# National Grid Electricity Transmission plc
# (formerly National Grid Company plc)

## Regulatory Accounts

## 2005/06

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## Basis of preparation in respect of the Regulatory Accounts

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

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

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

## Directors' responsibilities in respect of the Regulatory Accounts

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

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

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

**Independent Accountants' statement to National Grid Electricity Transmission plc (formerly National Grid Company plc)**

We have examined the summary Regulatory Accounts of National Grid Electricity Transmission plc (formerly National Grid Company plc) ("the Company") on pages 5 to 17 which comprise the income statement, the statement of recognised income and expense, the balance sheet, the cash flow statement and the related notes to the summary Regulatory Accounts.

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

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

**Basis of preparation**

The summary Regulatory Accounts have been extracted from the full Regulatory Accounts for the year ended 31 March 2006. The full Regulatory Accounts were prepared under the historical cost convention and in accordance with Condition B1 of the Company's Transmission Licence and the accounting policies set out in the statement of accounting policies on pages 5 to 8.

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

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations endorsed by the European Union (EU). Financial information other than that prepared in accordance with IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

**Respective responsibilities of the Regulator, the Directors and Auditors**

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

The Directors' are responsible for preparing the summary Regulatory Accounts.

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

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

## Basis of audit opinion

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

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

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

Our opinions on the full Regulatory Accounts and the summary Regulatory Accounts are separate from our opinion on the statutory accounts of the Company on which we reported on 16 May 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 auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

## Opinion

In our opinion the summary Regulatory Accounts set out on pages 5 to 17 are consistent with, and have been properly extracted from, the full Regulatory Accounts for the year ended 31 March 2006 on which we issued an unqualified report on 16 May 2006.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
16 May 2006

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

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

## Accounting Policies

### a) Basis of preparation

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

The transition date to International Financial Reporting Standards ("IFRS") for National Grid Electricity Transmission plc (NGET) 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 NGET's first IFRS financial statements, these transition rules have been applied to the amounts reported previously under generally accepted accounting principles in the United Kingdom ('UK GAAP'). IFRS 1 generally requires full retrospective application of the Standards and Interpretations in force at the first reporting date. However, IFRS 1 allows certain exemptions in the application of particular Standards to prior periods in order to assist companies in the transition process.

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.

### b) Charges, allocations and apportionments

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

### c) Intangible assets

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Internally generated intangible fixed assets, such as software, are recognised only if an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and that the development cost of the asset can be measured reliably.

Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

Intangible assets are amortised on a straight-line basis over their estimated economic useful lives. Amortisation periods for intangible assets are:

| Amortisation periods for categories of intangibles | Years |
|---|---|
| Software | 3 to 5 |

### d) Property, plant and equipment

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

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

Property, plant and equipment include assets in which the Separate Businesses' interests comprise legally protected statutory or contractual rights of use.

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

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

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

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

| Depreciation periods for category of assets | Years |
|---|---|
| Plant and Machinery | |
| Transmission plant | |
| - Towers | 40 or 60 |
| - Substation plant, overhead lines and cables | 40 or 50 |
| - Overhead line spacers | 20 |
| - Protection, control and communication equipment | 15 or 25 |
| Cross-Channel link | 15 to 60 |
| Freehold and leasehold properties | up to 40 |
| Motor vehicles and office equipment | 3 or 5 |

**e) 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, an estimate is made for 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 cashflows, 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 cashflows have not been adjusted.

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

**f) 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.

### g) Revenues

Revenues primarily represent the sales value derived from the transmission of electricity and the provision of related services. It includes inter-business and inter-company transactions and is stated net of value added tax.

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 when a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

### h) Leases

Rentals under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Assets held under finance leases are recognised at their fair value 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.

### i) Share-based payments

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

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

### j) Exceptional items

Exceptional items are credits or charges relating to non-recurring transactions that are material, significant or by their nature are relevant to understanding the financial performance of the Separate Businesses and are shown separately to provide a better indication of their underlying results.

### k) Research and development

Research and development expenditure is charged to the income statement in the period in which it is incurred.

### l) Environmental costs

Provision is made for environmental costs, based on future estimated expenditures, but there is no discounting of any provision to present values.

### m) Foreign currencies

Transactions in currencies other than the functional currency of the Separate Business 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.

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

**n) Key sources of estimation uncertainty**

The preparation of accounts requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimation is contained in the accounting policies and/or the Notes to the Accounts, and the key areas are summarised below.

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

- Review of residual lives, carrying values and impairment charges for intangible assets and property, plant and equipment – Accounting policies (c) Intangible assets, (d) Property, plant and equipment and (e) Impairment of assets;
- Revenue recognition and assessment of unbilled revenues – Accounting policies (g) Revenues;
- Environmental liabilities – Accounting policies (l) Environmental costs.

## Income Statements

*for the years ended 31 March*

| | | Transmission | | Interconnectors | |
|---|---|---|---|---|---|
| | | **2006** | 2005 (i) | **2006** | 2005 (i) |
| | Notes | **£m** | £m | **£m** | £m |
| **Revenue** | | **1,869.1** | 1,348.9 | **77.0** | 72.4 |
| Operating costs | 2 | **(1,386.2)** | (811.0) | **(13.9)** | (36.0) |
| **Operating profit** | | | | | |
| - Before exceptional items and remeasurements | | **482.9** | 537.9 | **63.1** | 36.4 |
| - Exceptional items and remeasurements | 3 | **-** | - | **-** | - |
| **Total operating profit** | | **482.9** | 537.9 | **63.1** | 36.4 |

All activities relate to continuing operations.

## Statements of Recognised Income and Expense

*for the years ended 31 March*

| | Transmission | | Interconnectors | |
|---|---|---|---|---|
| | **2006** | 2005 (i) | **2006** | 2005 (i) |
| | **£m** | £m | **£m** | £m |
| Share-based payment | **0.9** | - | **-** | - |
| **Net (expense)/income recognised directly in equity** | **0.9** | - | **-** | - |
| Total operating profit | **482.9** | 537.9 | **63.1** | 36.4 |
| **Total recognised income and expense for the year** | **483.8** | 537.9 | **63.1** | 36.4 |

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

## Balance Sheets

*at 31 March*

| | Notes | Transmission 2006 £m | Transmission 2005 (i) £m | Interconnectors 2006 £m | Interconnectors 2005 (i) £m |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Intangible assets | 5 | 76.0 | 96.7 | - | - |
| Property, plant and equipment | 6 | 4,401.1 | 4,089.6 | 96.0 | 121.8 |
| Other non-current receivables | 7 | 0.1 | - | - | - |
| Total non-current assets | | **4,477.2** | **4,186.3** | **96.0** | **121.8** |
| **Current assets** | | | | | |
| Inventories | 8 | **13.6** | 11.5 | **-** | - |
| Trade and other receivables | 9 | **5,794.8** | 5,514.8 | **688.4** | 598.4 |
| Cash and cash equivalents | 10 | **-** | - | **6.3** | 0.8 |
| Total current assets | | **5,808.4** | 5,526.3 | **694.7** | 599.2 |
| **Total assets** | | **10,285.6** | 9,712.6 | **790.7** | 721.0 |
| **Current liabilities** | | | | | |
| Trade and other payables | 11 | **(401.3)** | (369.7) | **(15.7)** | (8.9) |
| Provisions for liabilities and charges | 12 | **(0.1)** | (1.0) | **-** | - |
| Total current liabilities | | **(401.4)** | (370.7) | **(15.7)** | (8.9) |
| **Non-current liabilities** | | | | | |
| Other non-current liabilities | 13 | **(145.0)** | (86.4) | **-** | (0.2) |
| Provisions for liabilities and charges | 12 | **(3.8)** | (3.9) | **-** | - |
| Total non-current liabilities | | **(148.8)** | (90.3) | **-** | (0.2) |
| Total liabilities | | **(550.2)** | (461.0) | **(15.7)** | (9.1) |
| **Net assets** | | **9,735.4** | 9,251.6 | **775.0** | 711.9 |
| **Capital employed** | 14 | **9,735.4** | 9,251.6 | **775.0** | 711.9 |

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

The accounts on pages 5 to 17 inclusive were approved by the Board of Directors of National Grid Electricity Transmission plc on 16 May 2006 and were signed on its behalf by :

N Winser Director

A Chapman Director

## Cash Flow Statements

*for the years ended 31 March*

| | Note | Transmission 2006 £m | Transmission 2005 (i) £m | Interconnectors 2006 £m | Interconnectors 2005 (i) £m |
|---|---|---|---|---|---|
| **Net cash from operating activities** | 15 | **769.6** | 672.8 | **84.0** | 44.5 |
| **Cash flows from investing activities** | | | | | |
| Purchases of intangible assets | | **(1.8)** | (44.5) | **-** | - |
| Purchases of property, plant and equipment | | **(524.8)** | (365.7) | **-** | (0.4) |
| Disposals of property, plant and equipment | | **-** | - | **20.6** | - |
| **Net cash (used in)/generated from investing activities** | | **(526.6)** | (410.2) | **20.6** | (0.4) |
| **Cash flows from financing activities** | | | | | |
| Increase in amounts owed by Group undertakings | | **(243.0)** | (262.6) | **(99.1)** | (43.3) |
| **Net increase/(decrease) in cash and cash equivalents** | | **-** | - | **5.5** | 0.8 |
| Cash and cash equivalents at start of year | | **-** | - | **0.8** | - |
| **Cash and cash equivalents at end of year** | | **-** | - | **6.3** | 0.8 |

## Notes to the Accounts

### 1. Adoption of IFRS

With effect from 1 April 2005 National Grid Electricity Transmission plc (formerly National Grid Company plc) is required to report its consolidated financial statements in accordance with IFRS.

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

As permitted by International Financial Reporting Standard No. 1 'First-time adoption of IFRS' (IFRS1), the comparative balance sheet at 31 March 2005 and income statement for the year ended 31 March 2005 have not been restated to reflect the adoption of International Accounting Standard No. 39 Financial Instruments: Recognition and Measurement (IAS 39) on 1 April 2005.

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

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

| **At 1 April 2004** | Notes | **Transmission £m** | **Interconnectors £m** |
|---|---|---|---|
| **Net assets under UK GAAP** | | **8,723.9** | **675.5** |
| **IFRS measurement adjustments** | | | |
| BETTA | 1(c)(i) | (4.6) | - |
| NETA | 1(c)(ii) | (3.9) | - |
| Pensions | 1(c)(iii) | - | - |
| Other | 1(c)(iv) | (1.7) | - |
| **Net assets under IFRS** | | **8,713.7** | **675.5** |

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

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

| **For the year ended 31 March 2005** | Notes | **Transmission £m** | **Interconnectors £m** |
|---|---|---|---|
| **Profit for the year under UK GAAP** | | **537.4** | **36.3** |
| **IFRS measurement adjustments** | | | |
| BETTA | 1(c)(i) | (7.8) | - |
| NETA | 1(c)(ii) | 1.0 | - |
| Pensions | 1(c)(iii) | 7.4 | 0.1 |
| Other | 1(c)(iv) | (0.1) | - |
| **Profit for the year under IFRS** | | **537.9** | **36.4** |

| **At 31 March 2005** | Notes | **Transmission £m** | **Interconnectors £m** |
|---|---|---|---|
| **Net assets under UK GAAP** | | **9261.3** | **711.8** |
| **IFRS measurement adjustments** | | | |
| BETTA | 1(c)(i) | (12.4) | - |
| NETA | 1(c)(ii) | (2.9) | - |
| Pensions | 1(c)(iii) | - | - |
| Other | 1(c)(iv) | 5.6 | 0.1 |
| **Net assets under IFRS** | | **9,251.6** | **711.9** |

## Notes to the Accounts

### 1. Adoption of IFRS (continued)

#### c) IFRS measurement adjustments

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

**(i) British Electricity Transmission and Trading Arrangements (BETTA)**

Certain BETTA costs under UK GAAP are included in debtors and then expensed to profit and loss over two years. Under IFRS, these costs cannot be deferred and are expensed in the year that they are incurred.

**(ii) New Electricity Trading Arrangements (NETA)**

NETA costs under UK GAAP are included in debtors and then expensed to profit and loss over seven years. Under IFRS, these costs cannot be deferred and are expensed in the year that they are incurred.

**(iii) Pensions**

Under UK GAAP, the pensions of the Separate Businesses were accounted for under SSAP24. Under IFRS, these benefits are accounted for under IAS 19. There are differences in the measurement of the annual pension expense under IAS 19 compared with SSAP 24.

**(iv) Other**

Other differences on transition from UK GAAP to IFRS for the year ended 31 March 2005 are not individually material and relate principally to accrual of holiday pay and current account adjustments.

#### d) IFRS presentation adjustments

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

**(i) Software**

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

**(ii) Cash and cash equivalents**

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

## Notes to the Accounts

### 2. Operating costs

| | Transmission | | Interconnectors | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£m** | £m | **£m** | £m |
| Total operating costs comprise: | | | | |
| Depreciation of property, plant and equipment | **237.1** | 182.6 | **5.2** | 6.0 |
| Amortisation of intangible assets | **22.5** | 18.5 | **-** | - |
| Payroll costs (note 4) | **79.5** | 76.3 | **0.3** | 0.5 |
| Other operating charges: | | | | |
| - Rates | **92.5** | 87.7 | **0.5** | 3.0 |
| - Balancing Services Incentive Scheme direct costs | **537.0** | 302.7 | **-** | - |
| - Payments to Scottish network owners under BETTA | **258.9** | - | **-** | - |
| - Other non-exceptional operating charges | **158.7** | 143.2 | **7.9** | 26.5 |
| | **1,047.1** | 533.6 | **8.4** | 29.5 |
| | **1,386.2** | 811.0 | **13.9** | 36.0 |

Operating costs in respect of the transmission business include research and development costs amounting to £2.5m (2005: £2.6m). There were no research and development costs in the interconnectors business for the year ended 31 March 2006 (2005: £nil).

Of the total Group audit fee, £407,000 (2005: £472,000) is attributable to the Separate Businesses and is included within other non-exceptional operating charges, of which £27,000 (2005: £26,000) relates specifically to the audit of the Regulatory accounts, £353,000 (2005: £430,000) to the audit of the consolidated statutory accounts of National Grid Electricity Transmission plc and £27,000 (2005: £16,000) relates to other Regulatory Reporting.

### 3. Exceptional items and remeasurements

Items of income and expenditure that are material, either by their nature or their size, that are relevant to an understanding of the financial performance of the Separate Businesses are disclosed separately. These include exceptional income or charges that do not relate to the underlying financial performance of the Businesses. There were no such items in the accounts for the year ended 31 March 2006 (2005: £nil).

### 4. Payroll costs

| | Transmission | | Interconnectors | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£m** | £m | **£m** | £m |
| Wages and salaries | **84.7** | 85.0 | **0.3** | 0.5 |
| Social security costs | **9.1** | 8.5 | **-** | - |
| Other pension costs | **13.6** | 11.5 | **-** | - |
| Gross payroll costs | **107.4** | 105.0 | **0.3** | 0.5 |
| Less: amounts capitalised | **(27.9)** | (28.7) | **-** | - |
| **Net payroll costs** | **79.5** | 76.3 | **0.3** | 0.5 |

### 5. Intangible assets

| | Transmission | Interconnectors |
|---|---|---|
| | **£m** | **£m** |
| Cost at 1 April 2004 | **96.0** | **-** |
| Additions | **44.5** | **-** |
| Disposals | **(9.1)** | **-** |
| Cost at 31 March 2005 | **131.4** | **-** |
| Additions | **1.8** | **-** |
| Cost at 31 March 2006 | **133.2** | **-** |
| Depreciation at 1 April 2004 | **25.3** | **-** |
| Charge for the year | **18.5** | **-** |
| Disposals | **(9.1)** | **-** |
| Depreciation at 31 March 2005 | **34.7** | **-** |
| Charge for the year | **22.5** | **-** |
| Depreciation at 31 March 2006 | **57.2** | **-** |
| **Net book value at 31 March 2006** | **76.0** | **-** |
| Net book value at 31 March 2005 | **96.7** | **-** |

## Notes to the Accounts

### 6. Property, plant and equipment

| | Transmission £m | Interconnectors £m |
|---|---|---|
| Cost at 1 April 2004 | 5,929.5 | 391.4 |
| Additions | 357.0 | 0.4 |
| Disposals | (7.8) | (4.0) |
| Transfers | - | 4.0 |
| Cost at 31 March 2005 | 6,278.7 | 391.8 |
| Additions | 528.0 | - |
| Disposals | (33.7) | (0.8) |
| Transfers | 28.7 | (28.7) |
| Cost at 31 March 2006 | **6,801.7** | **362.3** |
| | | |
| Depreciation at 1 April 2004 | (2,014.3) | (264.0) |
| Charge for the year | (182.6) | (6.0) |
| Disposals | 7.8 | 4.0 |
| Transfers | - | (4.0) |
| Depreciation at 31 March 2005 | (2,189.1) | (270.0) |
| Charge for the year | (237.1) | (5.2) |
| Disposals | 33.7 | 0.8 |
| Transfers | (8.1) | 8.1 |
| Depreciation at 31 March 2006 | **(2,400.6)** | **(266.3)** |
| | | |
| **Net book value at 31 March 2006** | **4,401.1** | **96.0** |
| | | |
| Net book value at 31 March 2005 | 4,089.6 | 121.8 |

| | **2006 £m** | 2005 £m | **2006 £m** | 2005 £m |
|---|---|---|---|---|
| The net book value comprises: | | | | |
| Land and buildings | **88.9** | 90.1 | **7.0** | 7.2 |
| Plant and machinery | **3,649.6** | 3,407.3 | **87.9** | 113.2 |
| Assets in the course of construction | **653.8** | 587.8 | **0.8** | 1.0 |
| Motor vehicles and office equipment | **8.8** | 4.4 | **0.3** | 0.4 |
| | **4,401.1** | 4,089.6 | **96.0** | 121.8 |

| | **2006 £m** | 2005 £m | **2006 £m** | 2005 £m |
|---|---|---|---|---|
| The net book value of land and buildings comprises: | | | | |
| Freehold | **80.6** | 81.6 | **7.0** | 7.2 |
| Long leasehold (over 50 years) | **2.7** | 2.7 | **-** | - |
| Short leasehold (under 50 years) | **5.6** | 5.8 | **-** | - |
| | **88.9** | 90.1 | **7.0** | 7.2 |

Transmission's cost of property, plant and equipment (net of disposals) at 31 March 2006 included £434.4m (2005: £401.7m) relating to interest capitalised.

Included within transmission's 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 £3.6m (2005: £19.9m) and £110.8m (2005: £84.9m) respectively.

The carrying value of property, plant and equipment which is carried at deemed cost within interconnectors' plant and machinery at the date of transition to IFRS on 1 April 2004 amounted to £106m.

## Notes to the Accounts

### 7. Other non-current receivables

| | Transmission | | Interconnectors | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£m** | £m | **£m** | £m |
| Other debtors | **0.1** | - | **-** | - |

### 8. Inventories

| | Transmission | | Interconnectors | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£m** | £m | **£m** | £m |
| Raw materials and consumables | **12.3** | 11.4 | **-** | - |
| Work in progress | **1.3** | 0.1 | **-** | - |
| | **13.6** | 11.5 | **-** | - |

Transmission consumed £3.6m of inventories during the year (2005: £4.9m).
The transmission figures in the above table includes £0.6m of provision for obsolescence as at 31 March 2006 (2005: £0.6m).

### 9. Trade and other receivables

| | Transmission | | Interconnectors | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£m** | £m | **£m** | £m |
| Trade debtors | **1.0** | 9.3 | **5.7** | 7.0 |
| Inter-separate business balances | **5,654.4** | 5,411.4 | **682.7** | 583.6 |
| Other debtors | **2.3** | 3.2 | **-** | 0.1 |
| Prepayments and accrued income | **137.1** | 90.9 | - | 7.7 |
| | **5,794.8** | 5,514.8 | **688.4** | 598.4 |

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

### 10. Cash and cash equivalents

| | Transmission | | Interconnectors | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£m** | £m | **£m** | £m |
| Cash at bank and in hand | **-** | - | **6.3** | 0.8 |
| **Net cash and cash equivalents** | **-** | **-** | **6.3** | **0.8** |

## Notes to the Accounts

### 11. Trade and other payables

| | Transmission | | Interconnectors | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£m** | £m | **£m** | £m |
| Trade payables | **312.2** | 236.5 | **0.1** | - |
| Social security and other taxes | **17.1** | 17.3 | **5.3** | 3.4 |
| Other payables | **22.1** | 61.3 | **-** | - |
| Deferred income | **49.9** | 54.6 | **10.3** | 5.5 |
| | **401.3** | 369.7 | **15.7** | 8.9 |

### 12. Provisions for liabilities and charges

| | Transmission | Interconnectors |
|---|---|---|
| | **£m** | **£m** |
| At 1 April 2004 | 6.3 | - |
| Utilised | (1.4) | - |
| At 31 March 2005 | 4.9 | - |
| Utilised | (1.0) | - |
| **At 31 March 2006** | **3.9** | **-** |

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

| | **2006** | 2005 | **2006** | 2005 |
|---|---|---|---|---|
| | **£m** | £m | **£m** | £m |
| Current | **0.1** | 1.0 | - | - |
| Non-current | **3.8** | 3.9 | - | - |
| | **3.9** | 4.9 | - | - |

The provision balances at 31 March 2006 and 31 March 2005 relate to onerous lease costs in respect of a vacated property. The balance is expected to be utilised over the next 9 years.

### 13. Other non-current liabilities

| | Transmission | | Interconnectors | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£m** | £m | **£m** | £m |
| Other payables | **34.2** | 1.5 | **-** | - |
| Deferred income | **110.8** | 84.9 | - | 0.2 |
| | **145.0** | 86.4 | **-** | 0.2 |

## Notes to the Accounts

### 14. Movement in capital employed

| | Transmission £m | Interconnectors £m |
|---|---|---|
| At 1 April 2004 | 8,713.7 | 675.5 |
| Total operating profit | 537.9 | 36.4 |
| At 31 March 2005 | 9,251.6 | 711.9 |
| Net income recognised directly in equity | 0.9 | - |
| Total operating profit | 482.9 | 63.1 |
| **At 31 March 2006** | **9,735.4** | **775.0** |

### 15. Cash flows from operating activities

| | Transmission | | Interconnectors | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£m** | £m | **£m** | £m |
| Total operating profit | **482.9** | 537.9 | **63.1** | 36.4 |
| Adjustments for: | | | | |
| Depreciation and amortisation | **259.6** | 201.1 | **5.2** | 6.0 |
| Share-based payment charge | **0.9** | - | **-** | - |
| Changes in working capital | **27.2** | (64.8) | **15.7** | 2.1 |
| Changes in provisions | **(1.0)** | (1.4) | **-** | - |
| **Net cash from operating activities** | **769.6** | 672.8 | **84.0** | 44.5 |