Company Number 2366977

Annual Report and Accounts 2007/08
National Grid Electricity Transmission plc

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Operating and Financial Review

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This Operating and Financial Review describes the main trends and factors underlying our development, performance and position during the year ended 31 March 2008 as well as those likely to affect our 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.

Principal operations

We are part of the National Grid group of businesses. Our principal operations are the ownership and operation of regulated electricity transmission networks in Great Britain.

The performances of our principal businesses are reported by segment, reflecting the management responsibilities and economic characteristics of each activity. Our principal businesses and segments, together with other activities and discontinued operations, are as follows:

Businesses and segments	Description of principal activities
Electricity Transmission	The transmission of electricity in the UK as owner and operator of the high-voltage electricity transmission network in England and Wales and operator of the electricity transmission networks in Scotland.
Other activities	Other activities do not constitute a segment in their own right, but comprise non-regulated activities and corporate activities.
Discontinued operations	Businesses that we have exited and comprising the interconnector business we transferred to a fellow subsidiary of National Grid on 14 August 2006.

Electricity Transmission
Our Electricity Transmission business comprises the following principal activities:

Electricity transmission owner	We own the electricity transmission system in England and Wales. Our electricity assets comprise approximately 7,200 kilometres of overhead line, about 675 kilometres of underground cable and 337 substations at 244 sites.
Electricity system operator	We are the Great Britain System Operator, responsible for managing the operations of both the England and Wales transmission system that we own and also the two high-voltage electricity transmission networks in Scotland. Day-to-day operation of the Great Britain electricity transmission system involves the continuous real-time matching of demand and generation output, ensuring the stability and security of the power system and the maintenance of satisfactory voltage and frequency.

As electricity transmission owner, we own and maintain the physical assets, develop the network to accommodate new connections and disconnections, and manage a programme of asset replacement and investment to ensure the long-term reliability of the network.

As electricity system operator, we undertake a range of activities necessary for the successful, efficient delivery, in real-time, of secure and reliable energy. This involves the continuous real-time balancing of supply and demand, and balancing services that include commercial arrangements with market participants that enable electricity demand or generation output to be varied.

History

National Grid Electricity Transmission originated from the restructuring of the electricity industry in 1990.

Key milestones	
1990	Electricity transmission network in England and Wales transferred to National Grid Company on electricity privatisation
1995	National Grid listed on the London Stock Exchange
2002	Merger of National Grid Group and Lattice Group to form National Grid Transco
2005	National Grid adopted as our brand name, with National Grid Company renamed National Grid Electricity Transmission
2006	Disposal of interconnector business

Vision, strategy and objectives

Vision

We are part of National Grid's vision to be the foremost international electricity and gas company, delivering unparalleled safety, efficiency and reliability, vital to the well-being of customers and communities. We are committed to being an innovative leader in energy management and to safeguarding our global environment for future generations.

Strategy

National Grid's strategy is based on focus, integration and discipline as follows:

Focus	We are focused on a clear business model based on the ownership and operation of large scale asset intensive businesses within our principal growth market of electricity transmission infrastructure in the UK.
Integration	We aim to run our businesses in an integrated way – organising our activities along lines of business, supported by effective and efficient shared services and information systems. This involves deploying proven processes, common systems and best practices within each business, supported by common operating principles, and safety and environmental standards, seeking to maximise the competitive advantages that come from being part of an international organisation, balanced with the need to provide excellent service to customers and to maintain and build local relationships with other key stakeholders.
Discipline	We aim to be disciplined in the application of best practice, increasingly standardising our approach in the way we operate and finance our activities. Our aim is for rigorous financial discipline, ensuring that we have the capital we need to grow, while maintaining the investor confidence that comes from a disciplined approach to our balance sheet.

Objectives

Building on National Grid's strategy, we have set ourselves objectives to deliver National Grid's vision of becoming the foremost international electricity and gas company. By achieving our objectives we aim to deliver sustainable growth and so create value for National Grid's shareholders.

Delivering National Grid's strategy	– Create lines of business – Build operating model – common systems and processes, sharing best practice
Operating performance	– Improve safety – Improve efficiency – Improve reliability – Improve customer service – Deliver our capital investment plans
Talent	– Identify and develop talent and skills – Improve engagement and performance – Enhance inclusion and diversity
Relationships	– Help investors understand our value – Improve relationships with customers, regulators and governments – Work effectively with suppliers – Deepen our involvement with communities
Environment	– Lead on climate change – Protect the environment – Be efficient in our use of natural resources
Financial performance	– Increase profits – Obtain appropriate returns on our investments – Maintain financial discipline

This strategy is underpinned by our commitment to corporate responsibility, including the core values that we expect our management and employees to operate by.

Responsibility	– Operate to the highest standards of corporate governance – Conduct our business in a lawful and ethical manner – Live our core values of: ● Respect others and value diversity ● Take ownership for driving performance ● Demonstrate integrity and openness in all relationships ● Work together as one team

We describe what these objectives mean, how we plan to achieve them and the progress we have made this year, in the performance summary and performance against our objectives sections of this Operating and Financial Review on pages 9 to 18.

Business drivers, risks and opportunities

Business drivers

Our principal activities include the operation of highly complex electricity transmission networks. As a consequence, there are many factors that influence the financial returns we obtain.

We consider the following to be our principal business drivers:

Price controls	The prices we charge for use of our electricity transmission networks are determined in accordance with regulator approved price controls. The negotiation of these arrangements has a significant impact on our revenues. Their duration is significant in providing stability to our operations, allowing us to plan ahead and invest in the confidence that we will obtain financial returns. Our price controls contain incentive and/or penalty arrangements that can affect us financially based on agreed performance targets.
Safety, efficiency and reliability	Our ability to operate safely and reliably is of paramount importance to us, our employees, our contractors, our customers, our regulators and the communities we serve. Our financial performance is affected by our performance in these areas. Our objective is to deliver services as efficiently as possible. This allows us to limit price increases or to reduce prices to our customers and improve our own financial performance to the benefit of National Grid's shareholders.
Customer service	The quality of the service we deliver to customers, and the experiences that they have in dealing with us, whether through routine interactions or when problems arise, is important as it feeds through to the attitudes of regulators and is also linked to our financial performance.
Capital investment	Capital investment is a significant driver for organic growth. In our regulated electricity transmission networks, the prices we charge include an allowed return for capital investment determined in accordance with our price controls. These provide incentives for us to enhance the quality and reach of our networks through capital improvements.
Relationships and responsibility	Our reputation is vitally important to us. Delivering sustainable value depends on the trust and confidence of our stakeholders and this can only be earned by conducting our business in a responsible manner.

A number of other factors also affect our financial performance, but are either less significant than our principal business drivers, or are mitigated by the way our operations are structured:

Weather and volumes	Changes in the quantities of electricity delivered through our transmission networks may result in an increase or decrease in our 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 our allowable revenues, with a corresponding increase or decrease in revenue in future periods.
Seasonality	Seasonality does not have a significant impact on our revenues. With the exception of volume related costs passed through to our customers, operating costs are generally not seasonal.
Pass-through costs	We are 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, our operating costs increase each year as a result of wage increases and inflation in external costs. In general, our revenues also increase each year, although not necessarily at the same rate, depending on our regulatory or contractual arrangements. As a consequence, our ability to control costs and improve efficiency is important to our ability to increase operating profits. Our price controls are linked to retail price inflation, as is a proportion of our borrowings.
Interest rates	The costs of financing our operations are affected by changes in prevailing interest rates, as some of our debt is at floating rates. We hedge some of our exposure to interest rates with fixed-rate debt and derivative financial instruments to maintain a proportion of our debt at fixed interest rates.

Risks and opportunities

Risks and opportunities

We believe that the principal opportunities we have to contribute to the achievement of National Grid's vision and to the delivery of growth in value for its shareholders have been identified in National Grid's strategy and our objectives.

Conversely, we risk a shortfall in this contribution if we do not fulfil National Grid's strategy or if we fail to achieve our objectives.

Delivering National Grid's strategy	We believe that by implementing National Grid's strategy and transforming our business, we will be able to deliver increased value for National Grid's shareholders. Conversely, if we do not achieve this transformation, or the benefits in efficiency and effectiveness are not achieved, then our contribution to shareholder value will not grow as we hope or will diminish.
Operating performance	The operating profits and cash flows we generate are dependent on our operating performance – operating safely, efficiently and reliably and providing a quality service to customers. Our future growth is dependent on the delivery of our capital investment plans.
Talent	The skills and talents of our employees, and their motivation and dedication, are critical to the achievement of our objectives. Failure to develop our existing employees or to attract and recruit talented new employees could hamper our ability to deliver in the future.
Relationships	Our relationships with our stakeholders are critical to our future success. Maintaining these good relationships is dependent on our focusing on the areas that are important to them, such as the quality of service we provide to customers, the quality of information we provide to regulators and the way we address the concerns of, and interact with, all our stakeholders.
Environment	Safeguarding our global environment for future generations is dependent on integrating sustainability and climate change considerations into our business decisions, influencing legislators and regulators to reshape energy markets to meet the climate change challenge and helping and supporting our employees, customer and suppliers in changing their behaviour to be more considerate of the environment.
Financial performance	Strong financial performance and operating cash flows are the basis for funding our future capital investment programmes, for servicing our borrowings and paying dividends, as well as in increasing our value to National Grid's shareholders.
Responsibility	Strong corporate governance is essential to operating responsibly and the achievement of all our objectives. Our reputation as a responsible business is dependent on our ensuring all our behaviours are lawful and ethical, on complying with our policies and licences and on living up to our core values. If we do not live up to these high standards we could be exposed to adverse financial or other consequences.

We set out how we intend to achieve our objectives and the progress we have made during the year against our objectives on pages 10 to 18.

Risk management

Our approach to risk management is described in the principal risks and uncertainties section of this Operating and Financial Review on page 7. In addition, information on how we have addressed certain of our financial risks is included in the financial position and financial management section of this Operating and Financial Review on pages 19 to 21.

Risk factors

Through our risk management process, we have identified a number of significant risks and uncertainties in achieving our objectives as follows:

- changes in law or regulation;
- breaches of environmental or health and safety law or regulations;
- network failure or inability to carry out critical non-network operations;
- achievement of business performance objectives, including regulatory targets and delivering anticipated cost and efficiency savings;
- reputation damage from disruptions to supply, even if outside our control;
- fluctuations in interest rates and their impact on borrowings and derivatives;
- restrictions in borrowings, adverse changes in the global credit markets and changes in credit ratings or in tax rates;
- future funding requirements of our pension schemes; and
- changes in accounting standards.

Not all of these factors are within our control and, in addition, there may be other factors besides those listed that may have an adverse effect on National Grid Electricity Transmission.

These risk factors are described in more detail in the principal risks and uncertainties section of this Operating and Financial Review on pages 7 and 8.

External market and regulatory environment

Markets in which we operate

The principal market in which we operate is the electricity market in the UK.

The supply of electricity in the UK is competitive in that consumers can contract with different suppliers to obtain the electricity they need. Those suppliers are then responsible for sourcing that electricity from generators or importers as appropriate, as well as arranging for that electricity to be delivered through physical delivery networks. These networks, including the ones we operate, are monopolies in their local areas as, for the majority of consumers, there are no alternative methods of receiving electricity.

Electricity delivery in the UK

Electricity is transported through electricity transmission networks to regional electricity distribution networks that then deliver electricity to consumers on behalf of suppliers. Certain end customers, primarily large industrial users, receive electricity direct from the transmission network.

We are the owner and operator of the high-voltage electricity transmission network in England and Wales and operator of the two electricity transmission networks in Scotland. We charge energy suppliers and electricity generators for our services, which they then incorporate into the prices charged to end consumers.

The other principal electricity infrastructure owners and operators in the UK are Scottish & Southern, Iberdrola, E.on, EDF, and MidAmerican Energy, each of which own two electricity distribution networks, and North West Electricity Networks and Western Power Distribution, both of which own one electricity distribution network. Scottish & Southern and Iberdrola also each own an electricity transmission network in Scotland, which we operate in both cases.

Regulation

As a result of our position in, and importance to, the UK economy, our electricity transmission business is subject to UK and European Union laws and regulations.

Our businesses are also subject to safety legislation which is enforced by the Health and Safety Executive (HSE).

Economic regulation of our businesses is undertaken 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.

The Company is the sole holder of an electricity transmission licence for England and Wales. This licence also covers our role as system operator for the transmission networks in Great Britain. Under the Electricity Act 1989 we have a duty to develop and maintain an efficient, coordinated and economical system of electricity transmission and to facilitate competition in the supply and generation of electricity. Under the Energy Act 2004, the holder of a transmission licence is prohibited from operating an interconnector and so the elements of the interconnector assets that we operate were transferred to a new subsidiary of National Grid on 14 August 2006, the date at which the relevant part of the legislation came into force.

In addition, as a public company with securities listed on the London Stock Exchange, we are subject to regulation by the UK Financial Services Authority.

Price controls

Ofgem has set two price controls for our electricity transmission business. These price controls provide a financial incentive to invest, as we receive a return on efficiently incurred capital expenditure increasing our regulatory asset base, and also provide incentives by which we can gain or lose for our performance in managing system operation, and controlling internal costs, pass-through costs and service quality.

These controls are reviewed every five years and the current price control covers the period 1 April 2007 to 31 March 2012.

The key elements of the current price control are that we earn a 4.4% post-tax real rate of return on our regulatory asset value, a £3.5 billion baseline five year capital expenditure allowance and a £0.9 billion five year operating expenditure allowance.

The charges that we can make for access to our electricity transmission system are determined by a formula linked to the UK Retail Prices Index (RPI). This formula is based upon Ofgem's estimates of our operating expenditure and capital expenditure, together with an allowed rate of return. In addition we are subject to a number of incentives that can adjust our transmission network revenue.

The transmission network reliability incentive scheme is based on the reliability of the electricity transmission network in England and Wales. For 2007/08, there was the potential to earn additional revenue up to 1% if loss of supply was less than 237 MWh. For loss of supply in excess of 263 MWh, up to a collar of 619 MWh, we could potentially lose up to 1.5% of revenue. For 2008/09 an identical incentive scheme is in place.

The SF_6 incentive, a reward-only scheme, is based on reducing SF_6 gas emissions. The 2007/08 target was for SF_6 losses to be below 3%, with a sliding target over the regulatory period, reducing to 2% by 2011/12.

Our system operation activities are subject to financial incentive schemes to promote efficiency. If we operate our networks more efficiently than Ofgem's forecasts, we can increase our revenues, with penalties for reductions in performance.

Current and future developments

External market developments

Market structure and ownership

There have been no significant changes in the structure of the UK electricity infrastructure market in recent years. The most significant changes in ownership during the year were the takeover of Scottish Power (owner of one of the Scottish transmission networks that we operate) by Iberdrola, a Spanish utility in April 2007 and the sale by United Utilities of its electricity distribution network to North West Electricity Networks in December 2007.

Energy market developments

High energy prices have been a key feature in the UK market during the last 12 months and this has led to significant increases in bills to consumers for their energy supplies.

The UK continues to be in a period of changing energy supply patterns, as the Government's emphasis on combating climate change means more reliance is placed on new sources of electricity generation, including renewables.

These changes are impacting our electricity transmission networks with significant investment underway and planned, to link new power plants and renewable generators with domestic, business and industrial consumers.

Regulatory developments

During the year ended 31 March 2008, there were no significant changes in the legislative and regulatory framework in the UK.

In September 2007, the European Commission published a third package of legislative proposals for energy markets within the European Union. The key areas include unbundling of transmission and distribution of energy from customer supply and generation activities, the creation of a European regulatory agency for energy and the establishment of a European network of transmission system operators for gas and electricity respectively, to facilitate cooperation and coordination at both a European and regional level. While there are many complex issues for which resolution is required, there is a strong desire for political agreement to be reached during 2008.

This was complemented in January 2008 by a number of environmental proposals focusing on renewable energy, emissions trading, carbon capture and energy efficiency.

In April 2008, Ofgem announced a review into the operation of the energy markets in the UK and how the regulatory model in the UK is functioning.

Changes in price controls

A five year price control for our electricity transmission network came into operation on 1 April 2007, covering the period to 31 March 2012, together with a one year system operator price control. We have also accepted system operator price controls for our electricity transmission operations for 2008/09.

The balancing services incentive scheme (BSIS) covers the external costs incurred in balancing the system. For 2008/09, we have accepted an incentive scheme with a cost target between £529 million and £544 million, such that we retain 25% (up to a cap of £15 million) of any savings below £529 million, and we lose 25% (down to a collar of £15 million) of any costs in excess of £544 million.

Other developments

Following the price control allowances of approximately £350 million for transmission reinforcement works to accommodate the growing impact of renewable energy from Scotland, works are underway. In particular, the upgrade of the two double circuits connecting Scotland and England and associated works will be undertaken over the price control period. At this time, network access is being sought by approximately 10 GW of renewable generation projects in Scotland consisting of over 100 projects, each with connection agreements with National Grid. For England and Wales connection offers have been made to an additional 7 GW of renewable generation.

Principal risks and uncertainties

Risk management

Understanding and managing risks is integral to the way we run our business. We have a well established risk management process that ensures risks are consistently assessed, recorded and reported in a visible, structured and continuous manner, the outputs of which are primarily used as a management tool. A secondary and natural output from this process is information that provides assurance to management at all levels and thus helps safeguard our assets and reputation. It has been designed to manage rather than eliminate material risks to the achievement of our strategic and business objectives, while also recognising that any such process can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Principal risk factors

Our risk management process has identified the following principal risk factors which could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities. Not all of these factors are within our control. In addition, other factors besides those listed below may have an adverse effect on National Grid Electricity Transmission. These risk factors should be read in conjunction with the rest of this Operating and Financial Review.

Changes in law or regulation

Our principal businesses are subject to regulation by the UK Government and other authorities such as Ofgem. Consequently, changes in law or regulation could adversely affect us. Regulatory decisions concerning, for example, whether licences or approvals to operate are granted or are renewed, whether there has been any breach of the terms of a licence or approval, recovery of incurred expenditure and the level of permitted revenues for our businesses, could have an adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future.

Breaches of environmental or health and safety law or regulations

The operation and maintenance of electricity transmission lines is potentially dangerous. We also use or generate in our operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so; for example, the effects of electric and magnetic fields. We are subject to laws and regulations relating to pollution, the protection of the environment, and how we use and dispose of hazardous substances and waste materials. These expose us to costs and liabilities relating to our operations and our properties whether current, including those inherited from predecessor bodies, or formerly owned by us. We are also subject to laws and regulations governing health and safety matters protecting the public and our employees.

We commit significant expenditure toward complying with these laws and regulations. If additional requirements are imposed or our ability to recover these costs changes, this could have a material impact on our businesses and our results of operations and financial position. Any breach of these obligations, or even incidents that do not amount to a breach, could adversely affect our results of operations and our reputation.

For further information about environmental and health and safety matters in National Grid, see the ‘Our Responsibility’ section of National Grid’s website at www.nationalgrid.com.

Network failure or the inability to carry out critical non-network operations

We may suffer a major network failure or may not be able to carry out critical non-network operations. Operational performance could be adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand or inadequate record keeping. This could cause us to fail to meet agreed standards of service or be in breach of a licence or approval, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation.

In addition to these risks, we may be affected by other potential events that are largely outside of our control such as the impact of weather or unlawful acts of third parties. Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure will adversely affect operational and potentially business performance and our reputation. Terrorist attack, sabotage or other intentional acts may also physically damage our assets or otherwise significantly affect corporate activities and as a consequence have an adverse impact on the results of operations.

Achievement of business performance objectives, including regulatory targets and delivering anticipated cost and efficiency savings

Earnings maintenance and growth from our regulated electricity businesses will be affected by our ability to meet or exceed efficiency targets and service quality standards set by or agreed with Ofgem. In addition, from time to time, we publish cost and efficiency savings targets for our businesses. We have also substantially completed reorganising our operations along lines of business. To meet these targets and standards, we must continue to improve operational performance, service reliability and customer service. If we do not meet these targets and standards, or we do not complete implementation of this reorganisation as envisaged, we may not achieve the expected benefits, our business may be adversely affected and our performance, results of operations and our reputation may be harmed.

Reputation damage from disruptions to supply, even if outside our control

Our electricity transmission businesses are responsible for transporting available electricity. We consult with and provide information to regulators, governments and industry participants about future demand and the availability of supply. However, where there is insufficient supply, our role is to manage the relevant network safely, which in extreme circumstances may require us to disconnect consumers, which may damage our reputation.

Fluctuations in interest rates and their impact on borrowings and derivatives

Our results of operations may be affected because a significant proportion of our borrowings and derivative financial instruments are affected by changes in interest rates.

Restrictions in borrowings, adverse changes in the global credit markets and changes in credit ratings or in tax rates

We are subject to certain covenants and restrictions in relation to our listed debt securities and our bank lending facilities. We are also subject to restrictions on financing which have been imposed by regulators. These restrictions may hinder us in servicing the financial requirements of our businesses. Some of our debt is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and the cost of those borrowings. Our borrowing capacity and cost of borrowing could also be affected by adverse changes in the global credit markets. The effective rate of tax we pay may be influenced by a number of factors including changes in law and accounting standards, the results of which could increase that rate.

Future funding requirements of pension schemes

Substantially all of our employees are members of a defined benefit scheme where the scheme assets are held independently of our own financial resources. Estimates of the amount and timing of future funding for the scheme are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require us to make additional contributions to the pension scheme, which, to the extent that they are not recoverable under our price controls, could adversely affect our results of operations.

Changes in accounting standards

The accounting treatment under International Financial Reporting Standards (IFRS), as adopted by the European Union, of pensions and derivative financial instruments significantly affect the way we report our financial position and results of operations. As a body of practice develops for IFRS, the application and interpretation of accounting principles to our circumstances, and to those areas in particular, could result in changes in the financial results and financial position that we report. In addition, new standards, rules or interpretations may be issued which could also have significant effects.

Performance summary and key performance indicators

Delivering National Grid's strategy	**Lines of business**	● Integrated our Electricity Transmission business into National Grid's global Transmission line of business, with a common management team and responsible Executive Director ● Progressed separation of functions and processes that support multiple lines of business		
	Operating model	● Commenced implementation of a new back office system ● Commenced reviews within each line of business, shared services and information services to identify best practices, so that they can be shared across National Grid		
Operating performance	**Safety**	Injuries to the public	2007/08: 4 2006/07: 1	Target: zero
		Employee LTI frequency rate	2007/08: 0.25 2006/07: 0.20	Target: zero
		Employee sickness absence rate	2007/08: 1.38% 2006/07: 1.39%	Target: zero work-related absences
	Reliability	Electricity Transmission network reliability	2007/08: 99.9999% 2006/07: 99.9999%	Target: 99.9999%
	Efficiency	Cost reduction programmes undertaken in Electricity Transmission		
	Capital investment	Total capital investment	2007/08: £800 million 2006/07: £607 million	
Talent	**Talent, skills, engagement and performance**	● Our Directors and senior managers have been through our Performance for Growth programme, focusing on how to develop our employees, address skills gaps, increase employee engagement and coach for better performance ● We have developed and calibrated a single set of performance measures for our senior managers ● We have upgraded and aligned our talent review process across our businesses		
	Inclusion and diversity	Percentage of female employees	2007/08: 15.3% 2006/07: 13.7%	
		Percentage of black and minority ethnic employees	2007/08: 9.0% 2006/07: 5.7%	
Relationships	**Stakeholder relations and community involvement**	Participated in presentations to debt investors		
Environment	**Climate change**	Percentage reduction in greenhouse gas emissions	2007/08: 28% increase 2006/07: 12% reduction	Target: year on year reduction
	Protecting the environment	Significant direct environmental incidents	2007/08: 3 2006/07: 6	Target: zero
		Total value of fines from prosecutions	2007/08: Zero 2006/07: Zero	Target: zero
Financial performance	**Profit and cash flow**	Adjusted operating profit*	2007/08: £677 million 2006/07: £566 million	
		Cash generated by continuing operations	2007/08: £794 million 2006/07: £789 million	
	Returns from investment	Return on investment	2007/08: 4.6% 2006/07: 4.9%	
	Financial discipline	Adjusted gearing ratio**	2008: 72% 2007: 71%	

* Adjusted operating profit excludes exceptional items and remeasurements.

** For the adjusted gearing ratio our electricity transmission assets are measured at their regulatory value.

Performance against our objectives

Our performance and the progress we have made against our objectives are described below and on the following pages. This includes commentary on our financial results on pages 15 to 18.

We measure the achievement of our objectives through the use of qualitative assessments and through the monitoring of quantitative indicators, called key performance indicators (KPIs). In line with our operating objectives, we use both financial and non-financial KPIs. Where relevant, KPIs are used as our primary measures of whether we are achieving our objectives. However, the scale and size of our operations mean we use many other detailed performance measures in addition to KPIs. We also use KPIs to measure performance against our primary objective of growing our businesses to create value for National Grid's shareholders. We use qualitative assessments to judge progress against our objectives in areas where numerical measures are less relevant.

This year, we have included adjusted gearing ratio as one of the KPIs measuring our financial performance. Our other KPIs are unchanged from last year.

Responsibility

We believe operating responsibly is essential to the way we conduct our operations, invest, develop our people and manage our relationships. It underpins everything we do.

We always strive to operate to the highest standards of corporate governance and we believe in strong business ethics, based around National Grid's Framework for Responsible Business and our core values of respecting others and valuing diversity, demonstrating integrity and openness in all relationships, taking ownership for driving performance and operating as one team.

The approach to corporate governance and business ethics within National Grid is described in more detail in the Corporate Governance section on pages 88 to 97 of National Grid's Annual Report 2007/08.

Delivering National Grid's strategy

We are in the process of transforming our businesses in line with National Grid's strategy. This means creating global lines of business across National Grid and focusing on delivering an improved service to our customers, supported by an operating model that delivers effective and efficient shared services and information systems.

Operating model	National Grid's operating model is based on ensuring that activities are carried out at the most appropriate level, either locally, within lines of business or across National Grid.

Lines of business

Our Electricity Transmission business has been integrated into National Grid's global Transmission business, led by an Executive Director of National Grid.

Common functions

Our business is already supported by a UK shared services function and National Grid has now combined the information services, procurement and legal services functions which serve our businesses in the UK, with the equivalent US functions, creating single functions that span National Grid, to ensure that there is a common operating approach.

Common systems and processes

National Grid's aim is to reduce the number of systems that it has and to align processes so that there is a single National Grid method of operating. In support of this aim, we are in the process of implementing a new back office system, which will underpin the development of common processes and integrate with front office systems used by our business.

While National Grid is centralising activities that it believes are common across National Grid, we remain focused on ensuring that our employees are able to deliver services to our customers locally.

During 2007/08 we completed a business process review, focused on improving the efficiency of delivery of our capital investment programme and operation efficiencies to meet the challenges within our price controls. This has been based on improving our operational planning, engaging with external parties on the practical issues surrounding access to our assets and the management of land, managing a higher volume of work that is potentially more volatile if not managed effectively and improving the process of connecting new sources of energy to our networks. We have also been working with our suppliers to constrain or reduce costs wherever possible, with the aim of using the scale of our operations, and the increased level of capital expenditure, to increase efficiency.

Identification of best practice

Achievements so far have been the sharing of best practice with regard to safety, comparing processes and procedures across the electricity control rooms, and the development of a common financial approval process.

Safety, health and environmental management

Our transformation programme includes restructuring our approach to managing safety, health and environmental issues, embedding responsibility directly into the business for safety, health and environmental, supported by safety, health and environmental expertise in support functions. This means that all of our managers will be accountable for safety, health and environmental management in their areas of operations.

Operating performance

We aim for operational excellence by performing to the highest standards of safety, efficiency, and reliability and by improving customer service. By delivering on our capital investment plans we can create value through organic growth.

Safety

Safety is paramount.

Our most important goals are: to ensure that members of the public are not injured as a direct result of our operations; to deliver a working environment where there are zero work-related injuries and illness; and to improve the health of our employees so they are fit for work every day.

We use a range of lagging and leading indicators to measure our performance against our safety objectives, including: members of the public injured as a direct result of our operations; employee lost time injury frequency rate; and employee sickness absence rate.

During 2007/08, we have reviewed the critical safety risks across our business, ensuring they are effectively managed. To support this, we have implemented National Grid's programme for improving safety performance, 'Trusted to Work Responsibly'. This renewed approach builds upon our well established safety procedures and reinforces the need for individual and collective ownership of safety performance. It recognises that our workforce is well trained and should be trusted to deliver their work in the right way – the safe way. It was launched across National Grid in October 2007 and followed by the publication and implementation of Golden Rules that encompass all our businesses. These set consistent standards for good safety behaviours, but are interpreted so that they reflect the risk profiles of different parts of the business and reinforce a culture whereby safety becomes second nature.

We have reinforced our approach to process safety and have completed a culture survey to find out the views of employees on process safety. We have also trained our Directors and senior managers in process safety and issued a new commitment statement agreed by the Board of National Grid.

Public safety

During 2007/08, 4 members of the public were injured as a result of our operations. This compares with 1 fatality during 2006/07 of a person who illegally climbed and subsequently fell from an electricity tower. The target is zero.

Employee safety

During 2007/08, 10 of our employees received injuries that resulted in them taking time off work, compared with 8 in 2006/07 and a target of zero.

Employee lost time injuries track our progress towards our target of zero work-related injuries. However, our employee lost time injury frequency rate provides a more accurate indicator of year-on-year performance as it takes into account changing employee numbers. Employee lost time injuries per 100,000 hours worked was 0.25 in 2007/08 compared with 0.20 in the previous year.

Employee health

We are committed to protecting employees' health during work activities. We have continued to develop our risk based approach and instigated further programmes of support for employees with musculoskeletal conditions. Across the business, employees have engaged in well-being and education programmes designed to encourage good lifestyle choices. Approaches to health promotion are currently being reviewed with the aim of establishing and delivering an effective well-being programme, encompassing health education, fitness and nutrition, work/life balance, and health management and disease prevention.

Around 1.38% of available work days were lost due to sickness absence in 2007/08, compared with 1.39% in 2006/07.

Contractor safety

There was a decrease in contractor lost time injuries from 25 in 2006/07 to 18 in 2007/08.

Efficiency

By improving efficiency, we can constrain the cost of our operations borne by customers and improve returns to National Grid's shareholders. We review our operations continually to identify opportunities to improve the operational productivity of our assets and our people, and to identify areas in which we can reduce costs or restrict cost increases. Planning ahead is essential in our approach to maintaining and improving efficiency.

Our primary method of measuring improvements in efficiency is through our financial performance.

We have been undertaking a number of internal business process reviews to seek out further savings without compromising our other objectives. Information on our financial performance during the year is set out on pages 15 to 18.

Reliability

Our principal operations are critical to the functioning of the UK economy. The reliability of our electricity networks is one of our highest priorities after safety.

We use business-specific reliability performance indicators to measure our reliability performance.

Our approach to maintaining and improving reliability involves: investing in infrastructure and systems to provide the operational tools and techniques necessary to manage our assets and operations to high standards and investing in the renewal of assets; investing in the skills and capabilities of our people to give them the ability to operate our networks to a high degree of service excellence; and maintaining a constant focus on reliability as one of our principal objectives, ensuring we are proactive about planning to ensure reliability and that we react quickly to factors that could compromise reliability.

The total amount of electricity transmitted in 2007/08 was 303.0 TWh compared with 303.7 TWh for 2006/07. The winter of 2007/08 saw demand from the electricity transmission network in England and Wales hit a peak of 54.2 GW. This compares with 52.1 GW for 2006/07.

Electricity transmission network reliability was 99.9999% in both 2007/08 and 2006/07. This measure excludes interruptions that affect three or fewer consumers and, in 2007/08, also excluded one incident (equivalent to 0.0003%) relating to supply interruptions that occurred following flooding in central England that was outside of our control.

Customer service	Our objectives is to support generators and electricity service distribution network customers, in delivering energy efficiently and effectively to consumers, in particular in connecting new sources of supply to our transmission network.
	We use business-specific service quality KPIs to measure our performance in this area.

Our electricity transmission customer service activities principally relate to facilitating new connections and maintaining existing connections and relationships with the customers who are connected.

Capital investment	Capital investment is one of the principal drivers of future growth, as the majority of the capital investment we make enables us to earn an increased financial return.
	The principal measure we use to monitor organic investment is capital expenditure, which includes investment in property, plant & equipment, and in internally created intangible assets such as software.

Our aim is to deliver our planned capital investment programme involving approximately £5 billion of capital expenditure between 1 April 2007 and 31 March 2012.

Our capital investment programme is based on an assessment of what is needed to maintain or improve the performance of our regulated transmission networks, or to extend those networks where required to serve new sources of energy or new customers, our electricity transmission licence obliging us to provide connections and capacity upon request. This investment programme is usually in agreement with Ofgem, who permits us to earn a return on allowed investments.

We have increased our level of investment as, over the next few years, we replace parts of our electricity network as these assets become due for renewal. Together with work required to meet changing supply sources, this means that the electricity transmission business will continue to see a significant increase in investment and network renewal.

Capital investment in the replacement, reinforcement and extension of the electricity transmission systems in 2007/08 was £800 million, compared with £607 million in 2006/07. Capital investment continues to include high levels of expenditure on the replacement of electricity transmission network assets, many of which were commissioned in the 1960s, and also increasing expenditure on load related infrastructure.

Talent

We aim to maximise the contribution of our employees by motivating them to strive for continued improvement, developing their skills and talents, and promoting a culture that recognises and respects inclusion and diversity. In addition to obtaining the views of employees on an ongoing basis, National Grid now carries out annual group-wide employee surveys to identify areas where we can improve.

Talent and skills	Identifying, recruiting and developing talented people are critical to our future success. We aim to support all our employees so that they can operate to the best of their abilities by creating an environment that allows them to realise their full potential.

We have strengthened our talent management processes in 2007/08, commencing with the creation of talent management plans for senior management and for business critical roles. In addition, for the first time, we conducted cross-business talent planning sessions using consistent processes to support senior management in developing employees within each business area and to address succession issues.

Our focus on developing the talent of our current and future business leaders has intensified, with continued growth in the number of participants in National Grid's leadership and management development programmes. The main areas of focus have been on our performance for growth programme, change management, leadership development and developing future leaders programmes, including the expansion of our change agent networks.

We continue to invest in the recruitment and development of skilled employees for the future, jointly with National Grid's other UK businesses, which have collectively recruited 157 trainees on to National Grid's apprentice, foundation engineer, graduate and student programmes in the past year.

Engagement and performance	To succeed, we need to engage our employees to strive for continued improvement. For that purpose our aim is to implement a world-class performance management process.

Our approach involves adopting integrated common performance processes and a single set of performance criteria, with pay linked to leadership qualities (how we deliver) as well as operational and financial performance (what we deliver), providing for clearer differentiation between levels of performance.

Employee engagement

As part of the implementation of National Grid's new operating model, a survey was carried out to gather feedback on the communication routes that employees prefer and a suite of communication channels is now being rolled out across the whole of National Grid.

In February 2008, National Grid conducted a comprehensive employee engagement survey, in which over 83% of its global work force took part in what will now be an annual exercise. Separate results are not available for the employees of National Grid Electricity Transmission alone. The survey demonstrated that our employees see our safety focused and supportive work environment as real strengths. Where they think that we can make progress is in the areas of providing more open and honest communications, greater clarity about our vision and direction, and a stronger link between performance and reward. Action plans are being developed and built into managers' objectives for the coming year.

Performance management

During the year, we successfully launched our Performance for Growth programme for our Directors and senior managers.

We continue to expand and embed our performance management process with an integrated common performance approach, including a single set of performance criteria, pay linked to leadership qualities, as well as operational and financial performance, and a clearer differentiation between levels of performance. During 2007/08, significant effort was put into the calibration of performance across the levels and businesses, with the objective of creating a fairer, more transparent and consistent process for evaluating and rewarding the performance of our employees.

Inclusion and diversity	In order to develop, recruit and retain talented people we aim to achieve a more inclusive and diverse workforce, reflecting the composition of the communities in which we operate, and to be seen as an employer of choice across diverse communities.
	Performance measures we use to monitor our objective of promoting inclusion and diversity include the percentage of female employees and the percentage of black and minority ethnic employees.

We are fortunate to have vibrant employee networks, focusing on gender, ethnicity and faith, disability, sexual orientation and new starters. These are helping us to better understand the different communities represented within our workforce, and to provide support and information to our employees. Action councils help to coordinate initiatives in each of our locations, to identify new initiatives and to ensure consistency across our businesses.

At 31 March 2008, 15.3% of employees were female and 9.0% were from black and minority ethnic groups compared with 13.7% and 5.7% respectively at 31 March 2007.

Relationships

We aim to enhance our relationships with all of our external stakeholders – investors, customers, regulators, government, suppliers and the communities in which we operate.

Investor relations	We aim to make National Grid Electricity Transmission attractive to debt investors so that we can finance our operations as effectively as possible.

During the year, we participated in the presentations and conference calls targeted at debt investors and conducted by National Grid. Despite turbulent market conditions we have continued to issue long-term bonds, raising £200 million during the year.

Customers, regulators and government	The primary concern of our customers, regulators and the UK Government is that we deliver a safe, reliable and efficient service, now and into the future. Hence the foundation of our relationships reflects the quality of our operational performance.

For customers, it is important that we treat them with respect, that we communicate clearly and that we make interaction with them as straightforward as possible. Our focus on customer service and operational excellence is also a critical component of our relationship with Ofgem and the UK Government, underpinning the building of trust with them both. This involves being responsive to the need of Ofgem for high quality information, complying with rules and regulations, operating in an ethical way and, most importantly, delivering on our promises.

We continue to work very closely with Ofgem on the renewal of our electricity transmission networks, and in expanding those networks to meet new and changing demand.

Suppliers	We aim to work effectively in partnership with our suppliers, developing constructive relationships and working together effectively. Our objective is to develop contractual arrangements with our suppliers that align their interests with our own, as far as possible, and share financial risks appropriately.

Our objective is to use the scale and breadth of National Grid's activities to get the best value for money from our suppliers. National Grid has established a single procurement function covering all of its supply chain activities in the UK and the US as a key step on the way to delivering this objective.

We also aim to build on our achievements in creating alliances with contractors to deliver construction projects in our Electricity Transmission business, benefiting from the closer and more constructive working relationship that we believe can be achieved when project objectives are aligned and financial risks are shared.

In addition to focusing on efficiency and value for money, we have established clear principles and objectives concerning the impact of our supply chain economically, socially, environmentally and on human rights. We expect our suppliers to address these wider areas in working with us.

Community involvement	Our role as a good corporate citizen supports National Grid's vision, and is delivered through a sustained and consistent approach.

Our community investment objectives include supporting communities, developing our business, supporting our employees and enhancing our reputation through targeted community involvement activities. Our approach continues to be centred on three key themes: energy and environment; education and skills; and community development.

During the year we have again reviewed our social policy to ensure our approach to community investment remains relevant to, and supports, society's wider social and environmental priorities. This review has included analysis of existing activities and best practice, across National Grid and externally.

We invested some £1.7 million in support of community initiatives and relationships across our operations in 2007/08.

Environment

We are committed to safeguarding the global environment for future generations, taking positive action to reduce our contribution to climate change and our other impacts on the environment.

Climate change

Climate change is possibly one of the greatest challenges facing society in the 21st century.

National Grid's overall objective is to reduce its emissions of greenhouse gases by 80% against a verified baseline.

Our key performance indicator to monitor our performance in this area is the annual percentage reduction in our greenhouse gas emissions. We also measure absolute emissions.

We report our greenhouse gas emissions in line with National Grid's corporate reporting principles which include National Grid's interpretation of the World Resources Institute Greenhouse Gas Protocol Initiative. The Protocol provides a breakdown of our direct emissions (Scope 1), indirect emissions resulting from purchased electricity (Scope 2) and other indirect emissions (Scope 3). We believe this provides greater transparency and focuses attention on those emissions over which we have the greatest control.

During 2007/08, National Grid reviewed its climate change strategy (first approved in 2006), and concluded that it should increase its target of reducing Scope 1 and Scope 2 emissions of greenhouse gases to 80% against its verified baseline ahead of 2050, compared with its prior 60% reduction target. This target is ambitious and will challenge us to develop, now and over the next 42 years, new ways of conducting our business to reduce greenhouse gas emissions.

This revised 80% reduction target will be delivered through National Grid's climate change initiative, with a corporate team that will work with each line of business to deliver the target. The initiative is structured around three elements which we believe will transform our business:

- fully integrating sustainability and climate change considerations into our business decisions, including the setting of carbon budgets;
- influencing legislators and regulators to reshape energy markets to meet the climate change challenge; and
- helping and supporting our customers, employees and suppliers in changing their behaviours to be more considerate of the environment.

As National Grid Electricity Transmission does not have a separate verified base line for greenhouse gas emissions, we monitor our emissions in terms of year on year reductions. During 2007/08, our Scope 1 and Scope 2 greenhouse gas emissions amounted to some 388,000 tonnes CO_2 equivalent, a 28% increase compared with emissions of 304,000 tonnes in 2006/07, which has been restated following a review of classification of emissions.

Losses from our electricity transmission networks account for a further approximate 2.1 million tonnes CO_2 equivalent, compared with 2.2 million tonnes in 2006/07. These losses, and consequently the resulting emissions, are largely driven by factors outside our direct control (for example the fuel used by individual generators and the physical distance between generation and centres of demand). For this reason, we class these as Scope 3 emissions.

Total Scope 1 and 2 emissions per £million of revenue amounted to some 159 tonnes CO_2 equivalent compared with 150 tonnes in 2006/07.

Protecting the environment

Our objective is to help protect the environment for future generations and so we are committed to continuous improvement in our environmental performance by:

- efficient use of natural resources;
- keeping our waste to a minimum and increasing the economic value of any waste we produce;
- acting to prevent environmental incidents; and
- improving, where we can, the environmental status of the land on which we operate.

Key performance indicators that we monitor in this area comprise the number of significant direct environmental incidents and the total value of fines from prosecutions.

All of our employees work to environmental management systems certified to the international standard ISO 14001.

The number of significant environmental incidents in 2007/08 arising directly from our operations was 3 compared with 6 incidents in 2006/07. None of these were contractor-related and there were no prosecutions by enforcing bodies resulting from these incidents.

We also take the issues that surround electric and magnetic fields seriously and in all our operations, as a minimum, we aim to comply with the regulations, guidelines or practices relating to them in force.

We recognise there is some scientific evidence suggesting certain adverse health effects may be linked to electric and magnetic fields. There is also evidence linking an increased risk of certain diseases to proximity to power lines, though the cause of this is unclear. As a consequence, there is public concern and we take these issues very seriously. The balance of evidence remains against both power-frequency and radio-frequency electric and magnetic fields causing ill health. The World Health Organization has classified power-frequency magnetic fields as 'possibly' carcinogenic. Our public position statement on electric and magnetic fields, which we review annually, helps set the framework within which we continually assess the scientific evidence in this area, determine any implications for the way in which we conduct our business and explain to society what the science is telling us. We actively support high-quality research and open communication and we look for more constructive and less confrontational way of handling issues such as electric and magnetic fields. We continue to support the Stakeholder Advisory Group on electric and magnetic fields, which we initiated, and which published its first assessment of the issues in April 2007 (available at www.emfs.info/sage).

Financial performance

We aim to continue to improve our financial performance, to deliver returns appropriate to our risk profile and to be financially disciplined.

Profit and cash flow	If we achieve our objectives we should be able to deliver continued improvements in financial performance, contributing to National Grid's commitment to grow its dividend each year.
	The principal measures we use to monitor our financial performance are adjusted operating profit and operating cash flows. Adjusted operating profit is operating profit before exceptional items and remeasurements.

We report our financial results and position in accordance with International Financial Reporting Standards (IFRS).

Continuing and discontinued operations

The financial results of our business segments and of our other activities (as described on page 1) are presented within continuing operations. Discontinued operations comprise the results of the interconnector business transferred to a fellow subsidiary of National Grid plc on 14 August 2006.

Measurement of financial performance and use of adjusted profit measures

In considering the financial performance of our businesses and segments, we analyse each of our primary financial measures of operating profit, profit before tax and profit for the year into two components, comprising firstly business performance, which excludes exceptional items and remeasurements and secondly exceptional items and remeasurements. Exceptional items and remeasurements are excluded from the measures of business performance used by management to monitor financial performance as they are considered to distort the comparability of our reported financial performance from year to year.

Measures of business performance are referred to in this Annual Report as adjusted profit measures in order to clearly distinguish them from the comparable total profit measures of which they are a component. Adjusted operating profit, adjusted profit before tax and adjusted earnings differ from total operating profit, profit before tax and profit for the year respectively by the exclusion of exceptional items and remeasurements.

Exceptional items and remeasurements are items of income and expenditure that, in the judgement of management, should be disclosed separately on the basis that they are material, either by virtue of their nature or size, and are relevant to an understanding of our financial performance. Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, material changes in environmental provisions and gains or losses on disposals of businesses or investments. Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of derivative financial instruments. These fair values increase or decrease as a consequence of changes in financial indices and prices over which we have no control.

Adjusted profit measures are limited in their usefulness compared with the comparable total profit measures, as they exclude important elements of our underlying financial performance, namely exceptional items and remeasurements. We believe that in separately presenting financial performance in two components it is easier to read and interpret financial performance between periods, as adjusted profit measures are more comparable by excluding the distorting effect of exceptional items and remeasurements, and exceptional items and remeasurements are more clearly understood if separately identified and analysed. The presentation of these two components of financial performance is additional to, and not a substitute for, the comparable total profit measures presented.

Management uses adjusted profit measures as the basis for monitoring financial performance and in communicating financial performance to investors in external presentations and announcements of financial results. Internal financial reports, budgets and forecasts are primarily prepared on the basis of adjusted profit measures, although planned exceptional items, such as significant restructurings, are also reflected in budgets and forecasts. Management compensates for the limitations inherent in the use of adjusted profit measures through the separate monitoring and disclosure of exceptional items and remeasurements as a component of our overall financial performance.

Operating financial performance

Our operating financial performance for the years ended 31 March 2008 and 31 March 2007 was as follows:

	Years ended 31 March	
	2008	2007
Continuing operations	**£m**	£m
Revenue	**2,145**	2,018
Other operating income	**28**	-
Operating costs	**(1,501)**	(1,459)
Total operating profit	**672**	559
Analysed as:		
Adjusted operating profit	**677**	566
Exceptional items	**(5)**	(7)
Total operating profit	**672**	559

Our operating performance for the year is discussed below under the headings of revenues, adjusted operating profit and total operating profit.

Revenues

The following table analyses our revenues by business segment.

	Years ended 31 March	
	2008	2007
Continuing operations	**£m**	£m
Electricity Transmission	**2,142**	2,012
Other activities	**4**	14
Total segmental revenues	**2,146**	2,026
Less: sales between business segments	**(1)**	(8)
Revenue	**2,145**	2,018

Revenue of £2,145 million was £127 million higher than in 2006/07, as a result of a £130 million increase in Electricity Transmission revenues, partly offset by a net reduction of £3 million in revenues from other activities and sales between business segments.

The increase in Electricity Transmission revenues was principally due to an £85 million increase in allowed revenues, with £13 million from timing of allowed revenue recoveries and £32 million from other factors, including recovery of higher Balancing Services Incentive Scheme (BSIS) costs.

Adjusted operating profit

Operating profit before exceptional items is analysed by segment as follow:

	Years ended 31 March	
	2008	2007
Continuing operations	**£m**	£m
Electricity Transmission	**671**	576
Other activities	**6**	(10)
Adjusted operating profit	**677**	566

Adjusted operating profit increased by £111 million to £677 million from £566 million in 2006/07, as a result of a £95 million increase in Electricity Transmission adjusted operating profit and a £16 million increase in other activities.

The increase in Electricity Transmission adjusted operating profit resulted from the £130 million increase in revenue explained above, less a £35 million increase in operating costs before exceptional items. The increase in operating costs before exceptional items is principally because of higher BSIS costs which are largely recovered through revenue.

The increase in other activities adjusted operating result is due to £28 million of other operating income arising from the sale of surplus properties in the year, partly offset by an £8 million write-off arising out of National Grid's disposal of its wireless infrastructure business.

Total operating profit after exceptional items

Total operating profit by segment was:

	Years ended 31 March	
	2008	2007
Continuing operations	**£m**	£m
Electricity Transmission	**666**	569
Other activities	**6**	(10)
Total operating profit	**672**	559

Total operating profit increased by £113 million to £672 million from £559 million in 2006/07. This was due to the £111 million increase in adjusted operating profit and a £2 million reduction in exceptional items.

Exceptional items of £5 million in 2007/08 and £7 million in 2006/07 comprise restructuring costs arising from the transmission business process review and the establishment of the UK shared services function.

Profit for the year from continuing operations

Adjusted earnings

	Years ended 31 March	
	2008	2007
Continuing operations	**£m**	£m
Adjusted operating profit	**677**	566
Net finance costs excluding exceptional items and remeasurements	**(169)**	(135)
Adjusted profit before taxation	**508**	431
Taxation excluding taxation on exceptional items and remeasurements	**(142)**	(131)
Adjusted profit from continuing operations	**366**	300

Earnings

	Years ended 31 March	
	2008	2007
Continuing operations	**£m**	£m
Total operating profit	**672**	559
Net finance costs	**(164)**	(144)
Profit before taxation	**508**	415
Taxation	**(95)**	(129)
Profit from continuing operations	**413**	286

Net finance costs

Net interest excluding exceptional finance costs and remeasurements was £169 million in 2007/08 compared with £135 million in 2006/07. The increase of £34 million in the net interest charge was due to higher net debt and a £11 million increase in the net interest charge related to pensions, partly offset by a £21 million increase in the level of interest capitalised arising from increased capital investment.

Exceptional finance costs and remeasurements

There were no exceptional finance costs in 2007/08. This compares with exceptional finance costs of £8 million in 2006/07 relating to the early repayment of debt.

Financial remeasurements relate to net gains on derivative financial instruments of £5 million, compared with net losses of £1 million in 2006/07.

Taxation

A net charge of £95 million arose in 2007/08 comprising a £142 million charge on adjusted profit before tax and a £47 million credit on exceptional items and remeasurements. This compares with a net charge of £129 million in 2006/07, comprising a £131 million charge on adjusted profit before tax and a £2 million credit on exceptional items and remeasurements. The 2007/08 net charge included an exceptional credit of £47 million in 2007/08 relating to the release of deferred tax provisions following the change in the UK corporation tax rate from 30% to 28% which was enacted in the year and takes effect from 1 April 2008.

The effective tax rate before and after exceptional items and remeasurements was 28% and 19% respectively (2006/07: 30% and 31%), compared with a standard UK corporation tax rate of 30% for both years.

Profit for the year from continuing operations

Profit for the year from continuing operations rose from £286 million in 2006/07 to £413 million in 2007/08 as a consequence of the above changes.

Adjusted profit measures

The following tables reconcile the adjusted profit measure to the corresponding total profit measure in accordance with IFRS.

Reconciliation of adjusted operating profit to total operating profit

	Years ended 31 March	
	2008	2007
Continuing operations	**£m**	£m
Adjusted operating profit	**677**	566
Exceptional items	**(5)**	(7)
Total operating profit	**672**	559

Adjusted operating profit is presented on the face of the consolidated income statement, under the heading 'Operating profit – before exceptional items'.

Reconciliation of adjusted profit before taxation to profit before taxation

	Years ended 31 March	
	2008	2007
Continuing operations	**£m**	£m
Adjusted profit before taxation	**508**	431
Exceptional items	**(5)**	(15)
Derivative financial remeasurements	**5**	(1)
Total profit before taxation	**508**	415

Adjusted profit before taxation is presented on the face of the consolidated income statement, under the heading 'Profit before taxation – before exceptional items and remeasurements'.

Reconciliation of adjusted earnings to earnings (profit for the year from continuing operations)

	Years ended 31 March	
	2008	2007
Continuing operations	**£m**	£m
Adjusted earnings	**366**	300
Exceptional items	**44**	(11)
Derivative financial remeasurements	**3**	(3)
Earnings	**413**	286

Adjusted earnings is presented on the face of the consolidated income statement, under the heading 'Profit from continuing operations after taxation – before exceptional items and remeasurements'.

Discontinued operations

	Years ended 31 March	
	2008	2007
	£m	£m
Revenue	**-**	27
Operating costs	**-**	(4)
Total operating profit	**-**	23
Taxation	**-**	(7)
Profit from discontinued operations	**-**	16
Gain on disposal of discontinued operations	**-**	33
Profit for the year	**-**	49

Discontinued operations comprise the results of the interconnector business transferred to a fellow subsidiary of National Grid plc on 14 August 2006.

Net profit for the year

Net profit from both continuing and discontinued operations was £413 million in 2007/08 compared with £335 million in 2006/07.

Cash flows

Cash flows from operating activities

Cash generated from continuing operations was £794 million in 2007/08 compared with £789 million in 2006/07. This included cash outflows relating to exceptional items of £5 million and £7 million respectively. After reflecting cash flows relating to discontinued operations and tax paid, net cash inflow from operating activities was £818 million, compared with £680 million in 2006/07.

In 2007/08, there was a net corporation tax repayment of £24 million compared with a payment of £142 million in 2006/07.

Cash flows from investing activities

Cash outflows from continuing operations investing activities increased from £883 million in 2006/07 to £1,235 million in 2007/08. Cash outflows to purchase property, plant and equipment and intangible fixed assets, net of disposal proceeds, increased to £717 million in 2007/08 from £507 million in 2006/07, as a result of the increase in capital investment. Cash outflows to acquire financial investments, net of cash flows from the sale of financial investments increased from £376 million in 2006/07 to £518 million in 2007/08.

There were no cash flows relating to discontinued operations investing activities in 2007/08. Those in 2006/07 comprised £128 million of disposal proceeds.

Cash flows from financing activities
Net cash related to financing activities changed from an inflow of £506 million in 2006/07 to an outflow of £10 million in 2007/08. This reflected net inflows from loans of £410 million (2006/07: £749 million inflow) and net payments to providers of finance, in the form of net interest and dividends, of £420 million (2006/07: £243 million).

Net interest cash outflows, excluding exceptional debt redemption costs, increased from £115 million in 2006/07 to £130 million in 2007/08, due to higher average net debt. There were no exceptional debt redemption payments in 2007/08, compared with £8 million in 2006/07 which arose from restructuring our debt portfolio.

Returns on our investments

We aim to generate value from our investments by improving the operating performance of our networks and by investing to deliver our regulatory commitments.

We measure the financial performance of our regulated electricity transmission business using an operational return metric comparable to the vanilla return defined in our price controls. This metric expresses profit on a price control basis as a percentage of our estimated regulatory value.

We achieved a 4.6% operational return in 2007/08, performing broadly in line with regulatory assumptions. This compares with an operational return of 4.9% in 2006/07 calculated on the same basis.

Financial discipline

In order to deliver sustainable growth we must be disciplined in the way we manage our balance sheet. This means that our parent National Grid will return cash to its shareholders to the extent it is not required for investment objectives.

The principal measure we use to monitor financial discipline is adjusted gearing ratio. This is the ratio of net debt to net assets plus net debt, with the assets of our regulated electricity transmission business measured at their estimated regulatory values.

Our adjusted gearing ratio amounted to 72% at 31 March 2008 compared with 71% 31 March 2007.

A reconciliation of the amounts necessary to calculate the adjusted gearing ratio is provided in the table below:

	2008 **£m**	2007 £m
Net assets per balance sheet	**476**	337
Adjustments for regulatory asset values	**1,112**	1,244
Deferred tax on adjustments	**(311)**	(373)
Adjusted net assets	**1,277**	1,208
Net debt	**3,344**	2,947
Adjusted net assets plus net debt	**4,621**	4,155

Dividends in respect of the financial year

	2008 **£m**	2007 £m
Interim	**290**	120

The table above shows the ordinary dividends paid or payable by National Grid Electricity Transmission in respect of the last two financial years. These dividends do not include any associated UK tax credit in respect of such dividends.

Financial position and financial management

Going concern

Having made enquiries, the Directors consider that the Company and its subsidiaries have adequate resources to continue in business for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the consolidated and individual financial statements of the Company.

Financial position

Balance sheet

Our balance sheet at 31 March 2008 can be summarised as follows:

	Assets	Liabilities	Net assets
	£m	£m	£m
Property, plant and equipment and non-current intangible assets	5,410	-	5,410
Current assets and liabilities	375	(744)	(369)
Other non-current assets and liabilities	4	(146)	(142)
Pension obligations	-	(409)	(409)
Deferred tax	-	(670)	(670)
Total before net debt	5,789	(1,969)	3,820
Net debt	1,024	(4,368)	(3,344)
Total as at 31 March 2008	6,813	(6,337)	476
Total as at 31 March 2007	6,275	(5,938)	337

The £139 million increase in net assets from £337 million at 31 March 2007 to £476 million at 31 March 2008 resulted from the profit for the year from continuing operations of £413 million, net income recognised directly in equity of £21 million, partly offset by equity dividends paid of £290 million and other changes in equity of £5 million.

Net debt

Net debt increased by £397 million from £2,947 million at 31 March 2007 to £3,344 million at 31 March 2008, as cash inflows from operations of £818 million were exceeded by the combination of capital expenditure of £717 million, dividends paid of £290 million and interest charge of £214 million, less other movements of £6 million.

At 31 March 2008, net debt comprised borrowings of £4,314 million less financial investments of £916 million, derivative financial instruments with a net carrying value of £42 million and cash and cash equivalents of £12 million. At 31 March 2007, net debt comprised borrowings of £3,728 million, bank overdrafts of £26 million and derivative financial instruments of £35 million, less financial investments of £377 million and cash and equivalents of £465 million.

The maturity of borrowings is shown in note 18 to the consolidated financial statements.

Gearing

Gearing at 31 March 2008 and 31 March 2007, calculated as net debt at that date expressed as a percentage of net debt plus net assets shown in the balance sheet, amounted to 88% and 90% respectively. We do not consider that this standard gearing ratio is an appropriate measure as it does not reflect the economic value of the assets of our regulated businesses. For performance measurement purposes, we measure gearing on an adjusted basis, as described under financial performance on page 18.

Equity shareholders’ funds

Equity shareholders’ funds rose from £337 million at 31 March 2007 to £476 million at 31 March 2008. The increase was mainly explained by the retained profit for the year to 31 March 2008 of £123 million and net other recognised income of £21 million, comprising actuarial gains, net losses on hedges and tax thereon.

Liquidity and treasury management

Cash flow

Cash flows from our operations are largely stable over a period of years, but they do depend on the timing of customer payments. Our electricity transmission operations are subject to multi-year price control agreements with our regulator, Ofgem. Significant changes in demand, for example as a consequence of weather conditions, can affect cash flows, with abnormally mild or cold weather driving transmission demand down or up respectively. Subject to this, we have essentially stable cash flows.

Cash flow forecasting

Both short- and long-term cash flow forecasts are produced frequently to assist in identifying our liquidity requirements. These forecasts, supplemented by a financial headroom position, are supplied to the Finance Committee of the Board of National Grid plc regularly to assess funding adequacy for at least a 12 month period. We also maintain committed facilities to support our liquidity requirements.

Credit facilities and unutilised commercial paper and medium term note programmes

We have both committed and uncommitted borrowing facilities that are available for general corporate purposes. At 31 March 2008, National Grid Electricity Transmission plc had a $1.0 billion US commercial paper programme (unutilised) and a $1.0 billion Euro commercial paper programme (unutilised). It also has a joint €15 billion Euro medium term note programme with National Grid plc (€6.25 billion unissued).

At 31 March 2008, the Company had £425 million of long term committed facilities (undrawn) and around £300 million of uncommitted borrowing facilities (undrawn).

Note 18 to the consolidated financial statements shows the maturity profile of undrawn committed borrowing facilities in sterling as at 31 March 2008.

Regulatory restrictions

As part of our regulatory arrangements, our operations are subject to a number of restrictions on the way we can operate. These include a regulatory 'ring-fence' that requires us to maintain adequate financial resources and restricts our ability to transfer funds or levy charges between the Company and other companies in the National Grid group of companies.

Treasury policy

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

There is a separate financing programme for National Grid Electricity Transmission. The Finance Committees of both National Grid plc and of National Grid Electricity Transmission 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 plc.

We had borrowings outstanding at 31 March 2008 amounting to £4,314 million (31 March 2007: £3,754 million).

We believe that the maturing amounts in respect of our contractual obligations can be met from existing cash and investments, operating cash flows and other refinancings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required. Our financial position and expected future operating cash flows are such that we can borrow on the wholesale capital and money markets and most of our borrowings are through public bonds and commercial paper.

We place surplus funds on the money markets, usually in the form of short-term fixed deposits and placements with money funds that are invested with approved banks and counterparties. Details relating to cash, short-term investments and other financial assets at 31 March 2008 are shown in notes 16 and 17 to the consolidated financial statements.

It is a condition of the regulatory ring-fence around the Company that it uses reasonable endeavours to maintain an investment grade credit rating. As of 31 March 2008, the long-term senior unsecured debt and short-term debt credit ratings respectively provided by Moody's, Standard & Poor's and Fitch were as follows:

Moody's	A3 / P2
Standard & Poor's	A- / A2
Fitch	A / F2

Standard & Poor's and Fitch have current outlooks of stable while Moody's has a current outlook of negative.

The main risks arising from our financial activities are set out below, as are the policies for managing these risks, which are agreed and reviewed by the Board of National Grid plc and the Finance Committee of that Board.

Refinancing risk management

The Board of National Grid plc controls refinancing risk mainly by limiting the amount of financing obligations (both principal and interest) arising on borrowings in any financial year. This policy is intended to prevent National Grid and its subsidiaries from having an excessively large amount of debt to refinance in a given time-frame.

During the year we issued only long-term debt.

Note 18 to the consolidated financial statements sets out the contractual maturities of our borrowings over the next five years, with total contracted borrowings maturing over 49 years in compliance with our refinancing risk policy.

Interest rate risk management

Our interest rate exposure arising from borrowings and deposits is managed by the use of fixed and floating rate debt, interest rate swaps, swaptions and forward rate agreements. Our 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. Some of our bonds in issue are index-linked, that is their cost is linked to changes in the UK Retail Prices Index (RPI). We believe that these bonds provide a good hedge for revenues and our regulatory asset values that are also RPI-linked under our price control formulae.

The performance of the Treasury function in interest rate risk management is measured by comparing the actual total financing costs of our debt with those of a passively-managed benchmark portfolio. More information on the interest rate profile of our debt is included in note 30(a) to the consolidated financial statements.

Foreign exchange risk management

We have a policy of hedging certain contractually committed foreign exchange transactions over a prescribed minimum size. This 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.

In addition, we are exposed to currency exposures on borrowings in currencies other than sterling, principally the US dollar and the euro. This currency exposure is managed through the use of derivative financial instruments.

The currency compositions of financial liabilities and assets are shown in note 30(a) to the consolidated financial statements.

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 plc has agreed a policy for managing such risk, which is controlled through credit limits, approvals and monitoring procedures.

Further information is provided in note 30 to the consolidated financial statements.

Where multiple transactions are entered into with a single counterparty, a master netting arrangement is usually put in place to reduce our exposure to credit risk of that counterparty. At the present time, we use 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 our business operations, we are exposed to risks arising from fluctuations in interest rates and exchange rates. We use financial instruments, including derivatives, to manage exposures of this type and they are a useful tool in managing risk. Our policy is not to use derivatives for trading purposes. Derivative transactions can, to varying degrees, carry both counterparty and market risk.

We enter 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. We also enter 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.

We enter 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 notes 13 and 29 to the consolidated financial statements.

Valuation and sensitivity analysis
We calculate 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.

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

Details of the sensitivity of the income statement and equity to changes in the UK Retail Prices Index and UK interest rates are set out in note 30(d) to the consolidated financial statements. Under the assumptions set out in note 30(d), a 0.50% change in the UK Retail Prices Index would affect the income statement by £6 million after tax, but would have no effect on equity, while a 0.50% change in UK interest rates would affect the income statement by £1 million and equity by £9 million after tax.

Commodity contracts

We have entered into electricity options, pursuant to the requirement to stabilise the electricity market in Great Britain through the operation of the British Electricity Trading and Transmission Arrangements (BETTA). The options are for varying terms and have been entered into so that we have the ability to deliver electricity as required to meet our obligations under our electricity transmission licence. We have not and do not expect to enter into any significant derivatives in connection with our BETTA role.

Commitments and contingencies

Commitments and contingencies outstanding at 31 March 2008 and 2007 are summarised in the table below:

	2008 **£m**	2007 £m
Future capital expenditure contracted but not provided for	**492**	665
Total operating lease commitments	**67**	77
Other commitments and contingencies	**19**	19

Information regarding obligations under pension and other post-retirement benefits is given below under the heading 'Retirement arrangements'.

We propose to meet all of our commitments from existing cash and investments, operating cash flows, existing credit facilities, future facilities and other financing that we reasonably expect to be able to secure in the future.

Details of material litigation as at 31 March 2008
We were not party to litigation that we considered to be material as at 31 March 2008.

Related party transactions

We provide services to and receive services from related parties, principally fellow subsidiaries of National Grid. In the year ended 31 March 2008, we charged £41 million and received charges of £111 million from related parties (other than Directors and key managers), compared with £39 million and £47 million respectively in 2006/07.

Further information relating to related party transactions is contained within note 27 to the consolidated financial statements. Details of key management compensation and amounts paid to Directors are included within note 3(c) and note 3(d) to the consolidated financial statements respectively.

Retirement arrangements

The substantial majority of our employees are members of the National Grid Electricity Group of the Electricity Supply Pension Scheme which we operate on their behalf. This scheme is a defined benefit scheme and is closed to new members. New employees are offered membership of the defined contribution section of the National Grid UK Pension Scheme, which is operated by Lattice Group plc, a fellow subsidiary of National Grid. We do not provide any other post-retirement benefits.

Net pension obligations

The following table summarises the pension obligations recorded in the consolidated financial statements:

	£m
As at 1 April 2007	(488)
Pension service cost	(18)
Interest less expected return	(8)
Curtailments and settlements	(4)
Actuarial gains and losses	
– on plan assets	(77)
– on plan liabilities	128
Contributions:	
– ordinary contributions	18
– additional contributions	40
As at 31 March 2008	**(409)**

Plan assets	1,321
Plan liabilities	(1,730)
Net plan liability	(409)

The amounts recorded in the balance sheet are based on accounting standards which require pension obligations to be calculated on a different basis to that used by the actuaries to determine the funding we need to make into the plan.

The principal movements in net pension obligations during the year arose as a consequence of actuarial gains on plan liabilities, principally as a consequence of using higher discount rates to calculate the present value of these obligations. This was partially offset by actuarial losses on the value of plan assets.

Actuarial position

The last completed full actuarial valuation of the National Grid Electricity Group of the Electricity Supply Pension Scheme was as at 31 March 2007. This concluded that the pre-tax deficit was £405 million on the basis of the funding assumptions. Employer cash contributions for the ongoing cost of the plan are currently being made at a rate of 20.5% of pensionable payroll, with administration fees paid in addition.

Contributions

In addition to ongoing employer contributions to the National Grid Electricity Group of the Electricity Supply Pension Scheme, we have made deficit contributions of £40 million during 2007/08 and £60 million in April 2008. Further deficit payments of £2.5 million will be paid monthly from 1 April 2008 to 31 March 2009, in line with the agreed scheme recovery plan. We expect to pay £90.5 million in early 2009/10, with the remaining deficit payable monthly from April 2012 to March 2017.

Plan assets

The National Grid Electricity Group of the Electricity Supply Pension Scheme is trustee administered and the trustees are responsible for setting the investment strategy and monitoring investment performance, consulting with us where appropriate.

At 31 March 2008 plan assets totalled £1,321 million (2007: £1,336 million) invested as follows:

	%
Equities	55
Corporate bonds	9
Gilts	29
Property	6
Other	1

Accounting policies

Basis of accounting

The consolidated financial statements present our results for the years ended 31 March 2008 and 2007 and our financial position as at 31 March 2008 and 2007. They have been prepared using the accounting policies shown, in accordance with International Financial Reporting Standards (IFRS).

In complying with IFRS, we are also complying with the version of IFRS that has been endorsed by the European Union for use by listed companies.

IFRS differ from UK Generally Accepted Accounting Principles (UK GAAP).

Choices permitted under IFRS

Since 1 April 2005, we have presented our consolidated financial statements in accordance with IFRS. We were required to make a number of choices on the adoption of IFRS and in addition we continue to choose from certain options that are available within accounting standards.

The principal choices made on the adoption of IFRS, which cannot be changed, were as follows:

Transition date	Our opening IFRS balance sheet was established as at 1 April 2004. We used certain balances in our previous UK GAAP financial statements as the basis for our opening IFRS balance sheet.
Business combinations	Business combinations prior to 1 April 2004 were not changed retrospectively.
Carrying value of assets at transition	We used brought forward depreciated cost, as adjusted for changes in accounting policies to conform to IFRS, to be the opening carrying value under IFRS.
Share-based payments	We recognised all active share option grants retrospectively.
Cumulative translation differences	We chose to measure and present cumulative translation differences arising since 1 April 2004 only.

Significant choices that we continue to make on an ongoing basis include the following:

Presentation formats	We use the nature of expense method for our income statement and total our balance sheet to net assets and total equity. In the income statement, we present subtotals of total operating profit, profit before tax and profit from continuing operations, together with additional subtotals excluding exceptional items and remeasurements. Exceptional items and remeasurements are presented on the face of the income statement.
Pensions	We recognise actuarial gains and losses each year in the statement of recognised income and expense.
Capitalised interest	We capitalise interest into the cost of assets that we construct, where the conditions of IAS 23 are met.
Capital contributions	Contributions received towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.
Financial instruments	We normally opt to apply hedge accounting in most circumstances where this is permitted.
Individual accounts	We have chosen to continue to use UK GAAP, rather than IFRS, in the individual financial statements of National Grid Electricity Transmission plc and of its subsidiary companies.

Accounting standards and interpretations adopted in 2007/08

In preparing our consolidated financial statements we have complied with International Financial Reporting Standards, International Accounting Standards and interpretations applicable for 2007/08. The following amendments to standards and interpretations were adopted during 2007/08, none of which resulted in a material change to our consolidated results, assets or liabilities in 2007/08 or in those of previous periods:

New interpretations	IFRIC 8, IFRIC 9, IFRIC 10 and IFRIC 11 contain guidance on accounting for share-based exchange transactions, embedded derivatives, impairments in half yearly reports and share-based payments. Implementation of these interpretations did not have a material impact on our results, assets or liabilities.

Segmental reporting

In addition to presenting the consolidated financial results and financial position in the financial statements, we provide a breakdown of those results and balances into our business segments. The presentation of segment information is based on management responsibilities that existed at 31 March 2008 and the external and regulatory environments in which we operate. We report one business segment, Electricity Transmission, with other operations and corporate activities aggregated within other activities. Geographical segments are not reported, as our activities are all within the UK. Discontinued operations comprise the interconnector business we transferred to a fellow subsidiary of National Grid on 14 August 2006.

Critical accounting policies

The application of accounting principles requires us 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, we evaluate our estimates using historical experience, consultation with experts and other methods that we consider reasonable in the particular circumstances to ensure compliance with IFRS. Actual results may differ significantly from our estimates, the effect of which will be recognised in the period in which the facts that give rise to the revision become known.

Certain 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 our accounting policies set out in our consolidated financial statements.

Our critical accounting policies and accounting treatments are considered to be:

Estimated economic lives of property, plant and equipment

The reported amounts for depreciation of property, plant and equipment and amortisation of non-current intangible assets can be materially affected by the judgments exercised in determining their estimated economic lives.

Depreciation and amortisation amounted to £245 million in 2007/08 and £250 million in 2006/07.

Carrying value of assets and potential for impairments

The carrying value of assets recorded in the consolidated balance sheet could be materially reduced if an impairment were to be assessed as being required. Our total assets at 31 March 2008 were £6,813 million, including £5,354 million of property, plant and equipment and £56 million of intangible assets (31 March 2007: £6,275 million, £4,793 million and £65 million respectively).

Impairment reviews are carried out 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

Revenue includes an assessment of uninvoiced transmission services supplied to customers. Changes to the estimate of uninvoiced transmission services would have an impact on our reported results.

Our estimates of unbilled revenues amounted to £99 million at 31 March 2008 compared with £106 million at 31 March 2007.

Assets and liabilities carried at fair value

Derivative financial instruments are carried in the balance sheet at their fair value rather than historical cost.

The fair value of derivative financial instruments is based on market prices, where market prices exist. Other derivative financial instruments are valued using financial models, which include judgements on, in particular, future movements in exchange and interest rates.

Hedge accounting

We use 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 our assets or liabilities or affect our future cash flows.

Movements in the fair values of derivative financial instruments may be accounted for using hedge accounting where we 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.

Pensions

Pensions obligations recorded in the balance sheet are calculated actuarially using a number of assumptions about the future, including inflation, salary increases, length of service and pension and investment returns, together with the use of a discount rate based on corporate bond yields to calculate the present value of the obligation.

The selection of these assumptions can have a significant impact on both the pension obligation recorded in the balance sheet and on the net charge recorded in the income statement.

Exceptional items and remeasurements

Exceptional items and remeasurements are items of income and expenditure that, in the judgment of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of our financial performance and distort the comparability of our financial performance between periods.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, material changes in environmental provisions, and gains or losses on disposals of businesses or investments.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of derivative financial instruments. These fair values increase or decrease as a consequence of changes in financial indices and prices over which we have no control.

Tax estimates

Our tax charge is based on the profit for the year and tax rates in effect. The determination of appropriate provisions for taxation requires us to take into account anticipated decisions of tax authorities and estimate our ability to utilise tax benefits through future earnings and tax planning.

Our estimates and assumptions may differ from future events.

In order to illustrate the impact that changes in assumptions could have on our results and financial position, the following sensitivities are presented:

Asset useful lives

An increase in the useful economic lives of assets of one year on average would reduce our annual depreciation charge on property, plant and equipment by £7 million (before tax) and our annual amortisation charge on intangible assets by £3 million (before tax).

Revenue accruals

A 10% change in our estimate of unbilled revenues at 31 March 2008 would result in an increase or decrease in our recorded net assets and profit for the year by approximately £7 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 £4 million.

Hedge accounting

If the gains and losses arising on derivative financial instruments during the year ended 31 March 2008 had not achieved hedge accounting then the profit for the year would have been £5 million lower than that reported net of tax and net assets would have been £8 million higher.

Pensions

Our pension and post-retirement obligations are sensitive to the actuarial assumptions used. A 0.1% increase in the discount rate, a 0.5% increase in the rate of salary increases or an increase of one year in life expectancy would result in a change in the net obligation of £25 million, £24 million and £45 million and a change in the annual pension cost of £1 million, £1 million and £nil respectively.

Accounting developments

Forthcoming changes in IFRS

The following accounting standards and interpretations have not yet been adopted, but are expected to be adopted in future periods:

Segment reporting

IFRS 8 changes the reporting requirements for segmental reporting and will apply with effect from 1 April 2009. If IFRS 8 had been adopted in 2007/08, there would have been no change in business segments reported. However, we would not have had to report on geographical segments.

Borrowing costs

An amendment to IAS 23, on borrowing costs, will require interest to be capitalised into the cost of assets under construction. We already follow this policy and so this will have no impact.

Service concessions

IFRIC 12, on service concessions, to be adopted from 1 April 2008, requires assets operated on behalf of a public authority as a concession, where the asset reverts back to the public authority at the conclusion of the arrangement, to be recognised as a financial or intangible asset depending on whether income is recovered from the public authority or from users.

We do not operate any concessions of this type and so this will have no impact.

Customer loyalty programmes

IFRIC 13, effective from 1 April 2008, requires the sale of goods or services and associated loyalty programmes to be accounted for as multi-element transactions. The separate elements will have to be fair valued and consideration allocated accordingly, which would defer recognition of an element of revenue.

We do not have any loyalty programmes of this nature and so this will have no impact.

Pension assets and minimum funding

IFRIC 14, on when net pension assets can be recognised in the balance sheet and on how to account for minimum funding requirements, will apply with effect from 1 April 2008. In certain circumstances, the recognition of an accounting surplus in a pension plan as an asset on the balance sheet may be restricted, or provision may be required for minimum funding requirements in excess of pension obligations recognised in the balance sheet.

This is not expected to have a significant effect on the Company as the accounting surpluses that could arise in our current pension plan arrangements would not be restricted.

Presentation of financial statements

Amendment to IAS 1, effective 1 April 2009, changes the presentation of financial information, but does not affect the amounts of reported earnings or assets and liabilities. The principal changes are: the statement of recognised income and expense must immediately follow the income statement and must include separate tax disclosure on each gain or loss recognised outside the income statement; the statement of changes in equity will be presented as a primary statement; and there will be an option to rename the primary statements.

This will have a significant impact on the presentation of the 2009/10 financial statements as described above. However, there will be no impact on our results, assets or liabilities.

Business combinations

IFRS 3 (revised), expected to be adopted 1 April 2010, makes a number of changes to business combination accounting including: consideration payments fair valued at acquisition date; subsequent consideration payments at fair value through the income statement; changes to calculation of goodwill; and all transaction costs expensed.

IFRS 3 (revised) will be implemented prospectively and so will affect future business combinations, possibly materially compared with how they are accounted for under current standards. However, this change will have no impact on our current results, assets or liabilities.

Non-controlling interests

IAS 27 (revised), expected to be adopted in 2010, requires transactions with non-controlling (minority) interests to be recorded in equity.

We do not have any non-controlling interests and so this change will have no impact.

Share-based payments

This amendment to IFRS 2, expected to be adopted 1 April 2009, clarifies the definition of vesting conditions and changes the accounting for cancellations. For cancellation, rather than reversing the previous expense, any remaining expense will be accelerated.

This will affect the way we account for our Save as You Earn share schemes, but due to the low levels of cancellations by employees in the past, we do not anticipate that this is likely to have a material impact on future results.

Financial instrument presentation

Amendments to IAS 32 and IAS 1 require certain puttable financial instruments, which impose an obligation to deliver a pro-rata share of net assets on liquidation, to be classified as liabilities.

We currently have no such instruments and so this will have no impact.

Directors' Report

for the year ended 31 March 2008

In accordance with the requirements of the Companies Acts and UK Listing Authority's Listing, Disclosure and Transparency Rules, the following sections describe the matters that are required for inclusion in the Directors' Report and were approved by the Board. Further details of matters required to be included in the Directors' Report are incorporated by reference into this report, as detailed below.

Directors

The Directors serving as at the date of this report were:

Andy Chapman	Appointed November 2004
Malcolm Cooper	Appointed July 2007
Mark Fairbairn	Appointed July 2007
Paul Whittaker	Appointed July 2007
Nick Winser	Appointed April 2003

Steve Holliday and Steve Lucas also served as Directors during the period, resigning on 13 July 2007.

Directors' and Officers' liability insurance cover is arranged and qualifying third party indemnities are in place for each Director.

Principal activities and business review

A full description of the Company's principal activities, business and principal risks and uncertainties is contained in the Operating and Financial Review on pages 1 to 25, which are incorporated by reference into this report.

Material interests in shares

National Grid Electricity Transmission plc is a wholly owned subsidiary undertaking of National Grid Holdings Limited. The ultimate parent company of National Grid Electricity Transmission plc is National Grid plc.

Dividends

An interim dividend of £290 million was paid during the year (2007: £120 million interim dividend). The Directors have not proposed a final dividend.

Donations

During 2007/08, some £1.7 million was invested in support of community initiatives and relationships in the UK, including direct charitable donations of £0.2 million (2007: £0.3 million).

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

Research and development

Expenditure on research and development was £3.0 million during the year (2007: £2.6 million).

Financial instruments

Details on the use of financial instruments and financial risk management are included on pages 20 to 21 in the Operating and Financial Review.

Disability

Through National Grid's inclusion and diversity programme, National Grid Electricity Transmission remains committed to fair treatment of people with disabilities in relation to job applications, training, promotion and career development. Every effort is made to find appropriate alternative jobs for those who are unable to continue in their existing job due to disability.

Employee involvement

National Grid Electricity Transmission, as a part of National Grid, has well established and effective arrangements through electronic mail, intranet and in-house publications and briefing meetings, at each business location and company wide, for communication and consultation with both employees and trade union representatives, and for communication of performance, strategy and operating model, together with significant business issues.

National Grid Electricity Transmission recognises the importance of aligning employee and shareholder interests, and is committed to employee share ownership through the National Grid plc Share Incentive Plan and Sharesave scheme, which are open to all employees.

Policy and practice on payment of creditors

It is the Company'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 2008 was 14 days (14 days at 31 March 2007).

Audit information

Having made the requisite enquiries, 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.

Annual General Meeting

Notice of the Company's Annual General Meeting for 2008 will be issued separately to shareholders.

On behalf of the Board

Helen Mahy
Company Secretary, 5 June 2008

National Grid Electricity Transmission plc,
1-3 Strand London WC2N 5EH
Registered in England and Wales No. 2366977

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Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts, including the consolidated financial statements and the Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). In preparing the consolidated financial statements, the directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB). The consolidated financial statements and Company financial statements are required by law to give a true and fair view of the state of affairs of the Company on a consolidated and individual basis and of the consolidated profit of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the consolidated financial statements comply with IFRS as adopted by the European Union, and with regard to the Company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated financial statements and Company financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing both the consolidated financial statements and the Company financial statements. They also confirm that the annual report includes a fair review of the development and performance of the business together with a description of the principal risks and uncertainties faced by the Company.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company on a consolidated and individual basis and to enable them to ensure that the consolidated financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the Company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that publication of financial statements on the website of the Company or of a related company is in accordance with UK legislation and for maintenance and integrity of that website. Legislation in other jurisdictions governing the preparation and dissemination of financial statements may differ from UK legislation.

By order of the Board

Helen Mahy
Company Secretary
5 June 2008

Independent Auditors' report to the Members of National Grid Electricity Transmission plc

We have audited the consolidated and Company financial statements (the "financial statements") of National Grid Electricity Transmission plc for the year ended 31 March 2008, which comprise the consolidated income statement, the consolidated and Company balance sheets, the consolidated cash flow statement, the consolidated statement of recognised income and expense, the Accounting policies and Company accounting policies, the Adoption of new accounting standards, the Notes to the consolidated financial statements and the Notes to the Company financial statements. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and for preparing the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, 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. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the consolidated financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross-referred from the principal activities and business review section of the Directors' Report.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the items listed in the contents section of the Annual Report, excluding the 2008 audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 March 2008 and of its profit and cash flows for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2008;
- the Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
5 June 2008

Accounting policies

for the year ended 31 March 2008

A. Basis of preparation of consolidated financial statements under IFRS

National Grid Electricity Transmission principal activities involve the transmission of electricity in Great Britain. The Company is a public limited company incorporated and domiciled in England, with its registered office at 1-3 Strand, London WC2 5EH.

These consolidated financial statements were approved for issue by the Board of Directors on 5 June 2008.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and as adopted by the European Union. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ending 31 March 2008 and in accordance with the Companies Act 1985 applicable to companies reporting under IFRS and Article 4 of the European Union IAS regulation. The 2007 comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on a historical cost basis, except for the recording of pension liabilities and the revaluation of derivative financial instruments.

These consolidated financial statements are presented in pounds sterling, which is the functional currency of the Company.

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

B. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to bring the accounting policies used under UK generally accepted accounting principles (UK GAAP) used in the individual financial statements of the Company and its subsidiaries into line with those used by the Company in its consolidated financial statements under IFRS. Inter-company transactions are eliminated.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

C. Foreign currencies

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

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

D. Intangible assets

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment.

Internally generated intangible fixed assets, such as software, are recognised only if an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and that the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

Intangible assets under development are not amortised. Other non-current intangible assets are amortised on a straight-line basis over their estimated useful economic lives. The principal amortisation periods for categories of intangible assets are:

Amortisation periods	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 and finance costs incurred which are directly attributable to the construction of property, plant and equipment.

Property, plant and equipment include assets in which the Company’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, enhancements to, or replacement of existing assets.

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

Depreciation is not provided on freehold land or assets in the course of construction. Other property, plant and equipment are depreciated on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods	Years
Freehold and leasehold buildings	up to 40
Plant and machinery	
– towers	40 to 60
– substation plant, overhead lines and cables	40 to 50
– protection, control and communications equipment	15 to 25
Motor vehicles and office equipment	up to 5

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, the recoverable amount of the cash-generating unit to which that asset belongs is estimated.

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 assets 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.

Current tax assets and liabilities arising from transfer pricing adjustments, which are expected to be fully recovered through group relief, are initially recognised when tax returns are submitted to the tax authorities.

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 Company 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, when they relate to income taxes levied by the same taxation authority and it is intended to settle current tax asset and liabilities on a net basis.

H. Discontinued operations

Cash flows and operations that relate to a major component of the business or geographical region that has been sold are shown separately from continuing operations.

I. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises acquisition cost and those costs that have been incurred in bringing the inventories to their present location and condition.

J. Revenue

Revenue represents the sales value derived from the transmission of electricity and the provision of related services during the year. It excludes value added tax and intra-group sales.

The sales value for the transmission of electricity is largely determined from the amount of electricity transmitted in the year and system capacity sold for the year, evaluated at contractually determined prices or recovery rates. Where revenue for the year exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery, a liability for the over-recovery is not recognised as such an adjustment to future prices relates to the provision of future services. Similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

K. Segmental information

Segmental information is presented in accordance with the management responsibilities and economic characteristics, including consideration of risks and returns, of business activities. The Company assesses the performance of its businesses principally on the basis of operating profit before exceptional items and remeasurements. The primary reporting format is by business. As all of our operations are within the same geographical area, Great Britain, no secondary reporting format is presented.

L. Pensions

For defined benefit retirement schemes, the cost of providing benefits is determined using the projected unit method, with actuarial valuations being carried out at each balance sheet date.

Current service cost is recognised in operating costs in the period in which the defined benefit obligation increases as a result of employee services.

Actuarial gains and losses are recognised in full in the period in which they occur in the statement of recognised income and expense.

Past service costs are recognised immediately to the extent that benefits are already vested. Otherwise such costs are amortised on a straight-line basis over the period until the benefits vest.

Settlements are recognised when a transaction is entered into that eliminates all further legal or constructive obligations for benefits under a scheme.

Curtailments are recognised when a commitment is made to a material reduction in the number of employees covered by a scheme.

The retirement benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligations, as reduced by the fair value of scheme assets and any unrecognised past service cost.

The expected return on scheme assets and the unwinding of the discount on defined benefit obligations are recognised within interest income and expense respectively.

M. Leases

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

N. Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date.

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 amounts due under the original payment terms will not be collected. 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. Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

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.

Borrowings, which include interest-bearing loans, UK retail price index (RPI) linked debt and overdrafts, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently they are stated at amortised cost, using the effective interest rate method. Any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest rate method.

Borrowing costs directly attributable to the acquisition, construction or development of qualifying assets (being assets that necessarily take a substantial period of time to get ready for their intended use) are added to their cost. Such additions cease when the assets are substantially ready for their intended use.

Derivative financial instruments are recorded at fair value, and where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a derivative liability. Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists and the cash flows are intended to be settled on a net basis. Gains and losses arising from the changes in fair value are included in the income statement in the period they arise.

Where we have derivatives embedded in financial instruments or other contracts that are closely related to those instruments or host contracts, no adjustment is made with respect to such derivative clauses. In particular, interest payments on UK RPI debt are linked to movements in the UK retail price index. The link to RPI is considered to be an embedded derivative, which is closely related to the underlying debt instrument based on the view that there is a strong relationship existing between interest rates and inflation in the UK economy. Consequently, these embedded derivatives are not accounted for separately from the debt instrument.

An equity instrument is any contract that evidences a residual interest in the consolidated assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs with an annual amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

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 are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

O. Hedge accounting

The Company enters into both derivative financial instruments (derivatives) and non-derivative financial instruments in order to manage interest rate and foreign currency exposures associated with underlying business activities and the financing of those activities.

Hedge accounting allows derivatives to be designated as a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility in the income statement of changes in fair value of the derivative instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. The Company uses two hedge accounting methods.

Firstly, changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows (cash flow hedges) are recognised directly in equity and any ineffective portion is recognised immediately in the 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 a non-financial asset or a non-financial 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.

Secondly, fair value hedge accounting offsets the changes in the fair value of the hedging instrument against the change in the fair value of the hedged item in respect to the risk being hedged. These changes are recognised in the income statement to the extent the fair value hedge is effective. Adjustments made to the carrying amount of the hedged item for fair value hedges will be amortised over the remaining life, in line with the hedged item.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the income statement as they arise, within finance costs.

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 the carrying value of the hedged item at the date hedge accounting is discontinued, is amortised to the income statement using the effective interest rate method.

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

P. Share-based payments

National Grid issues equity-settled share-based payments to certain employees of the Company.

Equity-settled share-based payments are measured at fair value at the date of grant, based on an estimate of the number of shares that will eventually vest. This fair value is recognised on a straight-line basis over the vesting period, as an operating cost and an increase in equity. Payments made by the Company to National Grid in respect of share-based payments are recognised as a reduction in equity.

Q. Business performance and exceptional items and remeasurements

Our financial performance is analysed into two components: business performance, which excludes exceptional items and remeasurements; and exceptional items and remeasurements. Business performance is used by management to monitor financial performance, as it is considered to increase the comparability of our reported financial performance from year to year. Business performance subtotals, which exclude exceptional items and remeasurements, are presented on the face of the income statement or in the notes to the financial statements.

Exceptional items and remeasurements are items of income and expenditure that, in the judgment of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of our financial performance and significantly distort the comparability of financial performance between periods.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental provisions, and gains or losses on disposals of businesses or investments.

Costs arising from restructuring programmes primarily relate to redundancy costs. Redundancy costs are charged to the income statement in the year in which an irrevocable commitment is made to incur the costs and the main features of the restructuring plan have been announced to affected employees.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective.

R. Other operating income

Other operating income primarily relates to profits or losses arising on the disposal of properties arranged by National Grid's property management business, which is considered to be part of normal recurring activities.

S. Cash and cash equivalents

Cash and cash equivalents include cash held at bank and in hand, together with short-term highly liquid investments with an original maturity of less than three months that are readily convertible to known amounts of cash and subject to an insignificant change in value and bank overdrafts, which are reported in borrowings.

T. Dividends

Dividends are recognised in the financial year in which they are approved.

U. Areas of judgement and 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 or the notes to the financial 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 are:

- The categorisation of certain items as exceptional items and remeasurements and the definition of adjusted earnings – note 4.
- The exemptions adopted on transition to IFRS on 1 April 2004.
- Classification of businesses as discontinued operations – accounting policy H.
- Hedge accounting – accounting policy O.

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 intangible assets and property, plant and equipment – accounting policies D, E and F.
- Estimation of liabilities for pension schemes – note 5.
- Valuation of financial instruments and derivatives – notes 13 and 29.
- Revenue recognition and assessment of unbilled revenue – accounting policies J.
- Recoverability of deferred tax assets – accounting policy G and note 21.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2007/08

During the year ended 31 March 2008, the Company adopted the following amendments to International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the International Financial Reporting Interpretation Committee pronouncements (IFRIC). None of these had a material impact on consolidated results or assets and liabilities.

IFRIC 8 on share-based payments	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.
IFRIC 9 on the 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.
IFRIC 10 on interim financial reporting and impairment	States that any impairment losses on goodwill and certain financial assets recognised in an interim financial statement may not be reversed in subsequent interim or annual financial statements.
IFRIC 11 on group and treasury share transactions	Provides guidance on whether share-based transactions involving treasury shares or involving subsidiary undertakings (for instance, options over a parent's shares) should be accounted for as equity-settled or cash-settled, share-based payment transactions.

New IFRS accounting standards and interpretations not yet adopted

The Company has yet to adopt the following standards and interpretations, but these are not expected to have a material impact on consolidated results or assets and liabilities. Further information is provided in the accounting policies section of the Operating and Financial Review.

IFRS 8 on operating segments	Sets out the requirements for the disclosure of information about an entity's operating segments and about the entity's products and services, the geographical areas in which it operates and its major customers. IFRS 8 is required to be adopted on 1 April 2009.
Amendment to IAS 23 on borrowing costs	Removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The amendment to IAS 23 is required to be adopted on 1 April 2009.
IFRIC 12 on service concession arrangements	Applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services, for example, under private finance initiative (PFI) contracts. IFRIC 12 will be adopted on 1 April 2008.
IFRIC 13 on customer loyalty programmes	Clarifies that the sale of goods or services together with customer award credits (for example, loyalty points or the right to free products) is accounted for as a multiple-element transaction. The consideration received from the customer is allocated between the components of the arrangement based on their fair values, which will defer the recognition of some revenue. IFRIC 13 will be adopted on 1 April 2008.
IFRIC 14 on defined benefit assets and minimum funding requirements	Considers the limit on the measurement of a defined benefit asset to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan plus unrecognised gains and losses, as set out in IAS 19 'Employee Benefits'. The interpretation considers when refunds or reductions in future contributions should be considered available, particularly when a minimum funding requirement exists. IFRIC 14 will be adopted on 1 April 2008.
Amendment to IAS 1 on the presentation of financial statements	Requires changes to the presentation of financial statements and adopts revised titles for the primary statements, although companies may continue to use the existing titles. It is expected that the amendment to IAS 1 will be adopted on 1 April 2009.
IFRS 3R on business combinations	Makes a number of changes to the accounting for business combinations, including requirements that all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income; an option to calculate goodwill based on the parent's share of net assets only or to include goodwill related to the minority interest; and a requirement that all transaction costs be expensed. It is expected that IFRS 3R will be adopted on 1 April 2010.
IAS 27R on consolidated and individual financial statements	Requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. The revised standard also specifies the accounting when control is lost. It is expected that IAS 27R will be adopted on 1 April 2010.
Amendment to IFRS 2 on share-based payments	Clarifies the definition of vesting conditions and the accounting treatment of cancellations. Vesting conditions are defined as either service conditions or performance conditions. Cancellations by employees are accounted for in the same way as cancellations by the company. It is expected that the amendment to IFRS 2 will be adopted on 1 April 2009.
Amendments to IAS 32 and IAS 1 on puttable financial instruments and obligations arising on liquidation	Addresses the classification as a liability or as equity certain puttable financial instruments and instruments, or components thereof, which impose upon an entity an obligation to deliver a pro rata share of net assets on liquidation. The amendment to IAS 32 and IAS 1 are required to be adopted on 1 April 2009.

Consolidated income statement

for the years ended 31 March

	Notes	**2008** **£m**	**2008** **£m**	2007 £m	2007 £m
Revenue	1(a)		**2,145**		2,018
Other operating income	2		**28**		-
Operating costs	3		**(1,501)**		(1,459)
Operating profit					
Before exceptional items	1(b)	**677**		566	
Exceptional items	4	**(5)**		(7)	
Total operating profit	1(b)		**672**		559
Interest income and similar income	6		**144**		125
Interest expense and other finance costs					
Before exceptional items and remeasurements	6	**(313)**		(260)	
Exceptional items and remeasurements	4, 6	**5**		(9)	
	6		**(308)**		(269)
Profit before taxation					
Before exceptional items and remeasurements		**508**		431	
Exceptional items and remeasurements		**-**		(16)	
Total profit before taxation			**508**		415
Taxation					
Before exceptional items and remeasurements	7	**(142)**		(131)	
Exceptional items and remeasurements	4, 7	**47**		2	
Total taxation	7		**(95)**		(129)
Profit from continuing operations after taxation					
Before exceptional items and remeasurements		**366**		300	
Exceptional items and remeasurements	4	**47**		(14)	
Profit for the year from continuing operations			**413**		286
Profit for the year from discontinued operations					
Before exceptional items	8	**-**		16	
Exceptional items	8	**-**		33	
	8		**-**		49
Profit for the year			**413**		335

The notes on pages 40 to 66 form part of the consolidated financial statements.

Consolidated balance sheet

at 31 March

	Notes	2008 £m	2007 £m
Non-current assets			
Intangible assets	10	**56**	65
Property, plant and equipment	11	**5,354**	4,793
Other non-current assets	12	**4**	15
Derivative financial assets	13	**20**	3
Total non-current assets		**5,434**	4,876
Current assets			
Inventories	14	**18**	17
Trade and other receivables	15	**357**	504
Current tax assets		**-**	11
Financial investments	16	**916**	377
Derivative financial assets	13	**76**	2
Cash and cash equivalents	17	**12**	465
Total current assets		**1,379**	1,376
Assets held for resale		**-**	23
Total assets	1(d)	**6,813**	6,275
Current liabilities			
Borrowings	18	**(927)**	(263)
Derivative financial liabilities	13	**(6)**	(4)
Trade and other payables	19	**(740)**	(856)
Provisions	22	**(4)**	(2)
Total current liabilities		**(1,677)**	(1,125)
Non-current liabilities			
Borrowings	18	**(3,387)**	(3,491)
Derivative financial liabilities	13	**(48)**	(36)
Other non-current liabilities	20	**(135)**	(134)
Deferred tax liabilities	21	**(670)**	(647)
Pension obligations	5	**(409)**	(488)
Provisions	22	**(11)**	(13)
Total non-current liabilities		**(4,660)**	(4,809)
Liabilities associated with assets held for sale		**-**	(4)
Total liabilities	1(d)	**(6,337)**	(5,938)
Net assets		**476**	337
Equity			
Called up share capital	23	**44**	44
Retained earnings	24	**453**	298
Cash flow hedge reserve	24	**(21)**	(5)
Total shareholders' equity		**476**	337

These financial statements, comprising the consolidated income statement, consolidated balance sheet, consolidated statement of recognised income and expense, consolidated cash flow statement, accounting policies, adoption of new accounting standards and related notes 1 to 33 were approved by the Board of Directors on 5 June 2008 and were signed on its behalf by:

Mark Fairbairn Director

Andy Chapman Director

Consolidated statement of recognised income and expense

for the years ended 31 March

		2008 £m	2007 £m
Actuarial gains/(losses)	5	**51**	(93)
Net (losses)/gains taken to equity in respect of cash flow hedges		**(19)**	1
Tax on items taken directly to or transferred from equity	7	**(11)**	30
Net income/(expense) recognised directly in equity		**21**	(62)
Profit for the year		**413**	335
Total recognised income and expense for the year		**434**	273

Consolidated cash flow statement

for the years ended 31 March

	Notes	**2008** **£m**	2007* £m
Cash flows from operating activities			
Total operating profit		**672**	559
Adjustments for:			
Exceptional items and remeasurements		**5**	7
Depreciation and amortisation		**245**	250
Property disposals		**3**	-
Share based payment charge		**2**	4
Changes in working capital		**(90)**	(25)
Changes in provisions		**-**	(5)
Changes in pension obligations		**(38)**	6
Cash flows relating to exceptional items		**(5)**	(7)
Cash flows generated from continuing operations		**794**	789
Cash flows relating to discontinued operations	25(a)	**-**	33
Cash generated from operations		**794**	822
Tax received/(paid) - continuing operations		**24**	(142)
Net cash inflow from operating activities		**818**	680
Cash flows from investing activities			
Purchases of intangible assets		**(15)**	(12)
Purchases of property, plant and equipment		**(702)**	(495)
Purchases of financial investments		**(518)**	(379)
Sales of financial investments		**-**	3
Cash flows used in continuing operations - investing activities		**(1,235)**	(883)
Cash flows relating to discontinued operations - investing activities		**-**	128
Net cash flow used in investing activities		**(1,235)**	(755)
Cash flows from financing activities			
Proceeds from loans received		**200**	800
Repayment of loans		**-**	(248)
Net movements in short-term borrowings and derivatives		**210**	197
Interest received		**58**	40
Interest paid		**(188)**	(155)
Exceptional finance costs on the repayment of debt		**-**	(8)
Dividends paid to shareholders		**(290)**	(120)
Net cash flow (used in)/from financing activities		**(10)**	506
Net (decrease)/increase in cash and cash equivalents		**(427)**	431
Cash and cash equivalents at the start of the year (i)		**439**	8
Net cash and cash equivalents at the end of the year (i)	17	**12**	439

*Comparative amounts have been adjusted to present items on a basis consistent with the current year.

(i) Net of bank overdrafts of £nil (2007: £26m, 2006: £16m).

Notes to the consolidated financial statements - analysis of items in the primary statements

1. Segmental analysis

The following table describes the main activities for each business segment:

Electricity Transmission	High-voltage electricity transmission networks in the UK

Other activities relate to contracting activities, the provision of support services and corporate activities not included within the above segment.

Discontinued operations comprise the operations of the French interconnector business which was transferred to a fellow subsidiary of National Grid on 14 August 2006.

All of the Company's sales and operations take place within the UK and accordingly there is no secondary reporting format by geographical area.

Sales between businesses are priced having regard to the regulatory and legal requirements that the businesses are subject to, which include requirements to avoid cross-subsidies.

(a) Revenue

	Total sales 2008 £m	**Sales between businesses 2008 £m**	**Sales to third parties 2008 £m**	Total sales 2007 £m	Sales between businesses 2007 £m	Sales to third parties 2007 £m
Business segment - continuing operations						
Electricity Transmission	**2,142**	**-**	**2,142**	2,012	5	2,007
Other activities	**4**	**1**	**3**	14	3	11
	2,146	**1**	**2,145**	2,026	8	2,018

The table above represents revenue from continuing operations only, as disclosed in the consolidated income statement. For additional disclosures relating to discontinued operations, refer to note 8.

(b) Operating profit/(loss)

	Before exceptional items		After exceptional items	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Business segment - continuing operations				
Electricity Transmission	**671**	576	**666**	569
Other activities	**6**	(10)	**6**	(10)
	677	566	**672**	559

The table above represents operating profit from continuing operations only, as disclosed in the consolidated income statement. For additional disclosures on discontinued operations, refer to note 8.

(c) Capital expenditure and depreciation

	Capital expenditure		Depreciation and amortisation	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Business segment - continuing operations				
Electricity Transmission	**800**	606	**244**	245
Other activities	**-**	1	**1**	4
	800	607	**245**	249
Discontinued operations	**-**	-	**-**	1
	800	607	**245**	250

Capital expenditure comprises additions to property, plant and equipment and intangible assets amounting to £785m (2007: £595m) and £15m (2007: £12m) respectively.

Depreciation and amortisation includes depreciation of property, plant and equipment and amortisation of intangible assets amounting to £221m (2007: £227m) and £24m (2007: £23m) respectively.

1. Segmental analysis continued

(d) Total assets and total liabilities

	Total assets		Total liabilities	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Business segment - continuing operations				
Electricity Transmission	**5,557**	4,977	**(685)**	(586)
Other activities	**35**	48	**10**	(5)
	5,592	5,025	**(675)**	(591)
Unallocated	**1,221**	1,250	**(5,662)**	(5,347)
	6,813	6,275	**(6,337)**	(5,938)

The analysis of total assets and total liabilities excludes inter-business balances. Unallocated total assets include amounts owed by fellow subsidiaries, cash and cash equivalents, taxation, financial investments and derivative assets. Unallocated total liabilities include amounts owed to fellow subsidiaries, borrowings, derivative financial liabilities, pension liabilities and taxation.

2. Other operating income

Other operating income represents income on the disposal of property, principally as a result of property management activities.

3. Operating costs

	Before exceptional items		Exceptional items		Total	
	2008	2007	**2008**	2007	**2008**	2007
	£m	£m	**£m**	£m	**£m**	£m
Depreciation of property, plant and equipment	**221**	226	**-**	-	**221**	226
Amortisation of intangible assets	**24**	23	**-**	-	**24**	23
Payroll costs	**97**	99	**5**	4	**102**	103
Other operating charges:						
Rates	**99**	96	**-**	-	**99**	96
Electricity transmission services scheme direct costs	**575**	551	**-**	-	**575**	551
Payments to Scottish electricity transmission network owners	**270**	280	**-**	-	**270**	280
Other	**210**	177	**-**	3	**210**	180
	1,496	1,452	**5**	7	**1,501**	1,459
Operating costs include:						
Consumption of inventories					**4**	4
Research expenditure					**3**	3
Operating lease rentals - other					**5**	5

(a) Payroll costs

	2008	2007 *
	£m	£m
Wages and salaries	**105**	99
Social security costs	**11**	11
Other pension costs	**21**	17
Share-based payments	**2**	3
Severance costs (excluding pension costs)	**3**	4
	142	134
Less: payroll costs capitalised	**(40)**	(31)
	102	103

*Comparative amounts have been adjusted to present items on a basis consistent with the current year.

3. Operating costs continued

(b) Number of employees, including Directors

	31 March 2008 Number	**Average 2008 Number**	Average 2007 Number
UK			
Continuing operations	**2,490**	2,425	2,358

The vast majority of employees are either directly or indirectly employed in the transmission of electricity.

(c) Key management compensation

	2008 £m	2007 £m
Salaries and short-term employee benefits	**1**	2
Post-employment benefits	**1**	1
Share-based payments	**1**	1
	3	4

Key management comprises the Board of Directors of the Company.

(d) Directors' emoluments

The aggregate amount of emoluments paid to Directors in respect of qualifying services for 2008 was £1,190,235 (2007: £1,483,019).

Four Directors exercised share options during 2008 (2007: two 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 2007, retirement benefits were accruing to five Directors under a defined benefit scheme (2007: four directors, under a defined benefit scheme).

The aggregate emoluments for the highest paid Director were £423,716 for 2008 (2007: £363,000); and total accrued annual pension at 31 March 2008 for the highest paid Director was £74,810 (2007: £152,000).

(e) Auditors' remuneration

	2008 £m	2007 £m
Audit services		
Audit fee of parent company and consolidated financial statements	**0.2**	0.1
Other services		
Other services supplied pursuant to legislation	**0.3**	0.3

Other services supplied pursuant to legislation represents fees payable for services in relation to engagements which are required to be carried out by the auditor. In particular this includes fees for audit reports on regulatory returns and fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley).

4. Exceptional items and remeasurements

	2008 **£m**	2007 £m
Exceptional items - restructuring costs (i)	**(5)**	(7)
Total exceptional items included within operating profit	**(5)**	(7)
Exceptional items - debt restructuring costs (ii)	**-**	(8)
Remeasurements - net gains/(losses) on derivative financial instruments (iii)	**5**	(1)
Total exceptional items and remeasurements included within finance costs	**5**	(9)
Total exceptional items and remeasurements before taxation	**-**	(16)
Exceptional tax item - deferred tax credit arising from reduction in UK tax rate (iv)	**47**	-
Tax on exceptional items - restructuring costs (i)	**2**	2
Tax on exceptional items - debt restructuring costs (ii)	**-**	2
Tax on remeasurements - derivative financial instruments (iii)	**(2)**	(2)
Tax on exceptional items and remeasurements	**47**	2
Total exceptional items and remeasurements after taxation	**47**	(14)
Total exceptional items after taxation	**44**	(11)
Total remeasurements after taxation	**3**	(3)
Total exceptional items and remeasurements after taxation	**47**	(14)

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

(ii) Debt restructuring costs for the year ended 31 March 2007 represent debt redemption costs related to the restructuring of our debt portfolio.

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

(iv) The exceptional tax credit in the period arose from a reduction in the UK corporation tax rate from 30% to 28% included in the Finance Act 2007. This resulted in a reduction in deferred tax liabilities.

5. Pensions

Substantially all of National Grid Electricity Transmission's employees are members of the National Grid Electricity Group of the Electricity Supply Pension Scheme which is a defined benefit pension scheme. For further details of the nature and terms of this scheme and the actuarial assumptions used to value the associated assets and pension obligations, refer to note 28.

The amounts recognised in the consolidated income statement with respect to pensions are as follows:

	2008 **£m**	2007 £m
Defined benefit scheme costs		
Current service cost	**18**	20
Curtailment gains on redundancies	**(1)**	-
Cost of contractual termination on redundancies	**3**	-
Other augmentation	**1**	-
Total in payroll costs - continuing	**21**	20
Interest cost	**97**	83
Expected return on plan assets	**(89)**	(84)
Total in finance costs - continuing	**8**	(1)

The amounts recognised in the consolidated statement of recognised income and expense with respect to pensions are as follows:

	2008 **£m**	2007 £m
Actuarial gain/(loss) during the year	**51**	(93)
Cumulative actuarial gain/(loss)	**40**	(11)

The amounts recognised in the consolidated balance sheet with respect to pensions are as follows:

	2008 **£m**	2007 £m
Present value of funded obligations	**(1,716)**	(1,812)
Fair value of plan assets	**1,321**	1,336
	(395)	(476)
Present value of unfunded obligations	**(14)**	(12)
Net liability in the balance sheet	**(409)**	(488)
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation (including unfunded obligations)	**(1,824)**	(1,724)
Current service cost	**(18)**	(20)
Interest cost	**(97)**	(83)
Actuarial gains/(losses)	**128**	(67)
Net increase in liabilities from redundancies	**(3)**	(3)
Employee contributions	**(6)**	(6)
Benefits paid (including unfunded obligations)	**83**	81
Net transfers	**8**	(1)
Other augmentations	**(1)**	(1)
Closing defined benefit obligation (including unfunded obligations)	**(1,730)**	(1,824)
Changes in the fair value of plan assets		
Opening fair value of plan assets	**1,336**	1,334
Expected return on plan assets	**89**	84
Actuarial losses	**(77)**	(26)
Employer contributions	**58**	18
Employee contributions	**6**	6
Benefits paid (including unfunded obligations)	**(83)**	(81)
Net transfers	**(8)**	1
Closing fair value of plan assets	**1,321**	1,336
Actual return on plan assets	**12**	59
Expected contributions to defined benefit plans in the following year	**19**	12

6. Finance income and costs

	2008 £m	2007 £m
Interest income and similar income		
Expected return on pension plan assets	**87**	84
Interest income on financial instruments:		
Interest income from bank deposits and other financial assets	**55**	38
Interest receivable on finance leases	**2**	3
Interest income and similar income	**144**	125
Interest expense and other financial costs		
Interest on pension plan obligations	**(97)**	(83)
Interest expense on financial liabilities held at amortised cost:		
Interest on bank loans and overdrafts	**(25)**	(20)
Interest on other borrowings	**(227)**	(172)
Preference dividends	**-**	(1)
Exceptional debt redemption costs	**-**	(8)
Interest on derivatives	**(17)**	(16)
Less: interest capitalised (i)	**53**	32
Interest expense	**(313)**	(268)
Net gains/(losses) on derivative financial instruments included in remeasurements:		
Ineffectiveness on derivatives designated as fair value hedges (ii)	**3**	(1)
Ineffectiveness on derivatives designated as cash flow hedges	**1**	-
On derivatives not designated as hedges or ineligible for hedge accounting	**1**	-
Net gains/(losses) on derivative financial instruments included in remeasurements (iii)	**5**	(1)
Interest expense and other finance costs	**(308)**	(269)
Net finance costs	**(164)**	(144)
Comprising:		
Interest income and similar income	**144**	125
Interest expense and other finance costs		
Before exceptional items and remeasurements	**(313)**	(260)
Exceptional items and remeasurements	**5**	(9)
	(164)	(144)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 6.4% (2007: 5.5%).

(ii) Derivative net gains on fair value hedges comprise a net gain on the hedging instruments of £15m (2007: £36m) offset by a net loss of £12m (2007: £37m) from the fair value adjustments to the carrying value of debt.

(iii) Losses on derivative financial instruments include a net foreign exchange loss on financing activities of £84m (2007: £35m gain). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

7. Taxation

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

	Before exceptional items and remeasurements		Exceptional items and remeasurements		Total	
	2008	2007	**2008**	2007	**2008**	2007
	£m	£m	**£m**	£m	**£m**	£m
United Kingdom						
Corporation tax at 30% (2007: 30%)	**145**	136	**-**	-	**145**	136
Corporation tax adjustment in respect of prior years	**(56)**	(15)	**-**	-	**(56)**	(15)
	89	121	**-**	-	**89**	121
Deferred tax	**3**	(5)	**-**	(2)	**3**	(7)
Deferred tax credit arising from change in UK tax rates	**-**	-	**(47)**	-	**(47)**	-
Deferred tax adjustment in respect of prior years	**50**	15	**-**	-	**50**	15
	53	10	**(47)**	(2)	**6**	8
Total tax charge	**142**	131	**(47)**	(2)	**95**	129

Taxation on items charged/(credited) to equity

	2008	2007
	£m	£m
Deferred tax credit on revaluation of cash flow hedges	**(3)**	(2)
Deferred tax charge/(credit) on actuarial gains/losses	**14**	(28)
Tax charge/(credit) recognised in consolidated statement of recognised income and expense	**11**	(30)
Deferred tax charge/(credit) on share-based payments recognised directly in equity	**6**	(5)
Corporation tax credit on share-based payments recognised directly in equity	**(3)**	-
	14	(35)

The tax charge for the year after exceptional items and remeasurements is lower (2007: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Before exceptional items and remeasure-ments 2008 £m	**After exceptional items and remeasure-ments 2008 £m**	Before exceptional items and remeasure-ments 2007 £m	After exceptional items and remeasure-ments 2007 £m
Profit before taxation				
Before exceptional items and remeasurements	**508**	**508**	431	431
Exceptional items and remeasurements	**-**	**-**	-	(16)
Profit before taxation from continuing operations	**508**	**508**	431	415
Profit on continuing operations multiplied by the rate of corporation tax in the UK of 30% (2007: 30%)	**152**	**152**	129	125
Effects of:				
Adjustments in respect of previous years	**(6)**	**(6)**	-	-
Expenses not deductible for tax purposes	**4**	**4**	-	-
Non-taxable income	**(8)**	**(8)**	-	-
Remeasurement of deferred tax - change in UK tax rate	**-**	**(47)**	-	-
Other	**-**	**-**	2	4
Total taxation from continuing operations	**142**	**95**	131	129
	%	**%**	%	%
At the effective income tax rate	**28.0**	**18.7**	30.3	31.1

Factors that may affect future tax charges

During the year, as a result of the change in the UK corporation tax rate from 30% to 28% that will be effective from 1 April 2008, the deferred tax expected to reverse has been measured using the 28% tax rate.

A number of changes to the UK corporation tax system were announced in the March 2008 Budget Statement and are expected to be enacted in the 2008 Finance Act. These include changes to the industrial buildings allowance regime. The changes have not been substantively enacted at the balance sheet date and therefore are not included in these financial statements. However, the change to the industrial buildings allowance regime is expected to have a £17m tax charge impact in 2008/09.

8. Discontinued operations

Discontinued operations comprise our former Interconnectors business which was transferred to a fellow subsidiary of National Grid plc on 14 August 2006.

Results of discontinued operations

	2008	2007
	£m	£m
Revenue	**-**	27
Operating costs	**-**	(4)
Operating profit from discontinued operations	**-**	23
Profit before taxation from discontinued operations	**-**	23
Taxation	**-**	(7)
Profit after taxation from discontinued operations	**-**	16
Gain on disposal of discontinued operations before and after taxation	**-**	33
Total profit for the year from discontinued operations		
Before exceptional items	**-**	16
Exceptional items	**-**	33
	-	49

9. Dividends

The following table shows the dividends paid to equity shareholders:

	2008	**2008**	2007	2007
	pence		pence	
	(per ordinary		(per ordinary	
	share)	**£m**	share)	£m
Ordinary dividends				
Interim dividend for the year ended 31 March 2008	**66.32**	**290**	-	-
Interim dividend for the year ended 31 March 2007	**-**	**-**	27.44	120

10. Intangible assets

	Software
	£m
Non-current	
Cost at 1 April 2006	133
Additions	12
Cost at 31 March 2007	145
Additions	15
Cost at 31 March 2008	160
Amortisation at 1 April 2006	(57)
Amortisation charge for the year	(23)
Amortisation at 31 March 2007	(80)
Amortisation charge for the year	(24)
Amortisation at 31 March 2008	(104)
Net book value at 31 March 2008	**56**
Net book value at 31 March 2007	65

11. Property, plant and equipment

	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and office equipment	Total
	£m	£m	£m	£m	£m
Cost at 1 April 2006	154	6,289	654	104	7,201
Additions	1	5	586	3	595
Disposal of business	(25)	(335)	(1)	(1)	(362)
Other disposals	-	(26)	-	(6)	(32)
Reclassifications	17	480	(509)	12	-
Cost at 31 March 2007	147	6,413	730	112	7,402
Additions	5	3	778	(1)	785
Disposals	(2)	(14)	-	(36)	(52)
Reclassifications	4	242	(261)	15	-
Cost at 31 March 2008	154	6,644	1,247	90	8,135
Depreciation at 1 April 2006	(39)	(2,552)	-	(90)	(2,681)
Depreciation charge for the year (i)	(3)	(212)	-	(12)	(227)
Disposal of business	18	248	-	1	267
Other disposals	-	27	-	5	32
Depreciation at 31 March 2007	(24)	(2,489)	-	(96)	(2,609)
Depreciation charge for the year	(3)	(207)	-	(11)	(221)
Disposals	-	14	-	35	49
Depreciation at 31 March 2008	(27)	(2,682)	-	(72)	(2,781)
Net book value at 31 March 2008	**127**	**3,962**	**1,247**	**18**	**5,354**
Net book value at 31 March 2007	123	3,924	730	16	4,793

(i) Includes amounts in respect of discontinued operations of £1m.

The net book value of land and buildings comprised:

	2008	2007
	£m	£m
Freehold	**106**	102
Long leasehold (over 50 years)	**3**	3
Short leasehold (under 50 years)	**18**	18
	127	123

The cost of property, plant and equipment at 31 March 2008 included £519m (2007: £466m) relating to interest capitalised.

Included within trade and other payables and other non-current liabilities at 31 March 2008 are contributions to the cost of property, plant and equipment amounting to £4m (2007: £2m) and £118m (2007: £124m) respectively.

12. Other non-current assets

	2008	2007
	£m	£m
Lease receivables	**4**	15

The fair value of lease receivables approximates to their book value.

13. Derivative financial instruments

For further information and a detailed description of our derivative financial instruments and hedge type designations, refer to note 29. The fair value by designated hedge type can be analysed as follows:

	2008			2007		
	Assets	**Liabilities**	**Total**	Assets	Liabilities	Total
	£m	**£m**	£m	£m	£m	£m
Fair value hedges						
Interest rate swaps	**5**	**(5)**	**-**	2	(17)	(15)
Cross-currency interest rate swaps	**-**	**(3)**	**(3)**	-	(16)	(16)
	5	**(8)**	**(3)**	2	(33)	(31)
Cash flow hedges						
Interest rate swaps	**20**	**(40)**	**(20)**	1	-	1
Cross-currency interest rate swaps	**70**	**-**	**70**	-	(2)	(2)
	90	**(40)**	**50**	1	(2)	(1)
Derivatives not in a formal hedge relationship						
Interest rate swaps	**1**	**(6)**	**(5)**	2	(5)	(3)
	1	**(6)**	**(5)**	2	(5)	(3)
Total	**96**	**(54)**	**42**	5	(40)	(35)

Included in derivative financial instruments are foreign exchange forward contracts with fair value of £nil (2007: £nil).

The maturity of derivative financial instruments is as follows:

	2008			2007		
	Assets	**Liabilities**	**Total**	Assets	Liabilities	Total
	£m	**£m**	£m	£m	£m	£m
In one year or less	**76**	**(6)**	**70**	2	(4)	(2)
Current	**76**	**(6)**	**70**	2	(4)	(2)
In more than one year but not more than two years	**-**	**-**	**-**	1	(2)	(1)
In more than two years but not more than three years	**-**	**-**	**-**	-	-	-
In more than three years but not more than four years	**-**	**-**	**-**	-	(3)	(3)
In more than four years but not more than five years	**-**	**(5)**	**(5)**	-	-	-
In more than five years	**20**	**(43)**	**(23)**	2	(31)	(29)
Non-current	**20**	**(48)**	**(28)**	3	(36)	(33)
	96	**(54)**	**42**	5	(40)	(35)

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

	2008	2007
	£m	£m
Interest rate swaps	**(1,987)**	(1,408)
Cross-currency interest rate swaps	**(514)**	(514)
Foreign exchange forward contracts	**(4)**	(6)
Total	**(2,505)**	(1,928)

14. Inventories

	2008 £m	2007 £m
Raw materials and consumables	**13**	14
Work in progress	**5**	3
	18	17

15. Trade and other receivables

	2008 £m	2007 £m
Trade receivables	**23**	27
Amounts owed by fellow subsidiaries	**187**	354
Other receivables	**25**	15
Prepayments and accrued income	**122**	108
	357	504

Trade receivables are non-interest bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade and other receivables approximates to their book value.

Provision for impairment of receivables

	£m
At 1 April 2006, 31 March 2007 and 31 March 2008	**1**

As at 31 March 2008, trade receivables of £3m (2007: £10m) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2008 £m	2007 £m
Up to 3 months past due	**-**	5
3 to 6 months past due	**-**	1
Over 6 months past due	**3**	4
	3	10

For further information about our wholesale credit risk, refer to note 30.

16. Financial investments

	2008 £m	2007 £m
Current		
Loans and receivables - amounts due from fellow subsidiaries	**916**	377

Due to their short maturities, the fair value of loans and receivables approximates to their book value.

17. Cash and cash equivalents

	2008 £m	2007 £m
Cash at bank	**12**	28
Short-term deposits	**-**	437
Cash and cash equivalents excluding bank overdrafts	**12**	465
Bank overdrafts	**-**	(26)
Net cash and cash equivalents	**12**	439

The fair values of cash and cash equivalents and bank overdrafts approximate to their book amounts.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for various periods of between one day and three months, depending on immediate cash requirements, and earn interest at the respective short-term deposit rates.

18. Borrowings

The following table analyses borrowings, including bank overdrafts:

	2008	2007
	£m	£m
Current		
Bank loans	**1**	1
Bonds	**518**	41
Borrowings from fellow subsidiaries	**408**	195
Bank overdrafts	**-**	26
	927	263
Non-current		
Bank loans	**400**	400
Bonds	**2,987**	3,091
	3,387	3,491
Total borrowings	**4,314**	3,754

Total borrowings are repayable as follows:	**2008**	2007
	£m	£m
In one year or less	**927**	263
In more than one year, but not more than two years	**-**	407
In more than two years, but not more than three years	**249**	-
In more than three years, but not more than four years	**-**	245
In more than four years, but not more than five years	**200**	-
In more than five years other than by instalments	**2,938**	2,839
	4,314	3,754

The fair value of borrowings at 31 March 2008 was £4,200m (2007: £3,853m). 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.

The notional amount outstanding of the debt portfolio as at 31 March 2008 was £4,298m (2007: £3,751m).

As at 31 March 2008, the Company had committed credit facilities of £425m (2007: £450m) of which £425m was undrawn (2007: £450m undrawn). These undrawn facilities expire in more than 2 years.

All of the unused facilities at 31 March 2008 and at 31 March 2007 were held as back-up to commercial paper and similar borrowings.

19. Trade and other payables

	2008	2007
	£m	£m
Trade payables	**388**	337
Amounts owed to fellow subsidiaries	**204**	386
Social security and other taxes	**4**	16
Other payables	**80**	52
Deferred income	**64**	65
	740	856

Due to their short maturities, the fair value of trade and other payables (excluding deferred income) approximates to their book value.

20. Other non-current liabilities

	2008	2007
	£m	£m
Other payables	**15**	8
Deferred income	**120**	126
	135	134

The fair value of other payables approximates to their book value.

21. Deferred tax assets and liabilities

The following are the major deferred tax asets and liabilities recognised and the movements thereon, during the current and prior years:

	Accelerated	Employee			Other net	
	tax	share		Financial	temporary	
	depreciation	options	Pensions	instruments	differences	Total
	£m	£m	£m	£m	£m	£m
Deferred tax assets at 31 March 2006	-	(10)	(117)	(3)	(4)	(134)
Deferred tax liabilities at 31 March 2006	834	-	-	-	-	834
At 1 April 2006	834	(10)	(117)	(3)	(4)	700
Charged/(credited) to income statement	5	2	(1)	-	3	9
Credited to equity	-	(5)	(28)	(2)	-	(35)
Disposal of business	(27)	-	-	-		(27)
At 31 March 2007	812	(13)	(146)	(5)	(1)	647
Deferred tax assets at 31 March 2007	-	(13)	(146)	(5)	(1)	(165)
Deferred tax liabilities at 31 March 2007	812	-	-		-	812
At 1 April 2007	812	(13)	(146)	(5)	(1)	647
Charged/(credited) to income statement	(3)	-	18	-	(9)	6
Charged/(credited) to equity	-	6	14	(3)	-	17
At 31 March 2008	**809**	**(7)**	**(114)**	**(8)**	**(10)**	**670**
Deferred tax assets at 31 March 2008	-	(7)	(114)	(8)	(10)	(139)
Deferred tax liabilities at 31 March 2008	809	-	-	-	-	809
	809	(7)	(114)	(8)	(10)	670

Deferred tax assets are all offset against deferred tax liabilities.

At the balance sheet date there were no material current deferred tax assets or liabilities (2007: £nil).

22. Provisions

			Total
	Environmental	Other	provisions
	£m	£m	£m
At 1 April 2006	8	12	20
Utilised	(4)	(1)	(5)
At 31 March 2007	4	11	15
Additions	-	2	2
Utilised	(2)	-	(2)
At 31 March 2008	**2**	**13**	**15**

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

	2008	2007
	£m	£m
Current	**4**	2
Non-current	**11**	13
	15	15

Environmental provision

The environmental provision is calculated on an undiscounted basis and represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Company. It is currently estimated that this provision will be utilised within five years.

Other provisions

Other provisions include employer liability claims of £6m (2007: £6m). In accordance with insurance industry practice, these estimates are based on experience from previous years and there is, therefore, no identifiable payment date.

23. Share capital

	millions	£m
At 31 March 2007 and 2008 - ordinary shares of 10p each		
Allotted, called up and fully paid	437	44
Authorised	2,751	275

24. Reconciliation of movements in total equity

	Called-up	Cash flow		
	share	hedge	Retained	Total
	capital	reserve	earnings	equity
	£m	£m	£m	£m
At 1 April 2006	-	(8)	140	132
Total recognised income and expense for the year	-	3	270	273
Equity dividends	-	-	(120)	(120)
Conversion of preference shares	44	-	-	44
Share-based payments	-	-	3	3
Tax on share-based payments	-	-	5	5
At 31 March 2007	44	(5)	298	337
Total recognised income and expense for the year	-	(16)	450	434
Equity dividends	-	-	(290)	(290)
Share-based payments	-	-	(2)	(2)
Tax on share-based payments	-	-	(3)	(3)
At 31 March 2008	**44**	**(21)**	**453**	**476**

Gains and losses recognised in the cash flow hedge reserve on interest rate swap contracts as of 31 March 2008 will be continuously transferred to the income statement until the borrowings are repaid (note 18).

The Company 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 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.

The amount of the cash flow hedge reserve due to be released from reserves to the income statement within the next year is £nil, with the remaining amount of £21m due to be released with the same maturity profile as borrowings in note 18.

25. Consolidated cash flow statement

(a) Cash flow from operating activities – discontinued operations

	2008 **£m**	2007 £m
Operating profit	**-**	23
Adjustments for:		
Depreciation and amortisation	**-**	1
Changes in working capital	**-**	9
Cash flow relating to discontinued operations	**-**	33

(b) Reconciliation of net cash flow to movement in net debt

	2008 **£m**	2007 £m
Movement in cash and cash equivalents	**(427)**	431
Increase in financial investments	**518**	376
Increase in borrowings and derivatives	**(410)**	(749)
Net interest paid	**132**	126
Change in net debt resulting from cash flows	**(187)**	184
Changes in fair value of financial assets and liabilities	**(14)**	(4)
Net interest charge	**(214)**	(165)
Other non-cash movements	**18**	-
Movement in net debt (net of related derivative financial instruments) in the year	**(397)**	15
Net debt at start of year	**(2,947)**	(2,962)
Net debt (net of related derivative financial instruments) at end of year	**(3,344)**	(2,947)

(c) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Total £m
At 1 April 2006	24	(16)	8	-	(2,990)	20	(2,962)
Cash flow	441	(10)	431	339	(601)	15	184
Fair value gains and losses	-	-	-	-	50	(54)	(4)
Interest charges	-	-	-	38	(187)	(16)	(165)
At 31 March 2007	465	(26)	439	377	(3,728)	(35)	(2,947)
Cash flow	(453)	26	(427)	462	(241)	19	(187)
Fair value gains and losses	-	-	-	-	(89)	75	(14)
Interest charges	-	-	-	55	(252)	(17)	(214)
Other non-cash movements	-	-	-	22	(4)	-	18
At 31 March 2008	12	-	12	916	(4,314)	42	(3,344)

Movements for the year ended 31 March 2007 have been adjusted to present items on a consistent basis with the current year.

Notes to the consolidated financial statements - supplementary information

26. Commitments and contingencies

(a) Future capital expenditure

	2008 **£m**	2007 £m
Contracted for but not provided	**492**	665

(b) Lease commitments

Total commitments under non-cancellable operating leases were as follows:

	2008 **£m**	2007 £m
Amounts due:		
In one year or less	**6**	4
In more than one year, but not more than two years	**6**	4
In more than two years, but not more than three years	**5**	4
In more than three years, but not more than four years	**4**	4
In more than four years, but not more than five years	**5**	4
In more than five years	**41**	57
	67	77

The majority of the leases are in respect of properties.

(c) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £3m (2007: £4m).

(d) Other commitments, contingencies and guarantees

The value of other commitments and guarantees at 31 March 2008 amounted to £19m (2007: £19m) and comprised the following:

(i) Guarantees in respect of a former associate amounting to £14m. These are open ended.

(ii) Guarantees in the normal course of business and entered into on normal commercial terms of £5m. These guarantees run for varying lengths of time.

27. Related party transactions

The following information is provided in accordance with IAS 24, Related party disclosures, as being material transactions with related parties during the year. These transactions are with fellow subsidiaries of National Grid plc, a joint venture and a pension plan, are in the normal course of business and are summarised below.

	Parent		Other related parties		Total	
	2008	2007	**2008**	2007	**2008**	2007
	£m	£m	**£m**	£m	**£m**	£m
Income:						
Goods and services supplied	**-**	-	**4**	5	**4**	5
Interest received on advances to fellow subsidiaries	**7**	19	**30**	15	**37**	34
	7	19	**34**	20	**41**	39
Expenditure:						
Services received	**-**	-	**(24)**	(21)	**(24)**	(21)
Corporate services received	**-**	-	**(11)**	(10)	**(11)**	(10)
Charges in respect of pensions costs	**-**	-	**(56)**	(5)	**(56)**	(5)
Charges in respect of share-based payments	**-**	-	**(3)**	(4)	**(3)**	(4)
Interest paid on borrowings from fellow subsidiaries	**-**	(1)	**(17)**	(6)	**(17)**	(7)
	-	(1)	**(111)**	(46)	**(111)**	(47)
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:						
Amounts receivable	**-**	-	**197**	126	**197**	126
Amounts payable	**-**	-	**(204)**	(158)	**(204)**	(158)
Advances to fellow subsidiaries (amounts due within one year):						
At 1 April	**284**	1	**113**	146	**397**	147
Advances	**-**	283	**732**	111	**732**	394
Repayments	**(213)**	-	**-**	(144)	**(213)**	(144)
At 31 March	**71**	284	**845**	113	**916**	397
Borrowings payable to fellow subsidiaries (amounts due within one year):						
At 1 April	**-**	(45)	**(195)**	(182)	**(195)**	(227)
Advances	**-**	-	**(221)**	(90)	**(221)**	(90)
Repayments	**-**	45	**8**	77	**8**	122
At 31 March	**-**	-	**(408)**	(195)	**(408)**	(195)

Amounts receivable from or payable to related parties in respect of income and expenditure are ordinarily settled one month in arrears. Advances to and borrowings from fellow subsidiaries are repayable on demand and bear interest at commercial rates.

No amounts have been provided at 31 March 2008 (2007: £nil) and no expense recognised during the year (2007: £nil) in respect of bad or doubtful debts for related party transactions.

Details of key management compensation are provided in note 3(c).

28. Actuarial information on pensions

The Electricity Supply Pension Scheme is a funded scheme which is divided into two sections, one of which is National Grid Electricity Transmission's section. This section of the scheme provides final salary defined benefits and was closed to new entrants on 1 April 2006.

The scheme is funded with assets held in a separate trustee administered fund. It is subject to independent actuarial 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 2007 has been carried out by Hewitt Associates Limited. The aggregate market value of the scheme's assets at that date was £1,345m and the value of the assets represented 77% of the actuarial value of benefits due to members, calculated on the basis of pensionable earnings and service at 31 March 2007 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £405m on the valuation date.

The actuarial valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 26.5% of pensionable earnings (20.5% employers and 6% employees). This contribution rate will be reviewed as part of the next full actuarial valuation due 31 March 2010.

Following the 2004 actuarial valuation it had been agreed that no funding of the deficit identified would be provided to the scheme until the outcome of the actuarial valuation at 31 March 2007 was known. At this point, National Grid Electricity Transmission plc would pay the gross amount of any deficit up to a maximum amount of £68m (£49m net of tax) into the scheme. Over the year to 31 March 2008 deficit payments equal to £40m (£29m net of tax) were paid into the scheme and a further payment of £60m (£43m net of tax) was paid in April 2008. The Company and the trustees have agreed a recovery plan which will see the remaining deficit paid off by March 2017. In addition, the Company agreed to put in place triggers which would bring forward payment of the outstanding deficit. The conditions under which payment of the outstanding deficit would be made are if the Company ceases to hold the licence granted under the Electricity Act 1989 or its credit rating by two out of three specified agencies falls below an agreed level for a period of 40 days.

Asset allocations and actuarial assumptions

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

	2008	2007	2006
	%	%	%
Equities	**55.5**	61.2	60.9
Corporate bonds	**9.0**	7.6	7.5
Gilts	**28.6**	24.2	22.0
Property	**5.8**	6.6	8.4
Other	**1.1**	0.4	1.2
Total	**100.0**	100.0	100.0

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 current target asset allocation for the scheme is 58% equities, 35% bonds and 7% property and other.

The principal actuarial assumptions used were:

	2008	2007	2006
	%	%	%
Discount rate (i)	**6.6**	5.4	4.9
Expected return on plan assets	**6.9**	6.8	6.4
Rate of increase in salaries (ii)	**4.7**	4.2	3.9
Rate of increase in pensions in payment and deferment	**3.8**	3.3	3.0
Rate of increase in Retail Prices Index	**3.7**	3.2	2.9

(i) The discount rate for pension liabilities has been determined by reference to appropriate yields prevailing in the UK debt market at the balance sheet date.

(ii) A promotional age related scale has been used where appropriate.

28. Actuarial information on pensions continued

The assumed life expectations for a retiree at age 65 are as follows:

	2008 **years**	2007 years
Today:		
Males	**22.1**	20.6
Females	**23.6**	24.1
In 20 years:		
Males	**24.6**	21.6
Females	**26.4**	25.3

Sensitivities analysed - all other assumptions held constant:

	Change in in pension obligation		Change in in annual pension cost	
	2008 **£m**	2007 £m	**2008** **£m**	2007 £m
0.1% increase (2007: 0.1% decrease) in discount rate	**25**	26	**1**	1
0.5% increase in long-term rate of increase in salaries	**24**	26	**1**	2
Increase in one year to life expectations at age 60	**45**	50	**-**	1

The history of experience adjustments is as follows:

	2008 **£m**	2007 £m	2006 £m	2005 £m	2004 £m
Details of experience gains/(losses)					
Present value of funded and unfunded obligations	**(1,730)**	(1,824)	(1,724)	(1,584)	(1,553)
Fair value of plan assets	**1,321**	1,336	1,334	1,161	1,104
	(409)	(488)	(390)	(423)	(449)
Difference between expected and actual return on plan assets (i)	**(77)**	(25)	168	38	n/a
Experience losses on plan liabilities (i)	**(30)**	(4)	(11)	(20)	n/a
Actuarial gains/(losses) on plan liabilities (i)	**128**	(67)	(125)	2	n/a

(i) As National Grid Electricity Transmission adopted IAS 19 from 1 April 2004, no information has been provided for the year ended 31 March 2004.

29. Supplementary information on derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange, credit spreads, and equity or other indices. Derivatives enable their users to alter exposure to market or credit risks. We use derivatives to manage our treasury risks.

Treasury financial instruments

Derivatives are used for hedging purposes in the management of exposure to market risks. This enables the optimisation of the overall cost of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from the maturity and other risk profiles of assets and liabilities.

Hedging policies using derivative financial instruments are further explained in note 30. Derivatives that are held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges. These are described as follows:

Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the item in relation to the risk being hedged are recognised in remeasurements within the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to the income statement as a yield adjustment over the remainder of the hedging period.

Cash flow hedges

Exposure arises from the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates or are in a foreign currency which is swapped into a fixed sterling rate. Interest rate and cross-currency swaps are maintained and designated as cash flow hedges, where they qualify, to manage this exposure. Fair value changes on designated cash flow hedges are initially recognised directly in the cash flow hedge reserve, as gains or losses recognised in equity. Amounts are transferred from equity and recognised in the income statement as the income or expense is recognised on the hedged asset or liability.

Forward foreign currency contracts are used to hedge anticipated and committed future currency cash flows. Where these contracts qualify for hedge accounting they are designated as cash flow hedges. On recognition of the underlying transaction in the financial statements, the associated hedge gains and losses deferred in equity are transferred and included with the recognition of the underlying transaction.

The gains and losses on ineffective portions of such derivatives are recognised immediately in remeasurements within the income statement.

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 or on the balance sheet. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to remeasurements within the income statement.

Derivatives not in a formal hedge relationship

Our 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 more appropriate.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in remeasurements within the income statement.

30. Financial risk

Our activities expose us to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. Derivative financial instruments are used to hedge certain risk exposures.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Board of Directors of National Grid plc. This department identifies, evaluates and hedges financial risks in close co-operation with the operating units. The National Grid plc Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity as discussed further in our treasury policy, described on pages 20 and 21 of the Operating and Financial Review.

30. Financial risk continued

(a) Market risk

(i) Foreign exchange risk

National Grid Electricity Transmission is exposed to foreign exchange risk arising from non-sterling future commercial transactions and non-sterling recognised assets and liabilities.

With respect to near term foreign exchange risk, we use foreign exchange forwards to manage foreign exchange transaction exposure. Our policy is to hedge a minimum percentage of known contracted foreign currency flows in order to mitigate foreign currency movements in the intervening period. Where cash forecasts are less certain, we generally cover a percentage of the foreign currency flows depending on the level of agreed probability for those cash flows.

During 2008 and 2007, derivative financial instruments were used to manage foreign currency risk as follows:

	2008				
	Sterling	**Euro**	**US dollar**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Cash and cash equivalents	**12**	**-**	**-**	**-**	**12**
Financial investments	**916**	**-**	**-**	**-**	**916**
Borrowings	**(3,730)**	**(485)**	**(1)**	**(98)**	**(4,314)**
Pre-derivative position	**(2,802)**	**(485)**	**(1)**	**(98)**	**(3,386)**
Derivative effect	**(545)**	**485**	**4**	**98**	**42**
Net debt position	**(3,347)**	**-**	**3**	**-**	**(3,344)**

	2007				
	Sterling	Euro	US dollar	Other	Total
	£m	£m	£m	£m	£m
Cash and cash equivalents	465	-	-	-	465
Financial investments	377	-	-	-	377
Borrowings*	(3,253)	(416)	-	(85)	(3,754)
Pre-derivative position	(2,411)	(416)	-	(85)	(2,912)
Derivative effect	(539)	416	3	85	(35)
Net debt position	(2,950)	-	3	-	(2,947)

*Includes bank overdrafts

The currency exposure on other financial instruments is as follows:

	2008				2007			
	Sterling	**Euro**	**US dollar**	**Total**	Sterling	Euro	US dollar	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Trade and other receivables	**198**	**25**	**12**	**235**	393	3	-	396
Trade and other payables	**672**	**-**	**-**	**672**	548	-	-	548
Other non-current liabilities	**15**	**-**	**-**	**15**	7	-	-	7
	885	**25**	**12**	**922**	948	3	-	951

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from our borrowings. Borrowings issued at variable rates expose National Grid Electricity Transmission to cash flow interest rate risk. Borrowings issued at fixed rates expose National Grid Electricity Transmission to fair value interest rate risk. Our interest rate risk management policy as further explained on page 20 is to minimise the finance costs (being interest costs and changes in the market value of debt). Some of our borrowings issued are index-linked, that is their cost is linked to changes in the UK Retail Prices Index (RPI). We believe that these borrowings provide a good hedge for revenues and our regulatory asset values that are also RPI-linked.

Interest rate risk arising from our financial investments is primarily variable.

30. Financial risk continued

(a) Market risk continued

(ii) Cash flow and fair value interest rate risk continued

The following table sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps:

	2008	2007
	£m	£m
Fixed interest rate borrowings		
In one year or less	**914**	31
In more than one year but not more than two years	**-**	407
In more than two years but not more than three years	**249**	-
In more than three years but not more than four years	**-**	245
In more than five years	**893**	870
	2,056	1,553
Floating interest rate borrowings (including RPI)*	**2,258**	2,201
Total borrowings	**4,314**	3,754

*2007: includes bank overdrafts

During 2008 and 2007, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2008				
	Fixed	**Floating**			
	rate	**rate**	**RPI(i)**	**Other(ii)**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Cash and cash equivalents	**-**	**12**	**-**	**-**	**12**
Financial investments	**-**	**886**	**-**	**30**	**916**
Borrowings	**(2,056)**	**(402)**	**(1,856)**	**-**	**(4,314)**
Pre-derivative position	**(2,056)**	**496**	**(1,856)**	**30**	**(3,386)**
Derivative effect	**338**	**(292)**	**(4)**	**-**	**42**
Net debt position	**(1,718)**	**204**	**(1,860)**	**30**	**(3,344)**

	2007				
	Fixed	Floating			
	rate	rate	RPI(i)	Other(ii)	Total
	£m	£m	£m	£m	£m
Cash and cash equivalents	-	465	-	-	465
Financial investments	-	377	-	-	377
Borrowings*	(1,553)	(622)	(1,579)	-	(3,754)
Pre-derivative position	(1,553)	220	(1,579)	-	(2,912)
Derivative effect	688	(723)	-	-	(35)
Net debt position	(865)	(503)	(1,579)	-	(2,947)

*Includes bank overdrafts

(i) Represents financial instruments which are linked to the UK Retail Prices Index.

(ii) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.

30. Financial risk continued

(b) Credit risk

Credit risk is managed on a portfolio basis for the National Grid group as a whole. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Treasury related credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. Our limits are managed by the central treasury department of National Grid plc, as explained in our treasury policies on page 20.

As at 31 March 2008 and 2007, we had a number of exposures to individual counterparties. In accordance with our treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. Management does not expect any significant losses from non-performance by these counterparties.

The counterparty exposure under derivative financial contracts as shown in note 13 was £96m (2007: £5m); after netting agreements it was £70m (2007: £1m).

Wholesale and retail credit risk

Our principal commercial exposure is governed by the credit rules within the regulated Connection and Use of System Code. This lays down the level of credit relative to the regulatory asset value for each credit rating. We have no retail credit risk. Management does not expect any significant losses of receivables that have not been provided for as shown in note 15.

(c) Liquidity analysis

We manage our liquidity requirements by the use of both short- and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12 month period.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the balance sheet date:

At 31 March 2008	**Due within 1 year**	**Due between 1 and 2 years**	**Due between 2 and 3 years**	**Due 3 years and beyond**	**Total**
Non-derivative financial liabilities					
Borrowings	**(885)**	**-**	**(250)**	**(3,163)**	**(4,298)**
Interest payments on borrowings (i)	**(139)**	**(129)**	**(128)**	**(2,531)**	**(2,927)**
Other non-interest bearing liabilities	**(672)**	**(15)**	**-**	**-**	**(687)**
Derivative financial liabilities					
Derivative contracts - receipts	**78**	**8**	**8**	**854**	**948**
Derivative contracts - payments	**(15)**	**(14)**	**(14)**	**(1,216)**	**(1,259)**
Total at 31 March 2008	**(1,633)**	**(150)**	**(384)**	**(6,056)**	**(8,223)**

At 31 March 2007	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due 3 years and beyond	Total
Non-derivative financial liabilities					
Borrowings*	(221)	(407)	-	(3,123)	(3,751)
Interest payments on borrowings (i)	(141)	(135)	(128)	(2,418)	(2,822)
Other non-interest bearing liabilities	(791)	(8)	-	-	(799)
Derivative financial liabilities					
Derivative contracts - receipts	2	1	-	25	28
Derivative contracts - payments	(21)	(16)	(10)	(41)	(88)
Total at 31 March 2007	(1,172)	(565)	(138)	(5,557)	(7,432)

*Includes bank overdrafts

(i) The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a future interest rate curve as at 31 March.

30. Financial risk continued

(d) Sensitivity analysis

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

The analysis excludes the impact of movements in market variables on the carrying value of pension obligations and 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 2008 and 31 March 2007, respectively. As a consequence, this sensitivity analysis relates to the position at these dates and is not representative of the year then ended, as all of these items varied.

The following assumptions were made in calculating the sensitivity analysis:

- the balance sheet sensitivity to interest rates relates only to derivative financial instruments, as debt and other 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;
- 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 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;
- 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 twelve-month period for the accrued interest portion of the sensitivity calculations; and
- sensitivity to the Retail Prices Index does not take into account any changes to revenue or operating costs that are affected by the Retail Prices Index or inflation generally.

Using the above assumptions, the following table shows the illustrative effect on the income statement and items that are recognised directly in equity that would result from reasonably possible movements in changes in the UK Retail Prices Index and UK interest rates, after the effects of tax.

	2008		2007	
	Income statement -/+ £m	**Equity -/+ £m**	Income statement -/+ £m	Equity -/+ £m
UK Retail Prices Index +/- 0.50%	**6**	**-**	6	-
UK interest rates +/- 0.50%	**1**	**9**	1	2

The income statement sensitivities impact interest expense and financial instrument remeasurements.

(e) Capital and risk management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern and to remain within regulatory constraints. The principal measure of our balance sheet efficiency is our adjusted gearing ratio. Our adjusted gearing ratio at 31 March 2008 was 72% compared to 71% at 31 March 2007. For further details see page 18 of the Operating and Financial Review.

31. Share options and reward plans

National Grid operates three principal forms of share option and award plans in which our employees and Directors participate. These are an employee Sharesave scheme, a Performance Share Plan (PSP) and the Deferred Share Plan.

Active share plans

The Sharesave scheme is savings related where, under normal circumstances, share options are exercisable on completion of a three or a five-year Save-As-You-Earn contract. The exercise price of options granted represents 80% of the market price at the time of the invitation.

Under the PSP, awards have been made to Directors and approximately 90 senior employees. Awards made in 2004 have lapsed. For awards made from 2005, the criteria was amended so that 50% is based on National Grid's Total Shareholder Return (TSR) performance when compared to the FTSE 100 and 50% is based on the annualised growth of National Grid's earnings per share. Awards are delivered in National Grid plc shares.

Under the Deferred Share Plan, one half of any bonus earned by Executive Directors of National Grid plc and a predetermined part of any bonus earned by other Directors and senior employees is automatically deferred into National Grid shares. The shares are held in trust for three years before release.

Additional information in respect of active share plans

	2008	2007
	000s	000s
Performance Share Plan		
Awards of ordinary share equivalents at 1 April	**3,345**	3,351
Awards made	**231**	852
Lapses/forfeits	**(389)**	(1,333)
Transfers (i)	**(2,449)**	485
Awards vested	**(40)**	(10)
Awards of ordinary share equivalents at 31 March	**698**	3,345
Conditional awards available for release at 31 March	**-**	-
Deferred Share Plan		
Awards of ordinary share equivalents at 1 April	**371**	-
Awards made	**18**	385
Transfers (i)	**(341)**	-
Awards vested	**(16)**	(14)
Awards of ordinary share equivalents at 31 March	**32**	371
Conditional awards available for release at 31 March	**-**	74

(i) Transfers arise from employees moving between National Grid Electricity Transmission and other companies in the National Grid group.

Non-active share plans

We also have a number of historical plans under which awards are still outstanding, but no further awards will be granted. These include the Executive Plan and the Share Matching Plan.

The Executive Share Option Plan applied to senior executives, including Executive Directors of National Grid plc. Options were subject to the achievement of performance targets related to National Grid's TSR over a three-year period and those for 2000 are awaiting retest. The share options are generally exercisable between the third and tenth anniversaries of the date of grant if the relevant performance target is achieved.

The Share Matching Plan applied to Executive Directors of National Grid plc and other Directors and senior employees whereby a predetermined part of each participant’s bonus entitlement was automatically deferred into National Grid plc shares (known as qualifying shares) and a matching award may be exercised under the Plan after a three-year period, provided the Director or senior employee remains employed by the National Grid group.

Additional information in respect of non-active share plans

	2008	2007
	000s	000s
Share Matching Plan		
Awards at 1 April	**288**	318
Awards granted	**-**	1
Awards transferred out	**(266)**	(1)
Awards exercised	**(14)**	(30)
Awards at 31 March	**8**	288
Options exercisable at 31 March	**3**	159

31. Share options and reward plans continued

Share options

Movements in options to subscribe for ordinary shares under the various option schemes for the two years ended 31 March 2008 are shown below and include those options related to shares issued to employee benefit trusts.

	Sharesave scheme options		Executive Plan options		Total options
	Weighted average price £	millions	Weighted average price £	millions	millions
At 1 April 2006	3.63	5.6	4.81	3.4	9.0
Granted	5.58	0.8	-	-	0.8
Lapsed - expired	4.44	(0.3)	5.36	(1.0)	(1.3)
Exercised	3.67	-	4.46	(0.4)	(0.4)
At 31 March 2007	3.86	6.1	4.61	2.0	8.1
Granted	6.55	1.0	-	-	1.0
Lapsed - expired	4.36	(0.1)	5.31	(0.1)	(0.2)
Exercised	3.40	(1.7)	4.92	(0.2)	(1.9)
Transfers (i)	3.86	0.1	4.38	(1.2)	(1.1)
At 31 March 2008	**4.52**	**5.4**	**4.87**	**0.5**	**5.9**

(i) Transfers arise from employees moving between National Grid Electricity Transmission and other companies in the National Grid group.

Included within options outstanding at 31 March 2008 and 31 March 2007 were the following options which were exercisable:

At 31 March 2008	**3.64**	**0.2**	**4.58**	**0.3**	**0.5**
At 31 March 2007	3.17	0.8	4.42	1.4	2.2

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2008 was 2 years and 1 month. These options have exercise prices between £3.17 and £6.55.

The weighted average share prices at the exercise dates were as follows:

	2008 £	2007 £
Sharesave scheme options	7.79	6.50
Executive Plan options	7.68	6.68

Additional information in respect of share options

Options outstanding and exercisable and their weighted average exercise prices for the respective ranges of exercise prices and years at 31 March 2008 are as follows:

	Weighted average exercise price of exercisable options £	Number exercisable	Weighted average exercise price of outstanding options £	Number outstanding	Exercise price per share pence	Normal dates of exercise years
Executive Plan	3.76	28,000	3.76	28,000	375.75	2002 - 2009
	4.36	33,000	4.36	33,000	435.75	2003 - 2010
	5.26	10,000	5.26	226,000	526.00	2004 - 2011
	4.69	221,000	4.69	221,000	460.25 - 481.50	2006 - 2013
	4.58	292,000	4.87	508,000		

Share-based payment charges

The charge to the income statement for the year ended 31 March 2008 was £2m (2007: £3m).

Awards under share option plans

The average share prices at the date of options being granted, the average exercise price of options granted and the estimated average fair value of the options granted during each of the two financial years ended 31 March were as follows:

	2008	2007
Average share price	**846.0p**	746.0p
Average exercise price	**655.0p**	558.0p
Average fair value	**191.5p**	127.7p

These amounts have been calculated in respect of options where the exercise price is less than the market price at the date of grant.

31. Share options and reward plans continued

Share options continued

The fair values of the options granted were estimated using the following principal assumptions:

	2008	2007
Dividend yield (%)	**4.5**	4.5
Volatility (%)	**15.6-18.9**	15.6-18.9
Risk-free investment rate (%)	**4.2**	4.2
Average life (years)	**4.2**	3.9

The fair values of awards under the Sharesave scheme have been calculated using the Black-Scholes European model for awards made prior to 1 April 2006. This is considered appropriate given the short exercise window of sharesave options. The fair value of awards made in 2007 onwards have been calculated by reference to the prior year's Black-Scholes European model calculation.

Volatility was derived based on the following, and is assumed to revert from its current implied level to its long run mean, based on historical volatility under (ii) below:

(i) implied volatility in traded options over National Grid plc's shares;
(ii) historical volatility of National Grid plc's shares from October 2002 (the date of the business combination of National Grid Group plc and Lattice Group plc); and
(iii) implied volatility of comparator companies where options in their shares are traded.

Awards under other share scheme plans

The average share prices and fair values at the date share awards were granted during each of the financial years ended 31 March were as follows:

	2008	2007
Average share price	**766.9p**	594.0p
Average fair value	**522.8p**	403.1p

The fair values of the awards granted were estimated using the following principal assumptions:

	2008	2007
Dividend yield (%)	4.4	4.4
Volatility (%)	19.9	19.9
Risk-free investment rate (%)	4.1	4.1

Fair values have been calculated using a Monte Carlo simulation model, for awards with total shareholder return performance conditions made prior to 1 April 2006. The fair value of awards made in 2007 onwards has been calculated by reference to the prior year's Monte Carlo simulation model calculation. Fair values of awards with performance conditions based on earnings per share have been calculated using the share price at date of grant less the present value of dividends foregone during the performance period.

For other share scheme awards, where the primary vesting condition is that employees complete a specified number of years service, the fair value has been calculated as the share price at date of grant, adjusted to recognise the extent to which participants do not receive dividends over the vesting period. Volatility for share awards has been calculated on the same basis as used for share options, as described above.

32. Ultimate parent company

National Grid Electricity Transmission plc’s immediate parent company is National Grid Holdings Limited. The ultimate parent company, and controlling party, is National Grid plc. Both companies are incorporated in Great Britain and are registered in England and Wales. National Grid plc consolidates the accounts of National Grid Electricity Transmission plc. Copies of the consolidated accounts of National Grid plc may be obtained from the Company Secretary, 1-3 Strand, London WC2N 5EH.

33. Subsidiary undertakings

The principal subsidiary undertakings included in the consolidated financial statements are NG Leasing Limited, whose principal activity is vehicle leasing, and NGET Finance (No 1) plc, a finance company. Both these companies are wholly owned and incorporated in Great Britain.

The Company does not consolidate its wholly owned subsidiary Elexon Limited, which is the electricity market Balancing and Settlement Code company for Great Britain, as it has no control over Elexon.

Company accounting policies

for the year ended 31 March 2008

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

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

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

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

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

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

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

B. Foreign currencies

Transactions in currencies other than the functional currency of the Company are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Gains and losses arising on retranslation of monetary assets and liabilities are included in the profit and loss account.

C. Tangible fixed assets

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

Tangible fixed assets include assets in which the Company’s interest comprises legally protected statutory or contractual rights of use.

Additions represent the purchase or construction of new assets, extensions to, or significant increases in, the capacity of tangible fixed assets.

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

Depreciation is not provided on freehold land or assets in the course of construction. Other tangible fixed assets 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 tangible fixed assets are, in general, as shown in the table below:

Depreciation periods	Years
Freehold and leasehold buildings	up to 40
Plant and machinery	
– towers	40 to 60
– substation plant, overhead lines and cables	40 to 50
– protection, control and communications equipment	15 to 25
Motor vehicles and office equipment	up to 5

D. Impairment of fixed assets

Impairments of fixed assets are calculated as the difference between the carrying values of the net assets of income generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit.

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that fixed assets are not carried above their estimated recoverable amounts. Impairments are recognised in the profit and loss account, and, where material, are disclosed as exceptional. Impairment reversals are recognised when, in management’s opinion, the reversal is permanent.

E. Taxation

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

Current tax assets and liabilities arising from transfer pricing adjustments, which are expected to be fully recovered through group relief, are initially provided for when tax returns are submitted to the tax authorities.

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

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

F. Stocks

Stocks are stated at the lower of cost and net realisable value.

G. Revenue

Revenue represents the sales value derived from the transmission of electricity and the provision of related services during the year, including an assessment of services provided, but not invoiced as at the year end. It excludes value added tax and intra-group sales.

Where revenue for the year exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery, a liability for the over-recovery is not recognised as such an adjustment to future prices relates to the provision of future services. Similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

H. Pensions

For defined benefit pension schemes, the regular service cost of providing retirement benefits to employees during the period, together with the cost of any benefits relating to past service, are recognised within operating costs.

The interest cost on retirement benefit scheme liabilities and the expected return on scheme assets during the year, are recognised in the profit and loss account within net interest.

The actuarial value of pension liabilities, net of the market value of the assets of the scheme are recognised as a liability in the balance sheet, net of the related deferred tax asset.

The difference between the actual and expected returns on scheme assets and the experience gains or losses arising on scheme liabilities, together with gains or losses arising from changes in actuarial assumptions, are recognised directly in equity within the profit and loss account reserve.

I. Leases

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

J. Financial instruments

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

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

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

Derivative financial instruments are recorded at fair value, and where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a liability. Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists and the cash flows are intended to be settled on a net basis. Gains and losses arising from changes in fair value are included in the profit and loss account in the period they arise.

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

K. Hedge accounting

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

Hedge accounting allows derivatives to be designated as a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility in the profit and loss account. The Company uses two hedge accounting methods.

Firstly, changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ('cash flow hedges') are recognised directly in equity and any ineffective portion is recognised immediately in the profit and loss account. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the profit and loss account in the same period in which the hedged item affects net profit or loss.

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

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the profit and loss account in the same periods in which the previously hedged item affects net profit or loss. For fair value hedges the cumulative adjustment recorded to its carrying value at the date hedge accounting is discontinued is amortised to the profit and loss account using the effective interest rate method.

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

L. Share-based payments

National Grid issues equity-settled share-based payments to certain employees of the Company.

Equity-settled share-based payments are measured at fair value at the date of grant, based on an estimate of the number of shares that will eventually vest. This fair value is recognised on a straight-line basis over the vesting period, as an operating cost and an increase in equity. Payments made by the Company to National Grid in respect of share-based payments are recognised as a reduction in equity.

M. Restructuring costs

Costs arising from the Company's restructuring programmes primarily relate to redundancy costs. Redundancy costs are charged to the profit and loss account in the period in which the Company becomes irrevocably committed to incurring the costs and the main features of the restructuring plan have been announced to affected employees.

N. Dividends

Dividends are recognised in the financial year in which they are approved.

Company balance sheet

at 31 March

	Notes	**2008** **£m**	2007 £m
Fixed assets			
Tangible assets	5	**5,409**	4,855
		5,409	4,855
Current assets			
Stocks	6	**18**	17
Debtors (amounts falling due within one year)	7	**357**	538
Debtors (amounts falling due after more than one year)	7	**4**	15
Derivative financial instruments (amounts falling due within one year)	8	**76**	2
Derivative financial instruments (amounts falling due after more than one year)	8	**20**	3
Current asset investments	9	**917**	377
Cash at bank and in hand		**9**	462
		1,401	1,414
Creditors (amounts falling due within one year)			
Borrowings	12	**(927)**	(263)
Derivative financial instruments	8	**(6)**	(4)
Other creditors		**(742)**	(855)
	10	**(1,675)**	(1,122)
Net current (liabilities)/assets		**(274)**	292
Total assets less current liabilities		**5,135**	5,147
Creditors (amounts falling due after more than one year)			
Borrowings	12	**(3,387)**	(3,491)
Derivative financial instruments	8	**(48)**	(36)
Other creditors		**(135)**	(133)
	11	**(3,570)**	(3,660)
Provisions for liabilities and charges	13	**(805)**	(821)
Net assets before pension liability		**760**	666
Net pension liability	14	**(278)**	(324)
Net assets employed		**482**	342
Capital and reserves			
Called up share capital	15	**44**	44
Cash flow hedge reserve	16	**(21)**	(5)
Profit and loss account	16	**459**	303
Total shareholders' funds		**482**	342

Commitments and contingencies are shown in note 17 to the Company financial statements.

The notes on pages 71 to 76 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 5 June 2008 and were signed on its behalf by:

Mark Fairbairn Director

Andy Chapman Director

Notes to the company accounts

1. Adoption of new accounting standards

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

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

Amendments to FRS 3 on reporting financial performance	Removes inconsistencies between FRS 3 and both FRS 26 'Financial instruments: recognition and measurement' and FRS 23 'The effects of changes in foreign exchange rates', in particular as regards recycling to the profit and loss account of gains and losses and exchange differences previously recognised in the statement of recognised gains and losses.
Amendment to FRS 26 on financial instruments: measurement - recognition and derecognition	Implements the recognition and derecognition material in IAS 39. The requirements of FRS 5, 'Reporting the substance of transactions' are superseded for transactions that fall within FRS 26's scope, but FRS 5 continues to apply to transactions in non-financial assets and liabilities.
UITF Abstract 42 on reassessment of embedded derivatives	Prohibits reassessment of the treatment of embedded derivatives subsequent to initial recognition unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.
UITF Abstract 44 on group and treasury share transactions	Provides guidance on whether share-based transactions involving treasury shares or involving group entities (for instance, options over a parent's shares) should be accounted for as equity-settled or cash-settled.

New FRS not yet adopted

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

Amendment to FRS 20 on share-based payment	Clarifies the definition of vesting conditions and the accounting treatment of cancellations. Vesting conditions are defined as either service conditions or performance conditions. Cancellations by employees are accounted for in the same way as cancellations by the Company. It is expected that the amendment to FRS 20 will be adopted on 1 April 2009.

2. Auditors' remuneration

Auditors' remuneration in respect of the Company is set out below:

	2008 **£m**	2007 £m
Audit services		
Audit fee of parent company and consolidated financial statements	**0.2**	0.1
Other services		
Other services supplied pursuant to legislation	**0.3**	0.3

Other services supplied pursuant to legislation represents fees payable for services in relation to engagements which are required to be carried out by the auditor. In particular this includes fees for audit reports on regulatory returns and fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley).

3. Number of employees

	2008 **Average** **number**	2007 Average number
United Kingdom	**2,425**	2,351

4. Directors' emoluments

Details of Directors' emoluments are provided in note 3(d) to the consolidated financial statements.

5. Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2007	148	6,424	747	224	7,543
Additions	5	3	787	5	800
Disposals	(3)	(15)	-	(33)	(51)
Reclassifications	4	242	(261)	15	-
Cost at 31 March 2008	154	6,654	1,273	211	8,292
Depreciation at 1 April 2007	(25)	(2,495)	-	(168)	(2,688)
Depreciation charge for the year	(2)	(208)	-	(34)	(244)
Disposals	-	15	-	34	49
Depreciation at 31 March 2008	(27)	(2,688)	-	(168)	(2,883)
Net book value at 31 March 2008	**127**	**3,966**	**1,273**	**43**	**5,409**
Net book value at 31 March 2007	123	3,929	747	56	4,855

The net book value of land and buildings comprised:

	2008 £m	2007 £m
Freehold	**106**	102
Long leasehold (over 50 years)	**3**	3
Short leasehold (under 50 years)	**18**	18
	127	123

The cost of tangible fixed assets at 31 March 2008 included £519m (2007: £466m) relating to interest capitalised.

Included within creditors (amounts falling due within one year) and creditors (amounts falling due after more than one year) are contributions to the cost of tangible fixed assets amounting to £4m (2007: £2m) and £118m (2007: £124m) respectively.

6. Stocks

	2008 £m	2007 £m
Raw materials and consumables	**13**	14
Work in progress	**5**	3
	18	17

7. Debtors

	2008 £m	2007 £m
Amounts falling due within one year:		
Trade debtors	**23**	29
Amounts owed by fellow subsidiary undertakings	**187**	372
Other debtors	**25**	15
Corporation tax recoverable	**-**	11
Prepayments and accrued income	**122**	111
	357	538
Amounts falling due after more than one year:		
Other debtors	**4**	15
	4	15
Total debtors	**361**	553

8. Derivative financial instruments

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

	2008			2007		
	Assets	**Liabilities**	**Total**	Assets	Liabilities	Total
Current	**76**	**(6)**	**70**	2	(4)	(2)
Non-current	**20**	**(48)**	**(28)**	3	(36)	(33)
	96	**(54)**	**42**	5	(40)	(35)

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

	2008	2007
	£m	£m
Interest rate swaps	**(1,987)**	(1,408)
Cross-currency interest rate swaps	**(514)**	(514)
Foreign exchange forward currency	**(4)**	(6)
	(2,505)	(1,928)

9. Financial investments

	2008	2007
	£m	£m
Advances to fellow subsidiary undertakings	**917**	377

10. Creditors (amounts falling due within one year)

	2008	2007
	£m	£m
Borrowings (note 12)	**927**	263
Derivative financial instruments (note 8)	**6**	4
Trade creditors and accruals	**395**	337
Amounts owed to fellow subsidiary undertakings	**206**	384
Social security and other taxes	**4**	16
Other creditors	**73**	52
Deferred income	**64**	66
	1,675	1,122

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

	2008	2007
	£m	£m
Borrowings (note 12)	**3,387**	3,491
Derivative financial instruments (note 8)	**48**	36
Other creditors	**15**	7
Deferred income	**120**	126
	3,570	3,660

Deferred income mainly comprises contributions to capital projects.

12. Borrowings

The following table analyses the company's borrowings:

	2008 **£m**	2007 £m
Amounts falling due within one year		
Bank loans and overdrafts	**1**	68
Bonds	**518**	-
Borrowings from fellow subsidiary undertakings	**408**	195
	927	263
Amounts falling due after more than one year		
Bank loans	**400**	400
Bonds	**2,987**	3,091
	3,387	3,491
Total borrowings	**4,314**	3,754
Total borrowings are repayable as follows:		
In one year or less	**927**	263
More than one year, but not more than two years	**-**	407
More than two years, but not more than three years	**249**	-
More than three years, but not more than four years	**-**	245
More than four years, but not more than five years	**200**	-
More than five years, other than by instalments	**2,938**	2,839
	4,314	3,754

The notional amount outstanding of the Company's debt portfolio at 31 March 2008 was £4,298m (2007: £3,725m).

13. Provisions for liabilities and charges

	Deferred taxation £m	Environ-mental £m	Other £m	Total £m
At 31 March 2007	806	4	11	821
(Credited)/charged to profit and loss account	(12)	-	2	(10)
Transferred to reserves	(4)	-	-	(4)
Utilised	-	(2)	-	(2)
At 31 March 2008	**790**	**2**	**13**	**805**

Details of the environmental provision and other provisions are shown in note 22 to the consolidated financial statements.

Deferred taxation

Deferred taxation provided in the financial statements comprises:

	2008 **£m**	2007 £m
Accelerated capital allowances	**809**	813
Other timing differences, excluding pensions liability	**(19)**	(7)
Included within provisions for liabilities and charges	**790**	806
Pensions liability	**(108)**	(139)
	682	667

There are no other significant unrecognised deferred tax assets or liabilities.

14. Pensions

Substantially all of the Company's employees are members of the National Grid Electricity Group of the Electricity Supply Pension Scheme. Further details of the scheme and the actuarial assumptions used to value the associated assets and pension obligations are provided in notes 5 and 28 to the consolidated financial statements.

The amounts recognised in the balance sheet of the Company are as follows:

	2008	2007
	£m	£m
Present value of funded obligations	**(1,693)**	(1,787)
Fair value of plan assets	**1,321**	1,336
	(372)	(451)
Present value of unfunded obligations	**(14)**	(12)
Net liability in the balance sheet	**(386)**	(463)
Related deferred tax asset	**108**	139
Net pension liability	**(278)**	(324)
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation (including unfunded obligations)	**1,799**	1,701
Current service cost	**19**	20
Interest cost	**95**	82
Actuarial (gains)/losses	**(125)**	66
Net increase in liabilities from redundancies	**3**	3
Employee contributions	**6**	6
Benefits paid	**(83)**	(81)
Net transfers	**(8)**	1
Other augmentations	**1**	1
Closing defined benefit obligation (including unfunded obligations)	**1,707**	1,799
Changes in the fair value of plan assets		
Opening fair value of plan assets	**1,336**	1,334
Expected return on plan assets	**89**	89
Actuarial losses	**(77)**	(30)
Employer contributions	**58**	18
Employee contributions	**6**	6
Benefits paid	**(83)**	(82)
Net transfers	**(8)**	1
Closing fair value of plan assets	**1,321**	1,336

15. Share capital

	millions	£m
At 31 March 2007 and 2008 - ordinary shares of 10p each		
Allotted, called up and fully paid	437	44
Authorised	2,751	275

16. Reserves

	Cash flow hedge reserve £m	Profit and loss account £m
At 31 March 2007	(5)	303
Actuarial gains (net of tax)	-	34
Net expense transferred to equity in respect of cash flow hedges (net of tax)	(16)	-
Share-based payments	-	(2)
Tax on share-based payments	-	2
Profit for the year	-	412
Dividends	-	(290)
At 31 March 2008	**(21)**	**459**

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The Company's profit after tax for the year was £412m (2007: £329m).

17. Commitments and contingencies

(a) Future capital expenditure

	2008 £m	2007 £m
Contracted for but not provided	**492**	665

(b) Lease commitments

At 31 March 2008, the Company's total operating lease commitments for the financial year ending 31 March 2009 amounted to £6m (2007 commitments for 2008: £4m) and are analysed by lease expiry date as follows:

	Land and buildings		Other		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Expiring:						
In one year or less	**-**	-	**-**	-	**-**	-
In more than one year, but not more than five years	**-**	-	**1**	-	**1**	-
In more than five years	**4**	4	**1**	-	**5**	4
	4	4	**2**	-	**6**	4

The Company's total commitments under non-cancellable operating leases were as follows:

	2008 £m	2007 £m
Amounts:		
In one year or less	**6**	4
In more than one year, but not more than two years	**6**	4
In more than two years, but not more than three years	**5**	4
In more than three years, but not more than four years	**4**	4
In more than four years, but not more than five years	**5**	4
In more than five years	**40**	57
	66	77

(c) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £3m (2007: £4m).

(d) Other commitments, contingencies and guarantees

The value of other commitments and guarantees at 31 March 2008 amounted to £19m (2007: £19m) and comprised the following:

(i) Guarantees in respect of a former associate amounting to £14m. These are open ended.

(ii) Guarantees in the normal course of business and entered into on normal commercial terms of £5m. These guarantees run for varying lengths of time.

Definitions

References to the 'Company', 'we', 'our' and 'us' refer to National Grid Electricity Transmission plc itself or to National Grid Electricity Transmission plc and its subsidiaries collectively, depending on context.

BETTA
The British Electricity Trading and Transmission Arrangements, being the regulations that govern our role as operator of the electricity networks in Great Britain, together with those of other market participants.

BSIS
The Balancing Services Incentive Scheme, an incentive arrangement applicable to our electricity transmission arrangements.

FRS
UK Financial Reporting Standard.

GAAP
Generally accepted accounting principles.

GW
Gigawatt, 10^9 watts.

GWh
Gigawatt hours.

HSE
Health and Safety Executive.

IAS
International Accounting Standard.

IFRIC
The International Financial Reporting Interpretations Committee, which provides guidance on how to apply accounting standards.

IFRS
International Financial Reporting Standard.

KPI
Key Performance Indicator.

Lost time injury
A work-related injury which causes a person to be away from work for at least one normal shift after the shift on which the injury occurs, because the person is unfit to perform his or her duties.

National Grid
National Grid plc, the ultimate parent company of National Grid Electricity Transmission plc and its controlling party.

Ofgem
The Office of Gas and Electricity Markets.

tonnes CO_2 equivalent
Measure of greenhouse gas emissions in relation to the impact of carbon dioxide.

TW
Terawatt, 10^{12} watts.

TWh
Terawatt hours.

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