National Grid Gas plc

NTS 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 NTS businesses, including its LNG storage business. National Grid Gas also prepares and publishes regulatory accounting statements in respect of its DN business, including its metering businesses. 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 NTS regulatory accounting statements include the following regulatory businesses and activities of National Grid Gas:

NTS business	Provides gas transmission services in Great Britain.
LNG storage business	Provides LNG storage services relating to gas transmission.
De-minimis activities	Other business activities carried out in association with the NTS and LNG storage businesses which are not subject to direct regulation by Ofgem.
Other activities	Other activities carried out in association with the NTS and LNG storage 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 gas transmission and distribution 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 DN businesses (and each of the networks 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 UK 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 and 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, 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:

NTS business	Owns and operates the NTS in Great Britain.
	This comprises approximately 4,300 miles of high pressure pipe and 26 compressor stations, connecting to eight DNs and to third party independent systems for onward transportation of gas to end consumers.
	Day-to-day operation includes balancing supply and demand, maintaining satisfactory system pressures and ensuring gas quality standards are met.
LNG storage business	Owns and operates four LNG storage facilities in the UK.
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 NTS business or the LNG storage 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 are treated as attributable to the NTS business or the LNG storage 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
The energy markets in the UK are regulated by Ofgem, which has the responsibility for promoting competition, wherever appropriate, and for regulating the companies that own and operate the infrastructure through which gas is delivered.

The gas infrastructure in the UK primarily comprises the NTS and eight regional DNs. Gas is input into the NTS, which connects with each of the eight regional DNs, which in turn distribute gas to end consumers. Detailed arrangements for the gas industry are provided through the Uniform Network Code, which defines the obligations, responsibilities and roles of the industry participants.

Certain end consumers, primarily large industrial users, receive gas direct from the NTS.

National Grid Gas holds a gas transporter licence in respect of the NTS. It has a duty under the Gas Act 1986 to develop and maintain an efficient and economical pipeline system for the conveyance of gas. Under the terms of the licence, National Grid Gas receives income through charges to shippers for entry and exit capacity (gas transmission owner activity and gas system operator activity) and commodity charges (gas system operator activity).

Ofgem sets price controls in respect of the amounts that can be charged by the owners and operators of gas infrastructure in the UK. The current price controls in respect of the gas transmission owner and gas system operator activities commenced on 1 April 2002 and are due to continue until 31 March 2007. The next five-year price control period is due to commence on 1 April 2007.

National Grid Gas's LNG storage facilities do not form part of the NTS and are separately regulated. A portion of the LNG storage capacity is set aside to support network operating requirements, with remaining capacity sold to gas shippers.

Business drivers

As gas transmission owner, National Grid Gas owns and maintains the physical assets, develops the network to accommodate new connections and disconnections, and manages a programme of asset replacement and investment to ensure the long-term reliability of the network.

As gas system operator, National Grid Gas undertakes a range of activities necessary for the successful delivery in real-time of secure, reliable and efficient energy. It ensures the system is balanced with supply and demand at the end of each day and is required to maintain levels of short-term gas reserves to ensure that domestic and other non-daily metered gas supplies can be maintained during prolonged cold conditions.

The principal business drivers for NTS activities include:

- the price controls set by Ofgem, which determine the prices that can be charged to users of the gas transmission network;
- capital investment, which drives the regulatory asset value, a key component in determining allowed revenues under the NTS price controls;
- the ability to operate reliably, and so to earn incentives for good performance and avoid penalties for poor performance;
- meeting regulatory targets for management of the gas system, generating incentives for good performance; and
- the ability to operate efficiently.

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

Business driver	Description
Price controls	The charges that National Grid Gas can make for access to the NTS are currently determined by a formula linked to retail price inflation (RPI). This is set at RPI-2%. This formula is based upon Ofgem's estimates of operating expenditure, capital expenditure and asset replacement, together with an allowed rate of return. The current rate of return is set at a real pre-tax rate of 6.25% on our regulatory asset value. The NTS regulatory asset value as of 31 March 2006 is currently £2.8 billion (£2.5 billion March 2005).
Efficiency	The gas system operation has incentive schemes where, if National Grid Gas operates the NTS more efficiently than Ofgem's forecasts, it can increase its revenues. There are seven incentive schemes covering activities such as cost of investment for additional capacity, managing constraints, the cost of purchasing shrinkage gas (gas used in operating the system or lost during transport) and other gas system operation costs.

Current and future developments

Licences

On 1 May 2005 National Grid Gas's gas transporter licence was amended to become specific to National Grid Gas's gas transmission activities. At the same time, we were granted five new gas transporter licences specific to DN activities, four of which related to the DNs subsequently sold on 1 June 2005.

UK energy market developments

The UK is entering a period of changing supply patterns for gas. The sources of gas are shifting, with the decline in UK continental shelf gas reserves and the Government's emphasis on combating climate change. There is also a continuing trend toward greater use of gas in power generation with the UK moving towards a low carbon economy.

As a consequence of the decline in gas production from the UK continental shelf, National Grid Gas's latest forecast is that the UK will import around 50% of its gas requirements by the end of the decade.

Activity to increase import capability has involved the development of gas interconnectors and LNG importation facilities by National Grid and other market participants. These include the Norwegian interconnector and the LNG import facility at Milford Haven in addition to National Grid's own LNG import facility on the Isle of Grain.

A number of gas pipeline and compressor projects are being progressed to meet these developments. Around 90 miles of gas pipeline is being constructed from Ganstead to Asselby, in the region of Humberside, and from Pannal in North Yorkshire to Nether Kellett in Lancashire to enable increased imports at Easington. Around 206 miles of new pipeline is being built in South Wales and Gloucestershire to cater for the Milford Haven importation facility, which is to be connected during the 2007/08 gas supply year. These projects in response to changing supply sources require over £1,000 million in capital expenditure on the NTS in the period up to 2008/09.

Gas supply

In 2004 the gas safety case was amended to include a system of 'safety monitors'. These monitor levels define minimum levels of gas storage required to ensure continued and safe delivery of gas to all domestic, other non-daily metered customers and certain identified priority customers under prolonged winter conditions.

For winter 2005/06 National Grid Gas worked with Ofgem and the industry to enhance the level of information that is available to the market to further promote industry participant response to the gas demand/supply position. Of particular note is the introduction of the Daily Summary Report, available on the National Grid website and the introduction of the Gas Balancing Alert. This system is designed to highlight to the market that a reduction in demand might be required when the supply and demand balance is very tight.

Emissions trading

The European Union emissions trading scheme commenced on 1 January 2005. Its purpose is to reduce the level of carbon dioxide emitted by placing a financial incentive on participants to reduce their emissions of this greenhouse gas. Allowances are granted to participants in accordance with a national allocation plan and any shortfall or surplus can be traded with other participants.

National Grid Gas's carbon dioxide emissions between 1 January and 31 December 2005 in the UK were broadly in line with National Grid Gas's allocation, and so the scheme did not have a material financial effect on National Grid Gas's results in 2005/06. It is not expected that the scheme will have a significant impact on National Grid Gas's results in 2006 or 2007. Phase 2 of the emissions trading scheme, covering the period from 1 January 2008 to 31 December 2012, is in the process of being negotiated.

Capital investment

Investment in the NTS is, by its nature, variable and is largely driven by changing sources of supply and asset replacement requirements. National Grid Gas's gas transporter licence obliges it to provide connections and capacity upon request.

Parts of the NTS are reaching the end of their lives. These are mainly compressor stations, control systems and valves (ie above ground assets and not the high pressure pipes). This, together with work required to meet changing supply sources, means that the NTS business will be embarking on a significant increase in investment and network renewal.

To meet the increasing programme of work, National Grid Gas has been exploring ways to work more efficiently and collaboratively with major suppliers and contractors to manage the increase in workload effectively.

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 NTS operations during 2005/06, when two contractors died in a helicopter crash in Scotland while carrying out an aerial survey of our gas transmission network.

Over the past 12 months National Grid Gas has seen an overall improvement in its safety performance, with a 44% reduction in the number of employees receiving injuries that resulted in them taking time off work, compared to the previous year. However, the number of lost time injuries for employees of National Grid Gas's NTS operations increased from 3 in 2004/05 to 8 in 2005/06.

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 NTS employee lost time injuries per 100,000 hours worked in 2005/06 increased to 0.57 from 0.21 in the previous year.

National Grid Gas has reinforced existing safety procedures in NTS 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.

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

2005/06 saw a maximum demand for gas of 411 mcm on 1 February 2006. This decrease on the previous year's peak of 418 mcm was partly due to increased demand-side response reflecting the high gas prices that have been experienced this winter.

Progress against objectives during the year includes the following:

Objective	Performance
Safety	During 2005/06 there was an increase in the lost time injury frequency rate to 0.57 from 0.21 in 2004/05.
Reliability	Compressor fleet performance during 2005/06 improved with the average time between compressor failures at 10% above the five-year average, compared with 24% above the five-year average in the mean time between failures in 2004/05.

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	574	(313)	261
Add back 2004/05 exceptional items	-	3	3
2004/05 adjusted results	574	(310)	264
LNG storage	42	(13)	29
Transmission owner depreciation and amortisation	-	(19)	(19)
Other	127	(121)	6
2005/06 adjusted results	743	(463)	280
2005/06 exceptional items	-	-	-
2005/06 results	743	(463)	280

The £169 million increase in UK gas transmission revenue comparing 2005/06 with 2004/05 was due to higher pass through costs under the gas system operator incentive scheme and to beneficial outcomes from the capacity auctions in the LNG storage market.

Operating costs, excluding exceptional items, increased by £153 million in 2005/06 compared to 2004/05. This is due to increased gas incentivised costs, one-off compensation costs and higher pass-through costs, particularly business rates. Transmission owner depreciation and amortisation has increased by £19 million due to reassessment of asset lives and an increase in core depreciation reflecting the ramp up in the capital programme.

The £16 million increase in adjusted operating profit comparing 2005/06 with 2004/05 reflected the movement in revenue and operating costs as described above.

The £3 million exceptional charge in 2004/05 related to cost reduction programmes.

Capital expenditure

Capital investment in the replacement, reinforcement and extension of the NTS systems in 2005/06 was £359 million compared with £131 million in 2004/05.

2005/06 has seen a substantial increase in the level of capital investment in gas pipeline projects, some £156 million higher than 2004/05.

	Year ended 31 March 2006 £m	2005 £m
Property, plant & equipment	310	111
Intangible	49	20
Capital investment	359	131

This includes £41 million of additions relating to emissions allowances received during 2005/06.

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	2,307	-	2,307
Other non-current assets and liabilities	1,589	(138)	1,451
Current assets and liabilities	270	(393)	(123)
Deferred tax	-	(421)	(421)
Total before net debt	4,166	(952)	3,214
Net debt	143	(1,138)	(995)
Total as at 31 March 2006	4,309	(2,090)	2,219
Total as at 31 March 2005	2,647	(1,997)	650

The increase in net assets from £650 million at 31 March 2005 to £2,219 million at 31 March 2006 resulted from the profit for the year of £172 million, changes in allocation of funding between National Grid Gas's regulatory businesses of £1,573 million and other changes in equity of £1 million, partially offset by net expenses recognised directly in equity of £5 million, attributed dividends paid of £100 million and the effect of the implementation of IAS 39 of £12 million.

Net debt and gearing

Net debt decreased by £0.1 billion from £1.1 billion at 31 March 2005 to £1.0 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 25 to the accounts.

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 63% respectively. By comparison, the gearing ratio, adjusted for the inclusion of regulated businesses at their estimated regulatory asset values (adjusted gearing ratio), amounted to 27% at 31 March 2006 compared with 51% 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 table below:

	2006 £m	2005 £m
Net assets per balance sheet	2,219	650
Adjustment for regulatory asset values	600	600
Deferred tax	(180)	(180)
Adjusted net assets	2,639	1,070

Shareholders' equity

Shareholders' equity rose from £650 million at 31 March 2005 to £2,219 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 NTS 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 £1,107 million (2005: £1,098 million) has been attributed to the businesses reported in these regulatory accounting statements. The table in note 20 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 16 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 16 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 16. Under the assumptions set out in note 16, a 0.10% change in UK interest rates would affect the income statement by £2 million, but would have no effect on equity.

Commodity contracts

Commodity derivatives
In the normal course of its NTS 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. This includes the repurchase of capacity rights already sold in accordance with National Grid Gas's gas transporter licences and Uniform Network Code obligations.

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.

Commodity trading
National Grid Gas's NTS operations are obliged to offer for sale, through a series of auctions (both short- and long-term), a predetermined quantity of entry capacity for every day in the year at specified locations. Where, on the day, the NTS's capability is constrained, such that gas is prevented from entering the system for which entry capacity rights have been sold, then National Grid Gas is required to buy back those entry capacity rights sold in excess of system capability. Forward and option contracts are used to reduce the risk and exposure to on-the-day entry capacity prices.

Commitments and contingencies

National Grid Gas's commitments and contingencies outstanding at 31 March and attributable to 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	553	274
Total operating lease commitments	15	11

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 £2 million and received charges of £39 million from National Grid Gas's related parties (other than Directors), compared with £3 million and £33 million respectively in 2004/05.

Further information relating to related party transactions is contained within note 26 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	654
Replacement expenditure	5
Deferred taxation	(11)
Other	2
Net assets reported under IFRS	650

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	156
Replacement expenditure	(5)
Other	1
Profit for the year reported under IFRS	152

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 £56 million from £1,095 million to £1,151 million, and to reduce net assets by £12 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 £8 million and £109 million respectively in 2005/06 and £6 million and £93 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 £4,309 million, including £2,280 million of property, plant and equipment, £27 million of other intangible assets and £1,588 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 £44 million at 31 March 2006 compared with £37 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.
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 £4 million and our annual amortisation charge on intangible assets by £1 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 £3 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 £3 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 £4 million lower than that reported net of tax and net assets would have been unchanged.

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 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 the 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 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, £100 million (2005: £223 million) 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 71 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 National Transmission System 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 30 includes disclosure of the revenues and costs of de-minimis business and other activities and note 31 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 21.

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 the national transmission system business, the LNG storage 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 NTS business, LNG storage business, de-minimis activities and other activities at 31 March 2006 and the revenues and costs of its NTS business, LNG storage 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 NTS 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 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 are 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 determine 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.

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) Emission allowances

Emission allowances are recorded as an intangible asset within current assets and are initially recorded at deemed cost. For allocations of emission allowances granted to National Grid Gas by the

UK government, cost is measured as fair value at the date of allocation. Receipts of such grants are treated as deferred income and are recognised in the income statement over the period to which they relate. A provision is recorded in respect of our obligation to deliver emission allowances and charges are recognised in the income statement in the period in which carbon dioxide emissions are made.

(t) 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.

(u) 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 4.
- 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 16.
- Revenue recognition and assessment of unbilled revenue – accounting policies note (k) Revenues.
- Recoverability of deferred tax assets – accounting policies note (g) Taxation and note 13.

Income Statements

For the years ended 31 March	Notes	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Total revenue		**672**	**71**	**1**	**12**	**756**	553	38	1	2	594
Less inter-business revenue		**-**	**(11)**	**-**	**(2)**	**(13)**	-	(20)	-	-	(20)
Group revenue		**672**	**60**	**1**	**10**	**743**	553	18	1	2	574
Operating costs	3	**(427)**	**(25)**	**(1)**	**(10)**	**(463)**	(298)	(12)	(1)	(2)	(313)
Operating profit											
Before exceptional items		**245**	**35**	**-**	**-**	**280**	258	6	-	-	264
Exceptional items	4	**-**	**-**	**-**	**-**	**-**	(3)	-	-	-	(3)
Total operating profit		**245**	**35**	**-**	**-**	**280**	255	6	-	-	261
Interest income and similar income	8	**26**	**1**	**-**	**-**	**27**	3	-	-	-	3
Interest expense and other finance costs											
Before exceptional items and remeasurements	8	**(73)**	**(2)**	**-**	**-**	**(75)**	(53)	(1)	-	-	(54)
Exceptional items and remeasurements	8	**(4)**	**-**	**-**	**-**	**(4)**	-	-	-	-	-
Profit before taxation											
Before exceptional items and remeasurements		**198**	**34**	**-**	**-**	**232**	208	5	-	-	213
Exceptional items and remeasurements	4	**(4)**	**-**	**-**	**-**	**(4)**	(3)	-	-	-	(3)
Total profit before taxation		**194**	**34**	**-**	**-**	**228**	205	5	-	-	210
Taxation											
Before exceptional items and remeasurements	9	**(50)**	**(8)**	**-**	**-**	**(58)**	(56)	(2)	-	-	(58)
Exceptional items and remeasurements	9	**2**	**-**	**-**	**-**	**2**	-	-	-	-	-
Total taxation		**(48)**	**(8)**	**-**	**-**	**(56)**	(56)	(2)	-	-	(58)
Profit for the year after taxation											
Before exceptional items and remeasurements		**148**	**26**	**-**	**-**	**174**	152	3	-	-	155
Exceptional items and remeasurements	4	**(2)**	**-**	**-**	**-**	**(2)**	(3)	-	-	-	(3)
Profit for the year		**146**	**26**	**-**	**-**	**172**	149	3	-	-	152

All operations are continuing operations.

The notes on pages 34 to 71 form part of these regulatory accounting statements.

Balance Sheets

At 31 March	Notes	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Non-current assets											
Intangible assets	11	**27**	**-**	**-**	**-**	**27**	27	-	-	-	27
Property, plant and equipment	12	**2,222**	**58**	**-**	**-**	**2,280**	2,022	50	-	-	2,072
Other receivables	14	**1,555**	**34**	**-**	**-**	**1,589**	445	21	-	-	466
Derivative financial assets	16	**35**	**-**	**-**	**-**	**35**	-	-	-	-	-
Total non-current assets		**3,839**	**92**	**-**	**-**	**3,931**	2,494	71	-	-	2,565
Current assets											
Intangible assets	11	**41**	**-**	**-**	**-**	**41**	-	-	-	-	-
Inventories	17	**12**	**1**	**-**	**-**	**13**	11	3	-	-	14
Trade and other receivables	18	**201**	**13**	**-**	**2**	**216**	61	4	-	-	65
Financial investments	15	**13**	**-**	**-**	**-**	**13**	1	-	-	-	1
Derivative financial assets	16	**28**	**-**	**-**	**-**	**28**	-	-	-	-	-
Cash and cash equivalents	19	**66**	**1**	**-**	**-**	**67**	2	-	-	-	2
Total current assets		**361**	**15**	**-**	**2**	**378**	75	7	-	-	82
Total assets		**4,200**	**107**	**-**	**2**	**4,309**	2,569	78	-	-	2,647
Current liabilities											
Borrowings	20	**(299)**	**(2)**	**-**	**-**	**(301)**	(454)	(16)	-	-	(470)
Derivative financial liabilities	16	**(14)**	**-**	**-**	**-**	**(14)**	-	-	-	-	-
Trade and other payables	21	**(310)**	**(14)**	**-**	**(3)**	**(327)**	(291)	(11)	-	-	(302)
Current tax liabilities		**(39)**	**(3)**	**-**	**-**	**(42)**	(14)	(1)	-	-	(15)
Provisions	23	**(24)**	**-**	**-**	**-**	**(24)**	(8)	-	-	-	(8)
Total current liabilities		**(686)**	**(19)**	**-**	**(3)**	**(708)**	(767)	(28)	-	-	(795)
Non-current liabilities											
Borrowings	20	**(799)**	**(6)**	**-**	**(1)**	**(806)**	(615)	(13)	-	-	(628)
Derivative financial liabilities	16	**(17)**	**-**	**-**	**-**	**(17)**	-	-	-	-	-
Other non-current liabilities	22	**(138)**	**-**	**-**	**-**	**(138)**	(135)	-	-	-	(135)
Deferred tax liabilities	13	**(412)**	**(9)**	**-**	**-**	**(421)**	(426)	(12)	-	-	(438)
Provisions	23	**-**	**-**	**-**	**-**	**-**	(1)	-	-	-	(1)
Total non-current liabilities		**(1,366)**	**(15)**	**-**	**(1)**	**(1,382)**	(1,177)	(25)	-	-	(1,202)
Total liabilities		**(2,052)**	**(34)**	**-**	**(4)**	**(2,090)**	(1,944)	(53)	-	-	(1,997)
Net assets/(liabilities)		**2,148**	**73**	**-**	**(2)**	**2,219**	625	25	-	-	650
Total equity	24	**2,148**	**73**	**-**	**(2)**	**2,219**	625	25	-	-	650

These regulatory accounting statements on pages 24 to 71 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:

Chris Murray Network Operations Director

Adam Wiltshire Finance Director

Statement of Recognised Income and Expense

For the years ended 31 March	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 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	**(4)**	**-**	**-**	**-**	**(4)**	-	-	-	-	-
Transferred to profit or loss on cash flow hedges	**(1)**	**-**	**-**	**-**	**(1)**	-	-	-	-	-
Tax on items taken directly to or transferred from equity	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Net expense recognised directly in equity	**(5)**	**-**	**-**	**-**	**(5)**	-	-	-	-	-
Profit for the year	**146**	**26**	**-**	**-**	**172**	149	3	-	-	152
Total recognised income and expense for the year	**141**	**26**	**-**	**-**	**167**	149	3	-	-	152
Effect of change in accounting policy – IAS 39(i)	**(12)**	**-**	**-**	**-**	**(12)**	-	-	-	-	-

(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	NTS **2006** **£m**	LNG storage **2006** **£m**	De-minimis activities **2006** **£m**	Other activities **2006** **£m**	Total **2006** **£m**	NTS 2005 unaudited £m	LNG storage 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		**245**	**35**	**-**	**-**	**280**	255	6	-	-	261
Adjustments for:											
Exceptional items		**-**	**-**	**-**	**-**	**-**	3	-	-	-	3
Depreciation and amortisation		**108**	**9**	**-**	**-**	**117**	92	7	-	-	99
Changes in working capital		**(57)**	**(3)**	**-**	**(1)**	**(61)**	(5)	-	-	-	(5)
Changes in provisions		**18**	**-**	**-**	**-**	**18**	5	-	-	-	5
Cash flows relating to exceptional items		**(3)**	**-**	**-**	**-**	**(3)**	(3)	-	-	-	(3)
Cash generated from/(used in) operations		**311**	**41**	**-**	**(1)**	**351**	347	13	-	-	360
Tax paid		**(162)**	**(13)**	**-**	**-**	**(175)**	(127)	(5)	-	-	(132)
Net cash inflow/(outflow) from operating activities		**149**	**28**	**-**	**(1)**	**176**	220	8	-	-	228
Cash flows from investing activities											
Purchases of intangible assets		**(8)**	**-**	**-**	**-**	**(8)**	(20)	-	-	-	(20)
Purchases of property, plant and equipment		**(159)**	**(15)**	**-**	**-**	**(174)**	(101)	(6)	-	-	(107)
Purchases of financial investments		**(12)**	**-**	**-**	**-**	**(12)**	-	-	-	-	-
Sales of financial investments			**-**	**-**	**-**	**-**	11	-	-	-	11
Loan to immediate parent undertaking		**(1,110)**	**(13)**	**-**	**-**	**(1,123)**	(18)	-	-	-	(18)
Net cash used in investing activities		**(1,289)**	**(28)**	**-**	**-**	**(1,317)**	(128)	(6)	-	-	(134)
Cash flows from financing activities											
Net increase in borrowings and derivatives		**1,349**	**17**	**-**	**1**	**1,367**	172	10	-	-	182
Interest received		**26**	**1**		**-**	**27**	6	-	-	-	6
Interest paid		**(86)**	**(2)**		**-**	**(88)**	(55)	(2)	-	-	(57)
Dividends paid to shareholders		**(85)**	**(15)**		**-**	**(100)**	(213)	(10)	-	-	(223)
Net cash generated from/(used in) financing activities		**1,204**	**1**		**1**	**1,206**	(90)	(2)	-	-	(92)
Net increase in cash and cash equivalents		**64**	**1**	**-**	**-**	**65**	2	-	-	-	2
Cash and cash equivalents at start of the year		**2**	**-**	**-**	**-**	**2**	-	-	-	-	-
Cash and cash equivalents at end of the year	19	**66**	**1**	**-**	**-**	**67**	2	-	-	-	2

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 16 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 25(a) and the impact on net assets by business in note 24.

	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	2	-	-	2
Financial investments	1	-	-	1
Borrowings	(1,098)	(36)	(34)	(1,168)
	(1,095)	(36)	(34)	(1,165)
Derivative financial assets	-	25	4	29
Derivative financial liabilities	-	(16)	1	(15)
Net debt	(1,095)	(27)	(29)	(1,151)
Accrued interest	(29)	-	29	-
Deferred gains and losses	(5)	5	-	-
Other assets and liabilities	1,779	10	-	1,789
Net assets	650	(12)	-	638

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

The DN 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. The regulatory accounting statements for each of these four sold DNs are not prepared by National Grid Gas.

3. Operating costs

For the year ended 31 March	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 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	**100**	**9**	**-**	**-**	**109**	86	7	-	-	93
Amortisation of intangible assets	**8**	**-**	**-**	**-**	**8**	6	-	-	-	6
Payroll costs	**32**	**6**	**-**	**6**	**44**	41	7	-	1	49
Other operating charges:										
Purchases of gas	**105**	**1**	**-**	**-**	**106**	59	-	-	-	59
Rates	**61**	**2**	**-**	**-**	**63**	36	2	-	-	38
Other operating charges	**121**	**7**	**1**	**4**	**133**	67	(4)	1	1	65
	427	**25**	**1**	**10**	**463**	295	12	1	2	310
Exceptional items										
Payroll costs	**-**	**-**	**-**	**-**	**-**	3	-	-	-	3
	-	**-**	**-**	**-**	**-**	3	-	-	-	3
Total										
Depreciation of property, plant and equipment	**100**	**9**	**-**	**-**	**109**	86	7	-	-	93
Amortisation of intangible assets	**8**	**-**	**-**	**-**	**8**	6	-	-	-	6
Payroll costs (note 5(a))	**32**	**6**	**-**	**6**	**44**	44	7	-	1	52
Other operating charges:										
Purchases of gas	**105**	**1**	**-**	**-**	**106**	59	-	-	-	59
Rates	**61**	**2**	**-**	**-**	**63**	36	2	-	-	38
Other operating charges	**121**	**7**	**1**	**4**	**133**	67	(4)	1	1	65
	427	**25**	**1**	**10**	**463**	298	12	1	2	313
Operating costs include:										
Research and development costs	**1**	**-**	**-**	**-**	**1**	1	-	-	**-**	1
Operating lease rentals:										
Plant and machinery	**1**	**-**	**-**	**-**	**1**	2	-	-	**-**	2
Other	**2**	**-**	**-**	**-**	**2**	3	-	-	**-**	3

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.

4. 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.

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Exceptional items – restructuring costs (i)	**-**	**-**	**-**	**-**	**-**	3	-	-	-	3
Total exceptional items included within operating profit	**-**	**-**	**-**	**-**	**-**	3	-	-	-	3
Remeasurements – net losses on derivative financial instruments (ii)	**4**	**-**	**-**	**-**	**4**	-	-	-	-	-
Total exceptional items and remeasurements included within finance costs	**4**	**-**	**-**	**-**	**4**	-	-	-	-	-
Total exceptional items and remeasurements before taxation	**4**	**-**	**-**	**-**	**4**	3	-	-	-	3
Tax on restructuring costs (i)	**-**	**-**	**-**	**-**	**-**	(1)	-	-	-	(1)
Tax on derivative financial instrument remeasurements (ii)	**(2)**	**-**	**-**	**-**	**(2)**	-	-	-	-	-
Other exceptional tax charges (iii)	**-**	**-**	**-**	**-**	**-**	1	-	-	-	1
Tax on exceptional items and remeasurements	**(2)**	**-**	**-**	**-**	**(2)**	-	-	-	-	-
Total exceptional items and remeasurements	**2**	**-**	**-**	**-**	**2**	3	-	-	-	3

(i) Restructuring costs relate to planned cost reduction programmes.

(ii) 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.

(iii) 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.

5. Payroll costs and employees

a) Payroll costs

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Wages and salaries	**25**	**5**	**-**	**5**	**35**	36	5	-	1	42
Social security costs	**4**	**-**	**-**	**-**	**4**	3	1	-	-	4
Pension costs	**6**	**1**	**-**	**1**	**8**	9	1	-	-	10
Share-based payments	**1**	**-**	**-**	**-**	**1**	-	-	-	-	-
Severance costs	**-**	**-**	**-**	**-**	**-**	2	-	-	-	2
	36	**6**	**-**	**6**	**48**	50	7	-	1	58
Less:		**-**								
Amounts capitalised	**(4)**	**-**	**-**	**-**	**(4)**	(6)	-	-	-	(6)
	32	**6**	**-**	**6**	**44**	44	7	-	1	52

b) Average number of employees

	NTS 2006	LNG storage 2006	De-minimis activities 2006	Other activities 2006	Total 2006	NTS 2005 unaudited	LNG storage 2005 unaudited	De-minimis activities 2005 unaudited	Other activities 2005 unaudited	Total 2005 unaudited
United Kingdom	**793**	**143**	**-**	**163**	**1,099**	1,074	168	-	21	1,263

Information is not available on the actual number of employees by regulatory business, as many of National Grid Gas's activities are undertaken on a centralised or shared services basis. 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	1	1
Post-employment benefits	1	-
	2	1

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

6. 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 plc are provided in the Director's report on page 20.

7. 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 £m	2005 £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)

7. 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

7. 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.

8. Finance income and costs

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 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	**26**	**1**	**-**	**-**	**27**	3	-	-	-	3
Interest income and similar income	**26**	**1**	**-**	**-**	**27**	3	-	-	-	3
Interest expense on financial liabilities held at amortised cost	**(75)**	**(2)**	**-**	**-**	**(77)**	(58)	(1)	-	-	(59)
Other interest	**(4)**	**-**	**-**	**-**	**(4)**	(4)	-	-	-	(4)
Less: interest capitalised	**6**	**-**	**-**	**-**	**6**	9	-	-	-	9
Interest expense	**(73)**	**(2)**	**-**	**-**	**(75)**	(53)	(1)	-	-	(54)
Net (losses)/gains on derivative financial instruments:										
On derivatives designated as fair value hedges	**(4)**	**-**	**-**	**-**	**(4)**	-	-	-	-	-
On derivatives designated as cash flow hedges	**1**	**-**	**-**	**-**	**1**	-	-	-	-	-
On derivatives not designated as hedges or ineligible for hedge accounting	**(1)**	**-**	**-**	**-**	**(1)**	-	-	-	-	-
Net losses on derivative financial instruments	**(4)**	**-**	**-**	**-**	**(4)**	-	-	-	-	-
Interest expense and other finance costs	**(77)**	**(2)**	**-**	**-**	**(79)**	(53)	(1)	-	-	(54)
Net finance costs	**(51)**	**(1)**	**-**	**-**	**(52)**	(50)	(1)	-	-	(51)
Comprising:										
Interest income and similar income	**26**	**1**	**-**	**-**	**27**	3	-	-	-	3
Interest expense and other finance costs:										
Before exceptional items and remeasurements	**(73)**	**(2)**	**-**	**-**	**(75)**	(53)	(1)	-	-	(54)
Exceptional items and remeasurements	**(4)**	**-**	**-**	**-**	**(4)**	-	-	-	-	-
	(51)	**(1)**	**-**	**-**	**(52)**	(50)	(1)	-	-	(51)

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 £5m (2005: £3m) and interest on other borrowings £70m (2005: £56m).

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 £4m from derivatives designated as fair value hedges.

Net gains on derivatives designated as cash flow hedges includes net gains of £1m transferred from equity.

9. Taxation

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

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
United Kingdom										
Corporation tax at 30%	**61**	**10**	**-**	**-**	**71**	61	2	-	-	63
Adjustment in respect of prior years (i)	**(9)**	**-**	**-**	**-**	**(9)**	(9)	-	-	-	(9)
Deferred tax	**(4)**	**(2)**			**(6)**	4	-	-	-	4
Taxation	**48**	**8**	**-**	**-**	**56**	56	2	-	-	58
Comprising:										
Taxation – excluding exceptional items and remeasurements	**50**	**8**	**-**	**-**	**58**	56	2	-	-	58
Taxation – exceptional items and remeasurements (note 4)	**(2)**	**-**	**-**	**-**	**(2)**	-	-	-	-	-
	48	**8**	**-**	**-**	**56**	56	2	-	-	58

(i) The UK Corporation tax adjustment in respect of prior years includes a £nil (2005: £1m charge) that relates to exceptional items.

Taxation on items charged to equity

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Deferred tax credit on share options	**1**	**-**	**-**	**-**	**1**	-	-	-	-	-

9. Taxation (continued)

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

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 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	**198**	**34**	**-**	**-**	**232**	207	5	-	-	212
Multiplied by UK corporation tax rate of 30% (2005: 30%)	**60**	**10**	**-**	**-**	**70**	62	2	-	-	64
Effects of:										
Adjustments in respect of current income tax of previous years	**(9)**	**-**	**-**	**-**	**(9)**	(9)	-	-	-	(9)
Expenses not deductible for tax purposes	**2**	**-**	**-**	**-**	**2**	-	-	-	-	-
Non-taxable income	**(4)**	**-**	**-**	**-**	**(4)**	-	-	-	-	-
Impact of employee share options	**(1)**	**-**	**-**	**-**	**(1)**					
Other	**2**	**(2)**	**-**	**-**	**-**	3	-	-	-	3
Total taxation before exceptional items and remeasurements	**50**	**8**	**-**	**-**	**58**	56	2	-	-	58
Effective income tax rate before exceptional items and remeasurements	25.3%	23.5%	-	-	25.0%	27.0%	37.2%	-	-	27.4%
Profit before taxation	**194**	**34**	**-**	**-**	**228**	205	5	-	-	210
Multiplied by UK corporation tax rate of 30% (2005: 30%)	**58**	**10**	**-**	**-**	**68**	61	2	-	-	63
Effects of:										
Adjustments in respect of current income tax of previous years	**(9)**	**-**	**-**	**-**	**(9)**	(9)	-	-	-	(9)
Expenses not deductible for tax purposes	**2**	**-**	**-**	**-**	**2**	1	-	-	-	1
Non-taxable income	**(4)**	**-**	**-**	**-**	**(4)**	-	-	-	-	-
Impact of employee share options	**(1)**	**-**	**-**	**-**	**(1)**					
Other	**2**	**(2)**	**-**	**-**	**-**	3	-	-	-	3
Total taxation	**48**	**8**	**-**	**-**	**56**	56	2	-	-	58
Effective income tax rate	24.7%	23.5%	-	-	24.6%	27.4%	37.2%	-	-	27.6%

Factors that may affect future tax charge

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

10. Dividends

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Ordinary dividends										
Interim dividend for 2006	**85**	**15**	**-**	**-**	**100**	-	-	-	-	-
Interim dividend for 2005	**-**	**-**	**-**	**-**	**-**	213	10	-	-	223

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.

11. Intangible assets

	NTS Software £m	NTS Emissions £m	NTS Total £m
Cost at 1 April 2004	17	-	17
Additions	20	-	20
Cost at 31 March 2005	37	-	37
Additions	8	41	49
Cost at 31 March 2006	45	41	86
Amortisation at 1 April 2004	(4)	-	(4)
Amortisation charge for the year	(6)	-	(6)
Amortisation at 31 March 2005	(10)	-	(10)
Amortisation charge for the year	(8)	-	(8)
Amortisation at 31 March 2006	(18)	-	(18)
Net book value at 31 March 2006	**27**	**41**	**68**
Net book value at 31 March 2005	27	-	27
At 31 March 2006			
Current	**-**	**41**	**41**
Non-current	**27**	**-**	**27**
	27	**41**	**68**
At 31 March 2005			
Non-current	27	-	27

Software comprises internally developed assets and related licences.

Emissions consists of emissions trading credits.

12. Property, plant and equipment

Land and buildings

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Cost at 1 April	27	1	-	-	28	25	1	-	-	26
Additions	4	-	-	-	4	2	-	-	-	2
Reclassifications and transfers	(1)	-	-	-	(1)	-	-	-	-	-
Cost at 31 March	30	1	-	-	31	27	1	-	-	28
Depreciation at 1 April 2005	(7)	-	-	-	(7)	(6)	-	-	-	(6)
Charge for the year	(1)	-	-	-	(1)	(1)	-	-	-	(1)
Depreciation at 31 March	(8)	-	-	-	(8)	(7)	-	-	-	(7)
Net book value at 31 March	**22**	**1**	**-**	**-**	**23**	20	1	-	-	21
Which comprises:								-	-	
Freehold	**21**	**1**	**-**	**-**	**22**	19	1	-	-	20
Short leasehold	**1**	**-**	**-**	**-**	**1**	1	-	-	-	1
	22	**1**	**-**	**-**	**23**	20	1	-	-	21

Plant and machinery

	NTS **2006** **£m**	LNG storage **2006** **£m**	De-minimis activities **2006** **£m**	Other activities **2006** **£m**	Total **2006** **£m**	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Cost at 1 April	2,809	150	-	-	2,959	2,664	158	-	-	2,822
Additions	59	7	-	-	66	34	3	-	-	37
Disposals	(4)	(5)	-	-	(9)	-	(11)	-	-	(11)
Reclassifications and transfers	66	-	-	-	66	111	-	-	-	111
Cost at 31 March	2,930	152	-	-	3,082	2,809	150	-	-	2,959
Depreciation at 1 April 2005	(960)	(105)	-	-	(1,065)	(894)	(109)	-	-	(1,003)
Charge for the year	(80)	(9)	-	-	(89)	(65)	(7)	-	-	(72)
Disposals	4	5	-	-	9	-	11	-	-	11
Reclassifications and transfers	-	-	-	-	-	(1)	-	-	-	(1)
Depreciation at 31 March	(1,036)	(109)	-	-	(1,145)	(960)	(105)	-	-	(1,065)
Net book value at 31 March	**1,894**	**43**	**-**	**-**	**(1,937)**	1,849	45	-	-	1,894

12. Property, plant and equipment (continued)

Assets in the course of construction

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Cost at 1 April	113	4	-	-	117	89	-	-	-	89
Additions	230	10	-	-	240	49	4	-	-	53
Reclassifications and transfers	(76)	-	-	-	(76)	(25)	-	-	-	(25)
Cost at 31 March	267	14	-	-	281	113	4	-	-	117
Net book value at 31 March	**267**	**14**	**-**	**-**	**281**	113	4	-	-	117

Motor vehicles and office equipment

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Cost at 1 April	165	2	-	-	167	235	2	-	-	237
Additions	-	-	-	-	-	19	-	-	-	19
Disposals	-	-	-	-	-	(1)	-	-	-	(1)
Reclassifications and transfers	6	-	-	-	6	(88)	-	-	-	(88)
Cost at 31 March	171	2	-	-	173	165	2	-	-	167
Depreciation at 1 April 2005	(125)	(2)	-	-	(127)	(106)	(2)	-	-	(108)
Charge for the year	(19)	-	-	-	(19)	(20)	-	-	-	(20)
Disposals	-	-	-	-	-	1	-	-	-	1
Reclassifications and transfers	12	-	-	-	12	-	-	-	-	-
Depreciation at 31 March	(132)	(2)	-	-	(134)	(125)	(2)	-	-	(127)
Net book value at 31 March	**39**	**-**	**-**	**-**	**39**	40	-	-	-	40

12. Property, plant and equipment (continued)

Total property, plant and equipment

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Cost at 1 April	3,114	157	-	-	3,271	3,013	161	-	-	3,174
Additions	293	17	-	-	310	104	7	-	-	111
Disposals	(4)	(5)	-	-	(9)	(1)	(11)	-	-	(12)
Transfers	(5)	-	-	-	(5)	(2)	-	-	-	(2)
Cost at 31 March	3,398	169	-	-	3,567	3,114	157	-	-	3,271
Depreciation at 1 April 2005	(1,092)	(107)	-	-	(1,199)	(1,006)	(111)	-	-	(1,117)
Charge for the year	(100)	(9)	-	-	(109)	(86)	(7)	-	-	(93)
Disposals	4	5	-	-	9	1	11	-	-	12
Transfers	12	-	-	-	12	(1)	-	-	-	(1)
Depreciation at 31 March	(1,176)	(111)	-	-	(1,287)	(1,092)	(107)	-	-	(1,199)
Net book value at 31 March	**2,222**	**58**	**-**	**-**	**2,280**	2,022	50	-	-	2,072

The cost of property, plant and equipment at 31 March 2006 included £25m (2005: £19m) 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 £nil at 31 March 2006 (2005: £1m).

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 £4m (2005: £4m) and £137m (2005: £135m) respectively.

During the course of the year, the useful lives of some assets have been reviewed. These changes have resulted in a net increase in the depreciation charge of £7m.

13. 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	-	1	-	12	13
Deferred tax liabilities at 1 April 2004	(427)	-	-	(20)	(447)
At 1 April 2004	(427)	1	-	(8)	(434)
Charged/(credited) to income statement	8	1	-	(13)	(4)
At 31 March 2005	(419)	2	-	(21)	(438)
Deferred tax assets at 31 March 2005	-	2	-	4	6
Deferred tax liabilities at 31 March 2005	(419)	-	-	(25)	(444)
At 31 March 2005	(419)	2	-	(21)	(438)
First time adoption of IAS 39	-	-	(5)	13	8
At 1 April 2005	(419)	2	(5)	(8)	(430)
Charged/(credited) to income statement	2	-	2	2	6
Credited to equity	-	1	-	-	1
Transfers	9	1	-	(8)	2
At 31 March 2006	**(408)**	**4**	**(3)**	**(14)**	**(421)**
Deferred tax assets at 31 March 2006	-	4	-	10	14
Deferred tax liabilities at 31 March 2007	(408)	-	(3)	(24)	(435)
	(408)	4	(3)	(14)	(421)

Deferred tax assets/(liabilities) by business

	NTS £m	LNG storage £m	De-minimis activities £m	Other activities £m	Total £m
Deferred tax assets at 1 April 2004	13	-	-	-	13
Deferred tax liabilities at 1 April 2004	(435)	(12)	-	-	(447)
At 1 April 2004	(422)	(12)	-	-	(434)
Charged/(credited) to income statement	(4)	-	-	-	(4)
At 31 March 2005	(426)	(12)	-	-	(438)
Deferred tax assets at 31 March 2005	6	-	-	-	6
Deferred tax liabilities at 31 March 2005	(432)	(12)	-	-	(444)
At 31 March 2005	(426)	(12)	-	-	(438)
First time adoption of IAS 39	8	-	-	-	8
At 1 April 2005	(418)	(12)	-	-	(430)
Charged/(credited) to income statement	3	3	-	-	6
Credited to equity	1	-	-	-	1
Transfers	2	-	-	-	2
At 31 March 2006	**(412)**	**(9)**	**-**	**-**	**(421)**
Deferred tax assets at 31 March 2006	14	-	-	-	14
Deferred tax liabilities at 31 March 2007	(426)	(9)	-	-	(435)
	(412)	(9)	-	-	(421)

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

14. Non-current other receivables

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Other debtors	**1**	**-**	**-**	**-**	**1**	1	-	-	-	1
Amounts owed by parent undertaking	**1,554**	**34**	**-**	**-**	**1,588**	444	21	-	-	465
	1,555	**34**	**-**	**-**	**1,589**	445	21	-	-	466

15. Financial investments

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Current										
Loans and receivables	**13**	**-**	**-**	**-**	**13**	1	-	-	-	1

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

16. 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 National Grid Gas 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 £43m (2005: £25m).

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

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Book values										
Borrowings	**(1,098)**	**(8)**	**-**	**(1)**	**(1,107)**	(1,069)	(29)	-	-	(1,098)
Cash and cash equivalents	**66**	**1**	**-**	**-**	**67**	2	-	-	-	2
Financial investments										
Loans and receivables	**13**	**-**	**-**	**-**	**13**	1	-	-	-	1
Trade and other receivables										
Loans and receivables	**1,705**	**46**	**-**	**2**	**1,753**	462	24	-	-	486
Trade and other payables	**(462)**	**(24)**	**-**	**-**	**(486)**	(236)	(11)	-	-	(247)
Derivative financial assets	**63**	**-**	**-**	**-**	**63**	-	-	-	-	-
Derivative financial liabilities	**(31)**	**-**	**-**	**-**	**(31)**	-	-	-	-	-
Fair values										
Borrowings	**(1,098)**	**(8)**	**-**	**(1)**	**(1,107)**	(1,156)	(31)	-	-	(1,187)
Cash and cash equivalents	**66**	**1**	**-**	**-**	**67**	2	-	-	-	2
Financial investments										
Loans and receivables	**13**	**-**	**-**	**-**	**13**	1	-	-	-	1
Trade and other receivables										
Loans and receivables	**1,705**	**46**	**-**	**2**	**1,753**	462	24	-	-	486
Trade and other payables	**(462)**	**(24)**	**-**	**-**	**(486)**	(236)	(11)	-	-	(247)
Derivative financial assets	**63**	**-**	**-**	**-**	**63**	29	-	-	-	29
Derivative financial liabilities	**(31)**	**-**	**-**	**-**	**(31)**	(15)	-	-	-	(15)

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.

16. 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	(76)	(69)	(63)	(89)	-	(189)	(486)
Euro	(118)	(4)	(2)	(61)	-	-	(185)
US dollar	(61)	-	-	-	-	(145)	(206)
Other	(15)	-	(62)	(2)	-	(38)	(117)
Bank					-		
Sterling	(5)	-	-	-	-	-	(5)
	(275)	(73)	(127)	(152)	-	(372)	(999)

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	-	-	(12)	-	-	-	(12)
Euro	-	(8)	-	-	-	-	(8)
US dollar	-	(2)	-	-	-	-	(2)
Other	(3)	-	-	-	-	-	(3)
Bank					-		
Sterling	(19)	-	-	-	-	(60)	(79)
Borrowings from fellow subsidiary undertakings					-		
Sterling	(4)	-	-	-	-	-	(4)
	(26)	(10)	(12)	-	-	(60)	(108)

16. 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	(45)	(1)	(250)	(38)	(1)	(85)
Bank loans	-	(3)	(19)	-	(3)	-
Other non-interest bearing liabilities	-	-	(179)	-	-	(15)
	(45)	(4)	(448)	(38)	(4)	(100)
Derivative liabilities (net)						
Cross-currency interest rate swaps	(1)	-	(6)	(1)	-	-
Foreign exchange forward contracts	-	-	(1)	-	-	-
Interest rate swaps	(2)	(1)	-	(1)	(1)	-
	(3)	(1)	(7)	(2)	(1)	-
Derivative assets (net)						
Cross-currency interest rate swaps	4	-	15	4	-	(1)
Foreign exchange forward contracts	-	-	-	-	-	-
Interest rate swaps	-	-	-	-	-	-
	4	-	15	4	-	(1)
Total at 31 March 2006	**(44)**	**(5)**	**(440)**	**(36)**	**(5)**	**(101)**

	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	(30)	-	(145)	(259)	-	(676)
Bank loans	-	(3)	-	-	(9)	(60)
Other non-interest bearing liabilities	-	-	-	-	-	-
	(30)	(3)	(145)	(259)	(9)	(736)
Derivative liabilities (net)						
Cross-currency interest rate swaps	(1)	-	(1)	(3)	-	(6)
Foreign exchange forward contracts	-	-	-	-	-	-
Interest rate swaps	2	(1)	-	2	(7)	-
	1	(1)	(1)	(1)	(7)	(6)
Derivative assets (net)						
Cross-currency interest rate swaps	4	-	4	13	-	48
Foreign exchange forward contracts	-	-	-	-	-	-
Interest rate swaps	-	-	-	13	-	-
	4	-	4	26	-	48
Total at 31 March 2006	**(25)**	**(4)**	**(142)**	**(234)**	**(16)**	**(694)**

16. 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 £2m, but would have no impact on equity.

Derivative financial instruments

National Grid Gas's hedging policies are set out on page 12. 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.

16. 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	8	-	-	-	-	13	21
Cross-currency interest rate swaps	20	1	8	5	-	8	42
Foreign exchange forward contracts	-	-	-	-	-	-	-
Total at 31 March 2006	**28**	**1**	**8**	**5**	**-**	**21**	**63**
Derivative financial liabilities							
Interest rate swaps	(5)	-	(1)	(1)	-	(4)	(11)
Cross-currency interest rate swaps	(8)	-	-	-	-	(11)	(19)
Foreign exchange forward contracts	(1)	-	-	-	-	-	(1)
Total at 31 March 2006	**(14)**	**-**	**(1)**	**(1)**	**-**	**(15)**	**(31)**

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	44	19	-	16	-	90	169
Cross-currency interest rate swaps	102	10	49	56	-	135	352
Foreign exchange forward contracts	11	-	-	-	-	-	11
Total at 31 March 2006	**157**	**29**	**49**	**72**	**-**	**225**	**532**
Derivative financial liabilities							
Interest rate swaps	128	15	87	97	-	128	455
Cross-currency interest rate swaps	80	2	6	2	-	51	141
Foreign exchange forward contracts	4	-	-	-	-	-	4
Total at 31 March 2006	**212**	**17**	**93**	**99**	**-**	**179**	**600**

16. 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	7	(71)	(2)	(244)
Cross-currency interest rate swaps	25	(228)	(17)	(133)
	32	(299)	(19)	(377)
Cash flow hedge derivative instruments				
Interest rate swaps	12	(46)	(4)	(103)
Cross-currency interest rate swaps	16	(123)	(1)	(7)
Foreign exchange forward contracts	-	(11)	(1)	(12)
	28	(180)	(6)	(122)
Other derivative instruments				
Interest rate swaps	3	(52)	(5)	(107)
Cross-currency interest rate swaps	-	(1)	(1)	(2)
Foreign exchange forward contracts	-	-	-	8
	3	(53)	(6)	(101)
Total	63	(532)	(31)	(600)
Analysed as follows:				
Current	35	(157)	(14)	(212)
Non-current	28	(375)	(17)	(388)
	63	**(532)**	**(31)**	**(600)**

Gains and losses recognised in equity (note 24) 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 20).

The amount of cash flow hedge reserve due to be released from reserves to the income statement within the next year is £6m, with the remaining amount due to be released with the same maturity profile as borrowings in note 20.

16. 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	53	(19)	34	18	(16)	2
(Gains)/losses arising in previous years recognised in the year	(4)	2	(2)	(2)	2	-
Gains /(losses) arising in previous years not recognised in the year	49	(17)	32	16	(14)	2
Gains/(losses) arising in the year	(29)	2	(27)	4	(1)	3
Gains and (losses) on hedges at 31 March 2005	20	(15)	5	20	(15)	5
Of which:						
Gains and (losses) expected to be recognised within one year	-	-	-	2	(2)	-
Gains and (losses) expected to be recognised after one year	20	(15)	5	18	(13)	5

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	2	2	-	-	-
US dollars	1	-	1	2.8	-
Cash and investments	3	2	1	-	-
Other financial assets (sterling)	465	465	-	-	-
	468	467	1	-	-

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	1,098	767	331	6.5	8
	1,098	767	331	6.5	8

16. 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	3	470
More than one year, but not more than two years	-	156
More than two years, but not more than three years	-	63
More than three years, but not more than four years	-	85
More than four years, but not more than five years	-	92
More than five years or no maturity date	465	232
	468	1,098

At 31 March 2005 the weighted average interest rate on short-term borrowings of £470m was 4.3%.

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.

17. Inventories

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Raw materials and consumables	**12**	**1**	**-**	**-**	**13**	11	3	-	-	14

18. Trade and other receivables

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Trade receivables	**17**	**7**	**-**	**1**	**25**	6	2	-	-	8
Amounts owed by fellow subsidiary undertakings	**126**	**5**	**-**	**1**	**132**	1	1	-	-	2
Other receivables	**7**	**-**	**-**	**-**	**7**	10	-	-	-	10
Prepayments and accrued income	**51**	**1**	**-**	**-**	**52**	44	1	-	-	45
	201	**13**	**-**	**2**	**216**	61	4	-	-	65

Amounts provided or written-off in respect of bad and doubtful debts attributable to the businesses included in these regulatory accounting statements were negligible.

19. Cash and cash equivalents

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Cash at bank and in-hand	**-**	**-**	**-**	**-**	**-**	2	-	-	-	2
Short-term deposits	**66**	**1**	**-**	**-**	**67**	-	-	-	-	-
Cash and cash equivalents	**66**	**1**	**-**	**-**	**67**	2	-	-	-	2

20. Borrowings

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

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Current										
Bank loans	**24**	**-**	**-**	**-**	**24**	28	1	-	-	29
Commercial paper	**-**	**-**	**-**	**-**	**-**	269	9	-	-	278
Other bonds	**271**	**2**	**-**	**-**	**273**	59	2	-	-	61
Borrowings from fellow subsidiary undertakings	**4**	**-**	**-**	**-**	**4**	98	4	-	-	102
	299	**2**	**-**	**-**	**301**	454	16	-	-	470
Non-current										
Bank loans	**59**	**1**	**-**	**-**	**60**	43	1	-	-	44
Other bonds	**740**	**5**	**-**	**1**	**746**	572	12	-	-	584
	799	**6**	**-**	**1**	**806**	615	13	-	-	628
Total borrowings	**1,098**	**8**	**-**	**1**	**1,107**	1,069	29	-	-	1,098
Repayable:										
In 1 year or less	**299**	**2**	**-**	**-**	**301**	454	16	-	-	470
Between 1 and 2 years	**82**	**1**	**-**	**-**	**83**	153	3	-	-	156
Between 2 and 3 years	**138**	**1**	**-**	**-**	**139**	62	1	-	-	63
Between 3 and 4 years	**151**	**1**	**-**	**-**	**152**	83	2	-	-	85
Between 4 and 5 years	**-**	**-**	**-**	**-**	**-**	90	2	-	-	92
In more than 5 years other than by instalments	**428**	**3**	**-**	**1**	**432**	227	5	-	-	232
	1,098	**8**	**-**	**1**	**1,107**	1,069	29	-	-	1,098

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 £1,222m (2005: £1,097m).

20. 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.

21. Trade and other payables

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Trade payables	**169**	**8**	**-**	**1**	**178**	57	7	-	-	64
Amounts owed to fellow subsidiary undertakings	**85**	**4**	**-**	**-**	**89**	152	4	-	-	156
Social security and other taxes	**21**	**2**	**-**	**-**	**23**	30	-	-	-	30
Other payables	**2**	**-**	**-**	**-**	**2**	27	-	-	-	27
Deferred income	**33**	**-**	**-**	**2**	**35**	25	-	-	-	25
	310	**14**	**-**	**3**	**327**	291	11	-	-	302

Other payables at 31 March 2005 include interest payable of £29m. In 2006, interest payable is included in borrowings in accordance with IAS 39.

22. Other non-current liabilities

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Other payables	**1**	**-**	**-**	**-**	**1**	-	-	-	-	-
Deferred income	**137**	**-**	**-**	**-**	**137**	135	-	-	-	135
	138	**-**	**-**	**-**	**138**	135	-	-	-	135

Deferred income mainly comprises contributions to capital projects.

23. Provisions

	NTS £m	LNG storage £m	De-minimis activities £m	Other activities £m	Total £m
Emissions					
At 1 April 2004	-	-	-	-	-
Additions	5	-	-	-	5
At 31 March 2005	5	-	-	-	5
Additions	18	-	-	-	18
At 31 March 2006	**23**	**-**	**-**	**-**	**23**
Restructuring					
At 1 April 2004	4	-	-	-	4
Additions	3	-	-	-	3
Utilised	(3)	-	-	-	(3)
At 31 March 2005	4	-	-	-	4
Additions	(3)	-	-	-	(3)
At 31 March 2006	**1**	**-**	**-**	**-**	**1**
Total					
At 1 April 2004	4	-	-	-	4
Additions	8	-	-	-	8
Utilised	(3)	-	-	-	(3)
At 31 March 2005	9	-	-	-	9
Additions	18	-	-	-	18
Utilised	(3)	-	-	-	(3)
At 31 March 2006	**24**	**-**	**-**	**-**	**24**

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

	NTS £m	LNG storage £m	De-minimis activities £m	Other activities £m	Total £m
At 31 March 2006					
Current	24	-	-	-	24
At 31 March 2005					
Current	8	-	-	-	8
Non-current	1	-	-	-	1
	9	-	-	-	9

Emissions provision
The provision for emission costs will be settled using emission allowances granted to National Grid Gas which are reported as an intangible asset.

Restructuring provision
The restructuring provision relates to business reorganisation costs, largely to be paid within the next financial year.

24. 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.

	NTS £m	LNG storage £m	De-minimis activities £m	Other activities £m	Total £m
At 1 April 2004	689	32	-	-	721
Profit for the year	149	3	-	-	152
Equity dividends	(213)	(10)	-	-	(223)
At 31 March 2005	625	25	-	-	650
First time adoption of IAS 39	(12)	-	-	-	(12)
At 1 April 2005	613	25	-	-	638
Net expense recognised directly in equity	(5)	-	-	-	(5)
Profit for the year	146	26	-	-	172
Equity dividends	(85)	(15)	-	-	(100)
Tax on employee share option scheme issues	1	-	-	-	1
Transfers (i)	1,478	37	-	(2)	1,513
At 31 March 2006	**2,148**	**73**	**-**	**(2)**	**2,219**

(i) Transfers relate to changes in allocation of assets and liabilities between the regulatory businesses at 31 March 2006 compared to 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.

25. Group cash flow statement

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

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Movement in cash and cash equivalents	64	1	-	-	65	2	-	-	-	2
Increase/(decrease) in financial investments	12	-	-	-	12	(11)	-	-	-	(11)
(Increase)/decrease in borrowings and derivatives	(1,349)	(17)	-	(1)	(1,367)	(172)	(10)	-	-	(182)
Net interest paid (i)	56	1	-	-	57	-	-	-	-	-
Change in net debt resulting from cash flows	(1,217)	(15)	-	(1)	(1,233)	(181)	(10)	-	-	(191)
Changes in fair value of financial assets and liabilities (i)	(9)	-	-	-	(9)	-	-	-	-	-
Net interest charge (i)	(49)	(1)	-	-	(50)	-	-	-	-	-
Reallocation of funding (ii)	1,410	38	-	-	1,448					
Other non-cash movements	-	-	-	-	-	(2)	-	-	-	(2)
Movement in net debt in the year	135	22	-	(1)	156	(183)	(10)	-	-	(193)
Net debt at the start of year	(1,066)	(29)	-	-	(1,095)	(883)	(19)	-	-	(902)
Impact of adoption of IAS 32 and IAS 39 (i)	(56)	-	-	-	(56)	-	-	-	-	-
Net debt at end of year (iii)	(987)	(7)	-	(1)	(995)	(1,066)	(29)	-	-	(1,095)
Comprising:										
Cash and cash equivalents	66	1	-	-	67	2	-	-	-	2
Financial investments (iii)	13	-	-	-	13	1	-	-	-	1
Borrowings (iii)	(1,098)	(8)	-	(1)	(1,107)	(1069)	(29)	-	-	(1,098)
Derivatives (iii)	32	-	-	-	32	-	-	-	-	-
	(987)	(7)	-	(1)	(995)	(1,066)	(29)	-	-	(1095)

(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.

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	-	2	-	2	-	65	-	-	-	**67**
Bank overdrafts	-	-	-	-	-	-	-	-	-	**-**
	-	2	-	2		65	-	-	-	**67**
Financial investments (ii)	12	(11)	-	1	-	(15)	-	27	-	**13**
Borrowings (ii)	(914)	(182)	(2)	(1,098)	(70)	(1,285)	(19)	(77)	1,442	**(1,107)**
Derivatives (ii)	-	-	-	-	14	2	10	-	6	**32**
Net debt at end of year	(902)	(191)	(2)	(1,095)	(56)	(1,233)	(9)	(50)	1,448	**(995)**

(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.

26. 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.

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Sales										
Goods and services supplied	**1**	**-**	**-**	**1**	**2**	1	-	-	2	3
Expenditure										
Services received/(recovered)	**27**	**(2)**	**-**	**-**	**25**	19	-	-	-	19
Corporate services received	**4**	**-**	**-**	**-**	**4**	5	-	-	-	5
Charges in respect of pension costs	**3**	**-**	**-**	**-**	**3**	2	1	-	-	3
Charges in respect of share based payments	**-**	**-**	**-**	**-**	**-**	1	-	-	-	1
Interest paid on borrowings from parent undertaking	**2**	**-**	**-**	**-**	**2**	5	-	-	-	5
Interest paid on borrowings from other group undertakings	**5**	**-**	**-**	**-**	**5**	-	-	-	-	-
	41	**(2)**	**-**	**-**	**39**	32	1	-	-	33
Outstanding balances at 31 March in respect of sales, expenditure and group tax relief										
Amounts receivable	**126**	**5**	**-**	**1**	**132**	1	1	-	-	2
Amounts payable	**85**	**4**	**-**	**-**	**89**	152	4	-	-	156
Amount payable by parent undertaking due after more than one year										
At 1 April	444	21	-	-	465	426	21	-	-	447
Advances	1,110	13	-	-	1,123	18	-	-	-	18
At 31 March	**1,554**	**34**	**-**	**-**	**1,588**	444	21	-	-	465
Borrowings from parent undertaking due within one year										
At 1 April	59	2	-	-	61	119	5	-	-	124
Transfers	29	1	-	-	30	-	-	-	-	-
Repayments	(87)	(3)	-	-	(90)	(60)	(3)	-	-	(63)
At 31 March	**1**	**-**	**-**	**-**	**1**	59	2	-	-	61
Borrowings from group undertakings due within one year										
At 1 April	39	2	-	-	41	-	-	-	-	-
Transfers	20	-	-	-	20	-	-	-	-	-
Advances	-	-	-	-	-	39	2	-	-	41
Repayments	(56)	(2)	-	-	(58)	-	-	-	-	-
At 31 March	**3**	**-**	**-**	**-**	**3**	39	2	-	-	41

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.

26. Related party transactions (continued)

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).

27. 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:

	NTS **2006** **£m**	LNG storage **2006** **£m**	De-minimis activities **2006** **£m**	Other activities **2006** **£m**	Total **2006** **£m**	NTS 2005 unaudited £m	LNG storage 2005 unaudited £m	De-minimis activities 2005 unaudited £m	Other activities 2005 unaudited £m	Total 2005 unaudited £m
Future capital expenditure contracted for	**546**	**7**	**-**	**-**	**553**	262	12	-	-	274

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:

	NTS **2006** **£m**	LNG storage **2006** **£m**	De-minimis activities **2006** **£m**	Other activities **2006** **£m**	Total **2006** **£m**	NTS 2005 unaudited £m	LNG storage 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	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
After five years	**1**	**-**	**-**	**-**	**1**	1	-	-	-	1
	1	**-**	**-**	**-**	**1**	1	-	-	-	1
Other										
Within one year	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Between two and five years	**1**	**-**	**-**	**-**	**1**	1	-	-	-	1
After five years	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
	1	**-**	**-**	**-**	**1**	1	-	-	-	1
Total										
Within one year	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Between two and five years	**1**	**-**	**-**	**-**	**1**	1	-	-	-	1
After five years	**1**	**-**	**-**	**-**	**1**	1	-	-	-	1
	2	**-**	**-**	**-**	**2**	2	-	-	-	2

27. 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:

	NTS 2006 £m	LNG storage 2006 £m	De-minimis activities 2006 £m	Other activities 2006 £m	Total 2006 £m	NTS 2005 unaudited £m	LNG storage 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	**2**	**-**	**-**	**-**	**2**	2	-	-	-	2
Between 1 and 2 years	**2**	**-**	**-**	**-**	**2**	1	-	-	-	1
Between 2 and 3 years	**2**	**-**	**-**	**-**	**2**	1	-	-	-	1
Between 3 and 4 years	**1**	**-**	**-**	**-**	**1**	1	-	-	-	1
Between 4 and 5 years	**1**	**-**	**-**	**-**	**1**	1	-	-	-	1
In more than 5 years	**7**	**-**	**-**	**-**	**7**	5	-	-	-	5
	15	**-**	**-**	**-**	**15**	11	-	-	-	11

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).

28. 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.

29. 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 30 and 31 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.

30. De-minimis business and other activities

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

31. Charges and apportionments

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

31. Charges and apportionments (continued)

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

31. Charges and apportionments (continued)

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

31. 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.
'mcm'	Million cubic metres.
'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

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Registered in England and Wales No. 2006000