(884)
Cash flow hedge derivative instruments				
Interest rate swaps	27	(109)	(8)	(240)
Cross-currency interest rate swaps	39	(288)	(4)	(15)
Foreign exchange forward contracts	1	(27)	(2)	(29)
	67	(424)	(14)	(284)
Other derivative instruments				
Interest rate swaps	7	(119)	(11)	(253)
Cross-currency interest rate swaps	-	(4)	(2)	(5)
Foreign exchange forward contracts	-	-	-	20
	7	(123)	(13)	(238)
Total	150	(1,248)	(73)	(1,406)
Analysed as follows:				
Current	67	(367)	(33)	(498)
Non-current	83	(881)	(40)	(908)
	150	**(1,248)**	**(73)**	**(1,406)**

Gains and losses recognised in equity (note 25) on interest rate swap contracts as of 31 March 2006 will be continuously released to the income statement until the bank borrowings are repaid (note 21).

The amount of cash flow hedge reserve due to be released from reserves to the income statement within the next year is £14m, with the remaining amount due to be released with the same maturity profile as borrowings in note 21.

17. Financial Instruments (continued)

Financial instruments disclosures for the year ended 31 March 2005

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

Gains and losses on hedges for year ended 31 March 2005

	Unrecognised gains £m	Unrecognised losses £m	Unrecognised net gain £m	Deferred gains £m	Deferred losses £m	Deferred net gain £m
Gains and (losses) on hedges at 1 April 2004	115	(41)	74	40	(36)	4
(Gains)/losses arising in previous years recognised in the year	(9)	4	(5)	(5)	5	-
Gains /(losses) arising in previous years not recognised in the year	106	(37)	69	35	(31)	4
Gains/(losses) arising in the year	(63)	5	(58)	8	(2)	6
Gains and (losses) on hedges at 31 March 2005	43	(32)	11	43	(33)	10
Of which:						
Gains and (losses) expected to be recognised within one year	1	-	1	5	(5)	-
Gains and (losses) expected to be recognised after one year	42	(32)	10	38	(28)	10

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

The currency and interest rate composition of allocated financial assets are shown in the table below after taking account of currency and interest rate swaps.

			Fixed rate assets		
At 31 March 2005	Total £m	Non-interest bearing £m	Fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	5	6	-	-	-
US dollars	1	-	1	2.8	-
Other currencies	1	-	1	2.0	-
Cash and investments	7	6	2	-	-
Other financial assets (sterling)	1,252	1,252	-	-	-
	1,259	1,258	2	-	-

Cash and investments earned interest at local prevailing rates for maturity periods generally not exceeding 12 months. Other financial assets at 31 March 2006 related to an amount due from the immediate parent undertaking.

The currency and interest rate composition of allocated financial liabilities at 31 March 2005 are shown in the table below after taking into account currency and interest rate swaps.

			Fixed rate liabilities		
At 31 March 2005	Total £m	Variable rate £m	Fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling					
Borrowings	2,391	1,670	721	6.5	8
Other financial liabilities	16	16	-	-	-
	2,407	1,686	721	6.5	8

17. Financial Instruments (continued)

The maturity profile of allocated financial liabilities and assets at 31 March 2005 are shown in the table below after taking into account currency and interest rate swaps.

Maturity of financial liabilities at 31 March 2005	Assets £m	Liabilities £m
In one year or less	6	792
More than one year, but not more than two years	-	402
More than two years, but not more than three years	-	166
More than three years, but not more than four years	-	220
More than four years, but not more than five years	-	235
More than five years or no maturity date	1,252	592
	1,258	2,407

At 31 March 2005 the weighted average interest rate on short-term borrowings of £788m was 4.3%.

Other sterling financial liabilities at 31 March 2005 comprised onerous leases of £16m.

Substantially all of the variable rate borrowings are subject to interest rates which fluctuate with LIBOR (London Interbank Offered Rate).

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

18. Inventories

	North West DN **2006** **£m**	East of England DN **2006** **£m**	West Midlands DN **2006** **£m**	North London DN **2006** **£m**	Metering **2006** **£m**	Meter Reading **2006** **£m**	De-minimis activities **2006** **£m**	Other activities **2006** **£m**	Total **2006** **£m**	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Raw materials and consumables	**2**	**2**	**1**	**1**	**3**	**-**	**-**	**-**	**9**	2	2	1	1	2	-	-	-	8

19. Trade and other receivables

	North West DN 2006	East of England DN 2006	West Midlands DN 2006	North London DN 2006	Metering 2006	Meter Reading 2006	De-minimis activities 2006	Other activities 2006	Total 2006	North West DN 2005 unaudited	East of England DN 2005 unaudited	West Midlands DN 2005 unaudited	North London DN 2005 unaudited	Metering 2005 unaudited	Meter Reading 2005 unaudited	De-minimis activities 2005 unaudited	Other activities 2005 unaudited	Total 2005 unaudited
Trade receivables	**7**	**11**	**5**	**7**	**3**	**-**	**-**	**3**	**36**	3	4	2	3	2	-	-	-	14
Amounts owed by fellow subsidiary undertakings	**22**	**39**	**15**	**20**	**51**	**-**	**1**	**6**	**154**	3	2	30	17	2	-	-	-	54
Other receivables	**5**	**7**	**4**	**4**	**5**	**-**	**-**	**2**	**27**	3	4	2	3	4	-	-	-	16
Prepayments and accrued income	**19**	**30**	**14**	**17**	**36**	**1**	**-**	**2**	**119**	13	22	11	13	37	1	-	-	97
	53	**87**	**38**	**48**	**95**	**1**	**1**	**13**	**336**	22	32	45	36	45	1	-	-	181

Provision for doubtful debts

As the amounts in respect of bad debts are small, they have not been reported by regulatory business.

	Total £m
At 1 April 2004	4
Release of provision	(2)
Uncollected amounts written-off to revenues	1
At 31 March 2005	3
Release of provision	(2)
Uncollected amounts written-off to revenues	2
At 31 March 2006	**3**

20. Cash and cash equivalents

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Cash at bank and in-hand										-	1	-	-	-	-	-	-	1
Short-term deposits	**30**	**48**	**23**	**27**	**27**	**-**	**-**	**1**	**156**	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	**30**	**48**	**23**	**27**	**27**	**-**	**-**	**1**	**156**	-	1	-	-	-	-	-	-	1

21. Borrowings

The following table analyses allocated gross borrowings, excluding bank overdrafts:

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Current																		
Bank loans	**11**	**18**	**9**	**9**	**10**	**-**	**-**	**-**	**57**	7	11	5	7	18	-	-	-	48
Commercial paper	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	63	103	53	63	176	-	-	-	458
Other bonds	**126**	**195**	**96**	**111**	**112**	**-**	**-**	**3**	**643**	13	22	12	13	40	-	-	-	100
Finance leases	**1**	**1**	**1**	**1**	**-**	**-**	**-**	**-**	**4**	3	6	3	3	-	-	-	-	15
Borrowings from fellow subsidiary undertakings	**2**	**3**	**1**	**2**	**1**	**-**	**-**	**-**	**9**	23	38	19	23	64	-	-	-	167
	140	**217**	**107**	**123**	**123**	**-**	**-**	**3**	**713**	109	180	92	109	298	-	-	-	788
Non-current																		
Bank loans	**27**	**42**	**21**	**25**	**25**	**-**	**-**	**-**	**140**	20	33	17	18	24	-	-	-	112
Other bonds	**341**	**531**	**262**	**299**	**307**	**-**	**1**	**8**	**1,749**	270	445	219	229	318	-	-	-	1,481
Finance leases	**1**	**1**	**-**	**1**	**-**	**-**	**-**	**-**	**3**	2	4	2	2	-	-	-	-	10
	369	**574**	**283**	**325**	**332**	**-**	**1**	**8**	**1,892**	292	482	238	249	342	-	-	-	1,603
Total borrowings	**509**	**791**	**390**	**448**	**455**	**-**	**1**	**11**	**2,605**	401	662	330	358	640	-	-	-	2,391
Repayable:																		
In 1 year or less	**140**	**217**	**107**	**123**	**123**	**-**	**-**	**3**	**713**	109	180	92	109	298	-	-	-	788
Between 1 and 2 years	**38**	**59**	**29**	**34**	**34**	**-**	**-**	**1**	**195**	73	119	59	62	85	-	-	-	398
Between 2 and 3 years	**64**	**98**	**49**	**56**	**57**	**-**	**-**	**1**	**325**	29	49	24	25	35	-	-	-	162
Between 3 and 4 years	**69**	**108**	**53**	**60**	**62**	**-**	**1**	**2**	**355**	39	65	32	34	46	-	-	-	216
Between 4 and 5 years	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	43	71	35	36	50	-	-	-	235
In more than 5 years other than by instalments	**198**	**309**	**152**	**175**	**179**	**-**	**-**	**4**	**1,017**	108	178	88	92	126	-	-	-	592
	509	**791**	**390**	**448**	**455**	**-**	**1**	**11**	**2,605**	401	662	330	358	640	-	-	-	2,391

None of National Grid Gas's borrowings are secured by charges over the assets of National Grid Gas.

The allocated notional amount of allocated borrowings outstanding as at 31 March 2006 was £2,875m (2005: £2,390m).

21. Borrowings (continued)

Undrawn committed borrowing facilities

At 31 March 2005, National Grid Gas had total undrawn committed borrowing facilities of:

	2006 £m	2005 £m
Expiring:		
In one year or less	**25**	2,320
In more than two years	**840**	-
	865	2,320

All of the unused facilities at 31 March 2006 and at 31 March 2005 were held as back-up to commercial paper and similar borrowings.

22. Trade and other payables

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Trade payables	**43**	**67**	**22**	**37**	**54**	**1**	**1**	**5**	**230**	25	38	20	23	33	5	-	-	144
Amounts owed to fellow subsidiary undertakings	**13**	**26**	**9**	**12**	**36**	**-**	**-**	**3**	**99**	7	29	11	16	59	3	-	-	125
Social security and other taxes	**11**	**22**	**10**	**9**	**17**	**-**	**-**	**1**	**70**	15	22	11	13	18	-	-	-	79
Other payables	**2**	**3**	**1**	**2**	**-**	**-**	**-**	**1**	**9**	15	23	12	13	14	3	-	-	80
Deferred income	**12**	**19**	**10**	**11**	**4**	**-**	**-**	**8**	**64**	15	26	13	12	4	-	-	-	70
	81	**137**	**52**	**71**	**111**	**1**	**1**	**18**	**472**	77	138	67	77	128	11	-	-	498

Other payables at 31 March 2005 include interest payable of £63m. In 2006, interest payable is included in borrowings in accordance with IAS 39.

23. Other non-current liabilities

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Other payables	**-**	**1**	**-**	**-**	**1**	**-**	**-**	**-**	**2**	-	-	-	-	-	-	-	-	-
Deferred income	**182**	**287**	**146**	**150**	**48**	**-**	**-**	**-**	**813**	171	273	141	142	42	-	-	-	769
	182	**288**	**146**	**150**	**49**	**-**	**-**	**-**	**815**	171	273	141	142	42	-	-	-	769

Deferred income mainly comprises contributions to capital projects.

24. Provisions

	North West DN £m	East of England DN £m	West Midlands DN £m	North London DN £m	Metering £m	Meter Reading £m	De-minimis activities £m	Other activities £m	Total £m
Environmental									
At 1 April 2004	16	8	4	12	-	-	-	-	40
Additions	1	1	1	1	-	-	-	-	4
Unwinding of discount	1	-	-	-	-	-	-	-	1
Utilised	(1)	(1)	(1)	(1)	-	-	-	-	(4)
At 31 March 2005	17	8	4	12	-	-	-	-	41
Unwinding of discount	-	-	-	1	-	-	-	-	1
Utilised	(1)	-	-	(1)	-	-	-	-	(2)
Transfers	2	1	-	1	-	-	-	-	4
At 31 March 2006	**18**	**9**	**4**	**13**	**-**	**-**	**-**	**-**	**44**
Restructuring									
At 1 April 2004	4	7	2	3	-	-	-	-	16
Additions	26	20	35	21	-	-	-	-	102
Utilised	(14)	(11)	(18)	(11)	-	-	-	-	(54)
At 31 March 2005	16	16	19	13	-	-	-	-	64
Additions	7	9	5	6	-	-	-	-	27
Utilised	(20)	(18)	(25)	(16)	-	-	-	-	(79)
Transfers	5	4	6	3	-	-	-	-	18
At 31 March 2006	**8**	**11**	**5**	**6**	**-**	**-**	**-**	**-**	**30**
Total									
At 1 April 2004	20	15	6	15	-	-	-	-	56
Additions	27	21	36	22	-	-	-	-	106
Unwinding of discount	1	-	-	-	-	-	-	-	1
Utilised	(15)	(12)	(19)	(12)	-	-	-	-	(58)
At 31 March 2005	33	24	23	25	-	-	-	-	105
Additions	7	9	5	6	-	-	-	-	27
Unwinding of discount	-	-	-	1	-	-	-	-	1
Utilised	(21)	(18)	(25)	(17)	-	-	-	-	(81)
Transfers	7	5	6	4	-	-	-	-	22
At 31 March 2006	**26**	**20**	**9**	**19**	**-**	**-**	**-**	**-**	**74**

24. Provisions (continued)

Provisions are analysed between current and non-current as follows:

	North West DN £m	East of England DN £m	West Midlands DN £m	North London DN £m	Metering £m	Meter Reading £m	De-minimis activities £m	Other activities £m	Total £m
At 31 March 2006									
Current	**7**	**8**	**5**	**6**	**-**	**-**	**-**	**-**	**26**
Non-current	**19**	**12**	**4**	**13**	**-**	**-**	**-**	**-**	**48**
	26	**20**	**9**	**19**	**-**	**-**	**-**	**-**	**74**
At 31 March 2005									
Current	25	18	18	20	-	-	-	-	81
Non-current	8	6	5	5	-	-	-	-	24
	33	24	23	25	-	-	-	-	105

Environmental provision

The environmental provision represents the net present value of the estimated statutory decontamination costs of old gas manufacturing sites owned and managed by National Grid Gas (discounted using a nominal rate of 5.25%). The anticipated timing of the cash flows for statutory decontamination cannot be predicted with certainty, but it is expected to be incurred over the period 2007 to 2057 with some 33% of the spend projected to be spent over the next five years.

There are a number of uncertainties that affect the calculation of the provision for 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. National Grid Gas has made its best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision and hence the income statement.

The undiscounted amount of the provision at 31 March 2006 relating to gas site decontamination was £72m (2005: £59m), being the undiscounted best estimate of the liability having regard to the uncertainties referred to above.

Restructuring provision

At 31 March 2006, £10m of the total restructuring provision (2005: £16m) consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties. The expected payment dates for property restructuring costs remain uncertain. The remainder of the restructuring provision related to business reorganisation costs, largely to be paid within the next financial year.

25. Statement of movements in total equity

The businesses included in these regulatory accounting statements do not have their own separate share capital and reserves. Accordingly the equity of each business is only shown in total.

	North West DN £m	East of England DN £m	West Midlands DN £m	North London DN £m	Metering £m	Meter Reading £m	De-minimis activities £m	Other activities £m	Total £m
At 1 April 2004	413	545	396	441	336	(15)	-	-	2,116
Profit for the year	42	84	15	30	29	4	-	-	204
Equity dividends	-	-	-	-	(187)	-	-	-	(187)
At 31 March 2005	455	629	411	471	178	(11)	-	-	2,133
First time adoption of IAS 39	(5)	(7)	(4)	(4)	(7)	-	-	-	(27)
At 1 April 2005	450	622	407	467	171	(11)	-	-	2,106
Net expense recognised directly in equity	(2)	(3)	(1)	(2)	(4)	-	-	-	(12)
Profit for the year	56	121	57	57	55	3	-	1	350
Equity dividends	(33)	(70)	(33)	(33)	(31)	(2)	-	(1)	(203)
Employee share option scheme issues	-	-	-	-	(1)	-	-	-	(1)
Tax on employee share option scheme issues	1	1	-	1	-	-	-	-	3
Tax on items taken directly to or transferred from equity	-	1	-	-	-	-	-	-	1
Transfers (i)	508	834	417	450	826	10	(1)	(15)	3,029
At 31 March 2006	**980**	**1,506**	**847**	**940**	**1,016**	**-**	**(1)**	**(15)**	**5,273**

(i) Transfers relate to changes in the allocation of assets and liabilities between the regulatory businesses at 31 March 2006 compared with 1 April 2005, mainly comprising the reallocation of funding following the sales of four DNs on 1 June 2005.

National Grid Gas is prohibited from declaring a dividend or other distribution unless it has certified that it is in compliance in all material respects with certain regulatory obligations, including a requirement to ensure it has sufficient financial resources and facilities to enable it to carry on its business and a requirement to use all reasonable endeavours to maintain an investment grade credit rating.

26. Group cash flow statement

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

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Movement in cash and cash equivalents	30	47	23	27	27	-	-	1	155	2	1	-	(1)	1	1	-	-	4
Increase/(decrease) in financial investments	5	7	3	4	4	-	-	-	23	(6)	(9)	(4)	(5)	(6)	-	-	-	(30)
(Increase)/decrease in borrowings and derivatives	(602)	(942)	(467)	(532)	(610)	1	(1)	(11)	(3,164)	24	22	17	23	(146)	-	-	-	(60)
Net interest paid (i)	21	35	17	19	33	-	-	-	125									
Change in net debt resulting from cash flows	(546)	(853)	(424)	(482)	(546)	1	(1)	(10)	(2,861)	20	14	13	17	(151)	1	-	-	(86)
Changes in fair value of financial assets and liabilities (i)	(4)	(6)	(3)	(3)	(6)	-	-	-	(22)	-	-	-	-	-	-	-	-	-
Net interest charge (i)	(18)	(29)	(15)	(17)	(28)	-	-	-	(107)	-	-	-	-	-	-	-	-	-
Re-allocation of funding (ii)	529	868	435	475	843	(1)	-	-	3,149	-	-	-	-	-	-	-	-	-
Other non-cash movements	-	-	-	-	-	-	-	-	-	(1)	(1)	-	(1)	(1)	-	-	-	(4)
Movement in net debt in the year	(39)	(20)	(7)	(27)	263	-	(1)	(10)	159	19	13	13	16	(152)	1	-	-	(90)
Net debt at the start of year	(400)	(659)	(329)	(357)	(639)	-	-	-	(2,384)	(419)	(672)	(342)	(373)	(487)	(1)	-	-	(2,294)
Impact of adoption of IAS 32 and IAS 39 (i)	(19)	(32)	(16)	(18)	(33)	-	-	-	(118)	-	-	-	-	-	-	-	-	-
Net debt at end of year (iii)	(458)	(711)	(352)	(402)	(409)	-	(1)	(10)	(2,343)	(400)	(659)	(329)	(357)	(639)	-	-	-	(2,384)
Comprising:																		
Cash and cash equivalents	30	48	23	27	27	-	-	1	156	-	1	-	-	-	-	-	-	1
Financial investments (iii)	6	9	4	5	5	-	-	-	29	1	2	1	1	1	-	-	-	6
Borrowings (iii)	(509)	(791)	(390)	(448)	(455)	-	(1)	(11)	(2,605)	(401)	(662)	(330)	(358)	(640)	-	-	-	(2,391)
Derivatives (iii)	15	23	11	14	14	-	-	-	77	-	-	-	-	-	-	-	-	-
	(458)	(711)	(352)	(402)	(409)	-	(1)	(10)	(2,343)	(400)	(659)	(329)	(357)	(639)	-	-	-	(2,384)

(i) The adoption of IAS 39 resulted in changes to the carrying value of borrowings and financial investments as at 1 April 2005 as described in note 1.
(ii) Reallocation of funding following the sales of four DNs on 1 June 2005.
(iii) Includes interest in the year to 31 March 2006.

26. Group cash flow statement (continued)

b) Analysis of changes in net debt

	At 1 April 2004 £m	Cash flow £m	Other non-cash movements £m	At 31 March 2005 £m	Impact of adoption of IAS 32 and IAS 39 (i) £m	Cash flow £m	Fair value gains and losses £m	Interest charges £m	Other non-cash movements £m	**At 31 March 2006 £m**
Cash and cash equivalents	-	1	-	1	-	155	-	-	-	**156**
Bank overdrafts	(3)	3	-	-	-	-	-	-	-	**-**
	(3)	4	-	1	-	155	-	-	-	**156**
Financial investments (ii)	36	(30)	-	6	-	(36)	-	59	-	**29**
Borrowings (ii)	(2,327)	(60)	(4)	(2,391)	(148)	(2,986)	(46)	(164)	3,130	**(2,605)**
Derivatives (ii)	-	-	-	-	30	6	24	(2)	19	**77**
Net debt at end of year	(2,294)	(86)	(4)	(2,384)	(118)	(2,861)	(22)	(107)	3,149	**(2,343)**

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

(ii) Includes interest in the year to 31 March 2006.

27. Related party transactions

The following tables provide an estimated analysis of the incidence of National Grid Gas's transactions with related parties in these regulatory accounting statements. These related party transactions were in the normal course of business. Unless otherwise indicated, the related parties were other undertakings in the National Grid group. Additional information on related party transactions is provided in note 31.

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m
Sales									
Goods and services supplied	**1**	**1**	**1**	**1**	**-**	**7**	**3**	**9**	**23**
Expenditure									
Services received	**26**	**43**	**21**	**30**	**1**	**-**	**-**	**2**	**123**
Corporate services received	**2**	**3**	**2**	**2**	**-**	**-**	**-**	**-**	**9**
Charges in respect of pension costs	**5**	**3**	**3**	**1**	**1**	**-**	**-**	**1**	**14**
Charges in respect of share based payments	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Interest paid on borrowings from parent undertaking	**1**	**2**	**1**	**1**	**1**	**-**	**-**	**-**	**6**
Interest paid on borrowings from other group undertakings	**3**	**4**	**1**	**3**	**1**	**-**	**-**	**-**	**12**
	37	**56**	**28**	**37**	**4**	**-**	**-**	**3**	**165**
Outstanding balances at 31 March in respect of sales, expenditure and group tax relief									
Amounts receivable	**22**	**39**	**15**	**20**	**51**	**-**	**1**	**6**	**154**
Amounts payable	**13**	**26**	**9**	**12**	**36**	**-**	**-**	**3**	**99**
Amount payable by parent undertaking due after more than one year									
At 1 April	234	374	186	208	250	-	-	-	1,252
Advances	496	809	409	449	608	-	-	-	2,771
At 31 March	**730**	**1,183**	**595**	**657**	**858**	**-**	**-**	**-**	**4,023**

	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Sales									
Goods and services supplied	1	2	1	1	-	7	3	10	25
Expenditure									
Services received	29	47	23	30	1	-	-	-	130
Corporate services received	2	2	1	2	1	-	-	-	8
Charges in respect of pension costs	5	4	7	4	1	-	-	-	21
Charges in respect of share based payments	1	1	1	1	-	-	-	-	4
Interest paid on borrowings from parent undertaking	1	2	1	1	4	-	-	-	9
Interest paid on borrowings from other group undertakings	-	-	-	-	-	-	-	-	-
	38	56	33	38	7	-	-	-	172
Outstanding balances at 31 March in respect of sales, expenditure and group tax relief									
Amounts receivable	3	2	30	17	2	-	-	-	54
Amounts payable	7	29	11	17	59	3	-	-	125
Amount payable by parent undertaking due after more than one year									
At 1 April	225	360	179	200	240	-	-	-	1,204
Advances	9	14	7	8	10	-	-	-	48
At 31 March	234	374	186	208	250	-	-	-	1,252

27. Related party transactions (continued)

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Borrowings from parent undertaking due within one year																		
At 1 April	14	23	11	14	38	-	-	-	100	28	46	23	28	77	-	-	-	202
Transfers	7	11	6	7	19	-	-	-	50	-	-	-	-	-	-	-	-	-
Repayments	(21)	(33)	(17)	(21)	(57)	-	-	-	(149)	(14)	(23)	(12)	(14)	(39)	-	-	-	(102)
At 31 March	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	14	23	11	14	38	-	-	-	100
Borrowings from group undertakings due within one year																		
At 1 April	9	15	8	9	26	-	-	-	67	-	-	-	-	-	-	-	-	-
Transfers	5	7	4	5	12	-	-	-	33	-	-	-	-	-	-	-	-	-
Advances	-	-	-	-	-	-	-	-	-	9	15	8	9	26	-	-	-	67
Repayments	(12)	(20)	(11)	(12)	(37)	-	-	-	(92)	-	-	-	-	-	-	-	-	-
At 31 March	**2**	**2**	**1**	**2**	**1**	**-**	**-**	**-**	**8**	9	15	8	9	26	-	-	-	67

Amounts receivable from or payable to related parties in respect of sales and expenditure are ordinarily settled one month in arrears. The amount receivable from the parent undertaking and due after more than one year is not subject to any specific settlement terms and does not bear interest. Borrowings from group undertakings are repayable on demand and bear interest at commercial rates.

No amounts have been provided at 31 March 2006 (2005: £nil) and no expense recognised during the year (2005: £nil) in respect of bad or doubtful debts for related party transactions.

Details of guarantees provided in respect of related parties are provided in note 28(c).

Details of key management compensation are provided in note 5(c).

28. Commitments and contingencies

a) Future capital expenditure

The amounts of contracts placed for capital expenditure (property, plant and equipment) were as follows at 31 March 2006 and 31 March 2005:

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Future capital expenditure contracted for	**61**	**41**	**41**	**66**	**4**	**-**	**-**	**-**	**213**	2	3	1	2	4	-	-	-	12

b) Lease commitments

Allocated operating lease commitments at 31 March 2006 and 31 March 2005 in respect of operating lease payments due in the years 2006/07 and 2005/06 respectively, are as follows by lease expiry date:

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Land and buildings																		
Within one year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	-	-	-	-
Between two and five years	**1**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	-	1	-	-	-	-	-	-	1
After five years	**1**	**2**	**1**	**1**	**-**	**-**	**-**	**1**	**6**	1	1	1	1	-	-	-	-	4
	2	**3**	**1**	**1**	**-**	**-**	**-**	**1**	**8**	1	2	1	1	-	-	-	-	5
Other																		
Within one year	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	-	-	-	-	-	-	-	-	-
Between two and five years	**1**	**1**	**-**	**1**	**-**	**-**	**-**	**-**	**3**	1	1	1	1	-	-	-	-	4
After five years	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	-	-	-	-
	1	**2**	**-**	**1**	**-**	**-**	**-**	**-**	**4**	1	1	1	1	-	-	-	-	4
Total																		
Within one year	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	-	-	-	-	-	-	-	-	-
Between two and five years	**2**	**2**	**-**	**1**	**-**	**-**	**-**	**-**	**5**	1	2	1	1	-	-	-	-	5
After five years	**1**	**2**	**1**	**1**	**-**	**-**	**-**	**1**	**6**	1	1	1	1	-	-	-	-	4
	3	**5**	**1**	**2**	**-**	**-**	**-**	**1**	**12**	2	3	2	2	-	-	-	-	9

28. Commitments and contingencies (continued)

Allocated total operating lease commitments at 31 March 2006 and 31 March 2005 in respect of non-cancellable operating leases are as follows:

	North West DN 2006 £m	East of England DN 2006 £m	West Midlands DN 2006 £m	North London DN 2006 £m	Metering 2006 £m	Meter Reading 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	North West DN 2005 unaudited £m	East of England DN 2005 unaudited £m	West Midlands DN 2005 unaudited £m	North London DN 2005 unaudited £m	Metering 2005 unaudited £m	Meter Reading 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Payments due																		
In 1 year or less	**3**	**5**	**1**	**2**	**-**	**-**	**-**	**1**	**12**	2	3	2	2	-	-	-	-	9
Between 1 and 2 years	**2**	**3**	**1**	**2**	**1**	**-**	**-**	**1**	**10**	2	2	1	1	-	-	-	-	6
Between 2 and 3 years	**2**	**2**	**1**	**1**	**-**	**-**	**-**	**1**	**7**	1	2	1	1	-	-	-	-	5
Between 3 and 4 years	**1**	**2**	**1**	**2**	**-**	**-**	**-**	**1**	**7**	1	1	1	1	-	-	-	-	4
Between 4 and 5 years	**2**	**2**	**1**	**1**	**-**	**-**	**-**	**-**	**6**	1	1	1	1	-	-	-	-	4
In more than 5 years	**7**	**11**	**7**	**8**	**2**	**-**	**-**	**3**	**38**	5	7	3	5	2	-	-	-	22
	17	**25**	**12**	**16**	**3**	**-**	**-**	**7**	**80**	12	16	9	11	2	-	-	-	50

c) Other commitments and contingencies

The total value of other commitments, contingencies and guarantees of National Grid Gas at 31 March 2006 amounted to £154m (2005: £140m), including performance guarantees amounting to £4m (2005: £5m), relating to certain property obligations of a National Grid group undertaking, and BG Group related commitments and contingencies amounting to £7m (2005: £13m).

d) Parent company loan guarantees on behalf of subsidiary undertakings

National Grid Gas plc has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from its financial subsidiary undertakings to third parties. At 31 March 2006, the sterling equivalent amounted to £1,430m (2005: £961m).

29. Ultimate parent company

National Grid Gas plc's immediate parent company is National Grid Gas Holdings plc. The ultimate parent company, and controlling party, is National Grid plc, which is registered in England and Wales. Both National Grid Gas Holdings plc and National Grid plc consolidate the accounts of National Grid Gas plc. Copies of the consolidated accounts of National Grid Gas Holdings plc and copies of the consolidated accounts of National Grid plc may be obtained from the Company Secretary's Office, National Grid plc, 1-3 Strand, London WC2N 5EH.

30. Group undertakings

The principal group undertakings of National Grid Gas plc at 31 March 2006 and included in these regulatory accounting statements, either in whole or in part, are listed below.

	Country of operation and incorporation	Activity	Holding
National Grid Metering Limited	UK	Gas Metering Services	100%
British Transco International Finance B.V.	The Netherlands	Financing	100%
British Transco Finance Inc.	USA	Financing	100%
British Transco Capital Inc.	USA	Financing	100%
Xoserve Limited	UK	Gas transportation billing services	56.57%

A full list of all subsidiary and associated undertakings were attached to National Grid Gas plc's Annual Return filed with the Registrar of Companies.

Unpublished Notes to the Regulatory Accounting Statements

Notes 31 and 32 to the regulatory accounting statements comprise information which National Grid Gas is required to include in its regulatory accounting statements, but which under the terms of Special Standard Condition A30 it is not required to publish.

31. De-minimis business and other activities

National Grid Gas is not required to publish the information contained in this note.

31. De-minimis business and other activities (continued)

National Grid Gas is not required to publish the information contained in this note.

32. Charges and apportionments

National Grid Gas is not required to publish the information contained in this note.

32. Charges and apportionments (continued)

National Grid Gas is not required to publish the information contained in this note.

32. Charges and apportionments (continued)

National Grid Gas is not required to publish the information contained in this note.

32. Charges and apportionments (continued)

National Grid Gas is not required to publish the information contained in this note.

32. Charges and apportionments (continued)

. National Grid Gas is not required to publish the information contained in this note.

32. Charges and apportionments (continued)

National Grid Gas is not required to publish the information contained in this note.

Definitions

'£m'	Million pounds sterling.
'BG or BG Group'	BG Group plc and/or its subsidiary undertakings or any of them as the context requires.
'Condition, the'	Standard Special Condition A30 of either of National Grid Gas plc's Gas Transporter Licences.
'DN'	Distribution Network
'Group'	National Grid Gas plc and its subsidiary undertakings.
'Lattice or Lattice Group'	Lattice Group plc and/or its subsidiary undertakings or any of them as the context requires.
'licence, the'	Either or both of National Grid Gas plc's Gas Transporter's Licences issued under the Utilities Act 2000.
'LNG'	Liquefied natural gas.
'National Grid'	National Grid plc and/or its subsidiary undertakings or any of them as the context requires.
'non-National Grid Gas business'	Any business of National Grid that is not being undertaken by National Grid Gas or a subsidiary undertaking of National Grid Gas.
'National Grid Gas'	National Grid Gas plc and/or its subsidiary undertakings or any of them as the context requires.
'National Grid Gas Holdings'	National Grid Gas Holdings plc and/or its subsidiary undertakings or any of them as the context requires.
'Ofgem'	The Office of Gas and Electricity Markets.
'Transco'	The former name of National Grid Gas.

National Grid Gas plc

1-3 Strand
London
WC2N 5EH

www.nationalgrid.com

Registered in England and Wales No. 2006000