National Grid Electricity Transmission plc
Transmission Business
Regulatory Accounting Statements 2007/08

Company Number 2366977

Contents

About these regulatory accounting statements

National Grid Electricity Transmission plc is the holder of an Electricity Transmission Licence granted under the Electricity Act 1989 (the Licence). Under Condition B1 of the Licence, National Grid Electricity Transmission plc is required to prepare and publish annual regulatory accounting statements setting out the financial position and performance of the regulatory business covered by the Licence.

Definition of regulatory businesses and scope of regulatory accounting statements

The regulatory business reported on in these regulatory accounting statements is the Transmission business as defined in the Licence under which they are prepared. This business differs in some respects from the Transmission business as reported on in the statutory accounts of National Grid Electricity Transmission plc.

The financial statements on pages 40 to 67 which form part of these regulatory accounting statements are only in respect of the regulated Transmission business of National Grid Electricity Transmission plc, and exclude transactions relating to the company's other activities.

The Operating and Financial Review on pages 2 to 23 refers, where relevant, to the regulated Transmission business. In some areas, the matters covered by the Operating and Financial Review cannot be separately identified as relating to the regulated Transmission business or to other activities of National Grid Electricity Transmission plc. For these areas, the Operating and Financial Review relates to the activities of National Grid Electricity Transmission plc as a whole.

Relationship of regulatory accounting statements with statutory accounts

The financial information contained in these regulatory accounts statements does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory accounts for National Grid Electricity Transmission plc for the year ended 31 March 2008, to which the financial information relates, have been delivered to the registrar of Companies.

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

The statutory accounts of National Grid Electricity Transmission plc, and of the ultimate parent company National Grid plc, can be obtained from the Company Secretary's Office, National Grid plc, 1-3 The Strand, London WC2N 5EH, and from the website of National Grid plc at www.nationalgrid.com.

Basis of preparation of regulatory accounting statements

These regulatory accounting statements contain arbitrary apportionments of certain revenues, costs, assets, liabilities and shareholder's equity of National Grid Electricity Transmission plc which are not specifically attributable to the Transmission business. Further details of these items are provided under Basis of preparation on page 34.

Note on abbreviations

In certain sections of the Operating and Financial Review of these regulatory accounting statements, National Grid Electricity Transmission plc is referred to by the abbreviation 'NGET', and National Grid plc, its ultimate parent company, by the abbreviation 'National Grid'. National Grid Electricity Transmission plc is also referred to, as the context requires, as 'the Company'. The regulated Transmission business carried on by National Grid Electricity Transmission plc is referred to as 'the Transmission business'.

A full glossary of terms used is to be found under Definitions on page 71.

Operating and Financial Review

Contents of Operating and Financial Review

This Operating and Financial Review describes the main trends and factors underlying the development, performance and position of the Transmission business reported in these regulatory accounting statements, and, where relevant, of National Grid Electricity Transmission plc (NGET) during the year ended 31 March 2008 as well as those likely to affect 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

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

The business reported on in these regulatory accounting statements is the regulated Transmission business carried on by NGET. This business involves the transmission of electricity within 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

The business comprises the following principal activities:

Electricity transmission owner	Owns the electricity transmission system in England and Wales, comprising approximately 7,200 kilometres of overhead line, about 675 kilometres of underground cable and 337 substations at 244 sites.
Electricity system operator	Great Britain System Operator, responsible for managing the operations of both the England and Wales transmission system owned by NGET 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, NGET owns and maintains the physical assets, develops the network to accommodate new connections and disconnections, and manages a programme of asset replacement and investment to ensure the long-term reliability of the network.

As electricity system operator, NGET undertakes 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 plc 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 plc renamed National Grid Electricity Transmission plc
2006	Disposal of interconnector business

Vision, strategy and objectives

Vision

NGET is 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. NGET is committed to being an innovative leader in energy management and to safeguarding the global environment for future generations.

Strategy

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

Focus	Focused on a clear business model based on the ownership and operation of large scale asset intensive businesses within the principal growth market of electricity transmission infrastructure in the UK.
Integration	Run the businesses in an integrated way – organising 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	Be disciplined in the application of best practice, increasingly standardising approaches in the way activities are operated and financed. The aim is for rigorous financial discipline, ensuring that the capital needed to grow is available, while maintaining the investor confidence that comes from a disciplined approach to the balance sheet.

Objectives

Building on National Grid's strategy, NGET has set objectives to deliver National Grid's vision of becoming the foremost international electricity and gas company. By achieving the objectives the aim is 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 the capital investment plans
Talent	– Identify and develop talent and skills – Improve engagement and performance – Enhance inclusion and diversity
Relationships	– Help investors understand National Grid's value – Improve relationships with customers, regulators and governments – Work effectively with suppliers – Deepen involvement with communities
Environment	– Lead on climate change – Protect the environment – Be efficient in use of natural resources
Financial performance	– Increase profits – Obtain appropriate returns on investments – Maintain financial discipline

This strategy is underpinned by a commitment to corporate responsibility, including the core values that management and employees are expected to operate by.

Responsibility	– Operate to the highest standards of corporate governance – Conduct business in a lawful and ethical manner – Live the 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

What these objectives mean, how it is planned to achieve them and the progress made this year is described in the performance summary and performance against objectives sections of this Operating and Financial Review on pages 8 to 23.

Business drivers, risks and opportunities

Business drivers

NGET's principal activities include the operation of highly complex electricity transmission networks. As a consequence, there are many factors that influence the financial returns obtained.

The following are considered to be the principal business drivers:

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

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

Weather and volumes	Changes in the quantities of electricity delivered through NGET's transmission networks may result in an increase or decrease in revenues. Volumes are affected by weather, consumer demand and network availability as well as other factors. The impact of changing volumes may sometimes be offset by changes in costs or may sometimes result in an under or over-recovery against allowable revenues, with a corresponding increase or decrease in revenue in future periods.
Seasonality	Seasonality does not have a significant impact on revenues. With the exception of volume related costs passed through to customers, operating costs are generally not seasonal.
Pass-through costs	NGET is allowed to recover certain costs through charges to customers. The timing of recovery of these costs can vary between financial periods leading to an under or over-recovery within any particular financial period.
Inflation	Without action to improve efficiency, operating costs increase each year as a result of wage increases and inflation in external costs. In general, revenues also increase each year, although not necessarily at the same rate, depending on regulatory or contractual arrangements. As a consequence, NGET's ability to control costs and improve efficiency is important to its ability to increase operating profits. NGET's price controls are linked to retail price inflation, as is a proportion of its borrowings.
Interest rates	The costs of financing NGET's operations are affected by changes in prevailing interest rates, as some debt is at floating rates. Some of NGET's exposure to interest rates is hedged with fixed-rate debt and derivative financial instruments to maintain a proportion of debt at fixed interest rates.

Risks and opportunities

Risks and opportunities

The principal opportunities 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 NGET's objectives.

Conversely, there is risk of a shortfall in this contribution if NGET fails to achieve its objectives or to fulfil National Grid's strategy.

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

How NGET intends to achieve its objectives and the progress made during the year against these objectives is set out on pages 9 to 16.

Risk management

NGET's approach to risk management is described under Corporate Governance on page 25. In addition, information on how certain financial risks have been addressed is included in the financial position and financial management section of this Operating and Financial Review on pages 17 to 20.

Risk factors

Through the risk management process, a number of significant risks and uncertainties have been identified in achieving NGET's 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 NGET's 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 NGET's pension scheme
- changes in accounting standards.

Not all of these factors are within NGET's control, and, in addition, there may be other factors besides those listed that may have an adverse effect.

These risk factors are described in more detail under Corporate Governance on pages 24 to 27.

External market and regulatory environment

Markets in which NGET operates

The principal market in which NGET operates 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 operated by NGET, 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 which then deliver electricity to consumers on behalf of suppliers. Certain end customers, primarily large industrial users, receive electricity direct from the transmission network.

NGET is 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. NGET charges energy suppliers and electricity generators for its 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 NGET operates in both cases.

Regulation

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

The business is also subject to safety legislation which is enforced by the Health and Safety Executive (HSE).

Economic regulation of the Transmission business 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.

NGET is the sole holder of an electricity transmission licence for England and Wales. This licence also covers NGET's role as system operator for the transmission networks in Great Britain. Under the Electricity Act 1989 NGET has 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.

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

Price controls

Ofgem has set two price controls for NGET's electricity transmission business. These price controls provide a financial incentive to invest, as NGET receives a return on efficiently incurred capital expenditure increasing the regulatory asset base, and also provide incentives by which NGET can gain or lose for 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 NGET earns a 4.4% post-tax real rate of return on 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 can be made for access to the 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 NGET's operating expenditure and capital expenditure, together with an allowed rate of return. In addition NGET is subject to a number of incentives that can adjust 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, NGET 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.

System operation activities are subject to financial incentive schemes to promote efficiency. If the networks are operated more efficiently than Ofgem's forecasts, revenues can be increased, 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 operated by NGET) 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 NGET's electricity transmission networks with significant investment under way 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 NGET's 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. System operator price controls for the electricity transmission operations for 2008/09 have also been accepted.

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

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 under way. 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.

Performance summary and key performance indicators

Delivering National Grid's strategy	**Lines of business**	● Integrated the 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**	● Directors and senior managers have been through the Performance for Growth programme, focusing on how to develop employees, address skills gaps, increase employee engagement and coach for better performance ● A single set of performance measures for senior managers has been developed and calibrated ● Upgraded and aligned the talent review process across the business		
	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: £650 million 2006/07: £564 million	
		Cash generated by operations	2007/08: £783 million 2006/07: £783 million	
	Returns from investment	Return on investment	2007/08: 4.6% 2006/07: 4.9%	
	Financial discipline	Adjusted gearing ratio**	2008: 73% 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.

With the exception of Financial performance, where the measures relate to the Transmission business, the figures shown above relate to National Grid Electricity Transmission plc as a whole.

Performance against objectives

Performance and the progress made against objectives are described below and on the following pages. This includes commentary on financial results on pages 14 to 20. With the exception of financial performance, performance against objectives is measured for NGET as an entity and not separately for the regulated Transmission business.

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

This year, adjusted gearing ratio is included as one of the KPIs measuring financial performance. Other KPIs are unchanged from last year.

Responsibility

Operating responsibly is essential to the way NGET conducts operations, invests, develops people and manages relationships.

NGET strives to operate to the highest standards of corporate governance and believes in strong business ethics, based around National Grid's Framework for Responsible Business and the 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

NGET is in the process of transforming the 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 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
The Electricity Transmission business has been integrated into National Grid's global Transmission business, led by an Executive Director of National Grid.

Common functions
NGET's 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 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, NGET is in the process of implementing a new back office system, which will underpin the development of common processes and integrate with front office systems.

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

During 2007/08 a business process review was completed, focused on improving the efficiency of delivery of the capital investment programme and operation efficiencies to meet the challenges within the price controls. This has been based on improving operational planning, engaging with external parties on the practical issues surrounding access to 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 networks. NGET has also been working with suppliers to constrain or reduce costs wherever possible, with the aim of using the scale of 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
The transformation programme includes restructuring the 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 managers will be accountable for safety, health and environmental management in their areas of operations.

Operating performance

NGET aims for operational excellence by performing to the highest standards of safety, efficiency, and reliability and by improving customer service. By delivering on capital investment plans value can be created through organic growth.

Safety	Safety is paramount. The most important goals are: to ensure that members of the public are not injured as a direct result of operations; to deliver a working environment where there are zero work-related injuries and illness; and to improve the health of employees so they are fit for work every day.
	A range of lagging and leading indicators are used to measure performance against safety objectives, including: members of the public injured as a direct result of operations; employee lost time injury frequency rate; and employee sickness absence rate.

During 2007/08, critical safety risks across our business have been reviewed, ensuring they are effectively managed. To support this, National Grid's programme for improving safety performance, 'Trusted to Work Responsibly', has been implemented. This renewed approach builds on well established safety procedures and reinforces the need for individual and collective ownership of safety performance. It recognises that the 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 which 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.

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

Public safety

During 2007/08, 4 members of the public were injured as a result of NGET's 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 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 progress towards the target of zero work-related injuries. However, the 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

NGET is committed to protecting employees' health during work activities. NGET has continued to develop its 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, the cost of operations borne by customers can be constrained and returns to National Grid's shareholders can be improved. Operations are continually reviewed continually to identify opportunities to improve the operational productivity of assets and people, and to identify areas in which costs can be reduced or cost increases restricted. Planning ahead is essential in the approach to maintaining and improving efficiency.
	The primary method of measuring improvements in efficiency is through financial performance.

A number of internal business process reviews have been undertaken to seek out further savings without compromising other objectives. Information on financial performance during the year is set out on pages 14 to 20.

Reliability	NGET's principal operations are critical to the functioning of the UK economy. The reliability of electricity networks is one of the highest priorities after safety.
	Business-specific reliability performance indicators are used to measure reliability performance.

NGET's approach to maintaining and improving reliability involves: investing in infrastructure and systems to provide the operational tools and techniques necessary to manage assets and operations to high standards and investing in the renewal of assets; investing in the skills and capabilities of people to give them the ability to operate the networks to a high degree of service excellence; and maintaining a constant focus on reliability as one of the principal objectives. NGET is proactive about planning to ensure reliability and reacts 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 NGET's control.

Customer service	NGET's objective 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 the transmission network.
	Business-specific service quality KPIs are used to measure performance in this area.

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 made enables NGET to earn an increased financial return.
	The principal measure used to monitor organic investment is capital expenditure, which includes investment in property, plant & equipment, and in internally created intangible assets such as software.

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

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

The level of investment has increased as, over the next few years, parts of the electricity network are replaced 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

NGET aims to maximise the contribution of 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 it can improve.

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

NGET has strengthened its 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, cross-business talent planning sessions were conducted using consistent processes to support senior management in developing employees within each business area and to address succession issues.

The focus on developing the talent of 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 the performance for growth programme, change management, leadership development and developing future leaders programmes, including the expansion of change agent networks.

NGET continues 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, NGET needs to engage employees to strive for continued improvement. Its aim is to implement a world-class performance management process.

NGET's approach involves adopting integrated common performance processes and a single set of performance criteria, with pay linked to leadership qualities as well as operational and financial performance, 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 NGET alone. The survey demonstrated that employees see National Grid's safety focused and supportive work environment as real strengths. Where they think that progress can be made is in the areas of providing more open and honest communications, greater clarity about 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, the Performance for Growth programme for Directors and senior managers was successfully launched.

NGET continues to expand and embed the 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 employees.

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

National Grid is fortunate to have vibrant employee networks, focusing on gender, ethnicity and faith, disability, sexual orientation and new starters. 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

NGET aims to enhance relationships with all external stakeholders – investors, customers, regulators, government, suppliers and the communities in which it operates.

Investor relations	NGET aims to make the business attractive to debt investors so that operations can be financed as effectively as possible.

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

Customers, regulators and government	The primary concern of customers, regulators and the UK Government is that a safe, reliable and efficient service is delivered, now and into the future.

For customers, it is important that they are treated with respect, that communications are clear and interaction with them is as straightforward as possible. A focus on customer service and operational excellence is also a critical component of the relationship with Ofgem and the UK Government, underpinning the building of trust with 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 promises.

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

Suppliers	NGET aims to work effectively in partnership with suppliers, developing constructive relationships and working together effectively. The objective is to develop contractual arrangements with suppliers that align their interests with those of NGET, as far as possible, and share financial risks appropriately.

NGET's objective is to use the scale and breadth of National Grid's activities to get the best value for money from 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.

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

In addition to focusing on efficiency and value for money, there are established clear principles and objectives concerning the impact of the supply chain economically, socially, environmentally and on human rights. NGET expects suppliers to address these wider areas.

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

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

During the year NGET has again reviewed its social policy to ensure the 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.

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

Environment

NGET is committed to safeguarding the global environment for future generations, taking positive action to reduce its contribution to climate change and its 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.
	NGET's key performance indicator to monitor performance in this area is the annual percentage reduction in greenhouse gas emissions. Absolute emissions are also measured.,

Greenhouse gas emissions are reported 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 direct emissions (Scope 1), indirect emissions resulting from purchased electricity (Scope 2) and other indirect emissions (Scope 3). It is believed that this provides greater transparency and focuses attention on those emissions over which NGET has 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 challenges the development, now and over the next 42 years, of new ways of conducting 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 it is believed will transform the business:

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

As NGET does not have a separate verified base line for greenhouse gas emissions, emissions are monitored terms of year on year reductions. During 2007/08, 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 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 the direct control of NGET (for example the fuel used by individual generators and the physical distance between generation and centres of demand). For this reason, these are classed 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	NGET's objective is to help protect the environment for future generations and it is committed to continuous improvement in environmental performance by: ● efficient use of natural resources ● keeping waste to a minimum and increasing the economic value of any waste produced ● acting to prevent environmental incidents ● improving, where possible, the environmental status of the land on which the business operates.
	Key performance indicators monitored in this area comprise the number of significant direct environmental incidents and the total value of fines from prosecutions.

All of NGET's 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 NGET's 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.

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

NGET recognises that 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 these issues are taken 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. NGET's public position statement on electric and magnetic fields, which is reviewed annually, helps set the framework within which continually assess the scientific evidence in this area is continually assessed, determines any implications for the way in which business is conducted and explains to society what the science indicates. NGET actively supports high-quality research and open communication and looks for more constructive and less confrontational way of handling issues such as electric and magnetic fields. NGET continues to support the Stakeholder Advisory Group on electric and magnetic fields, initiated by NGET, and which published its first assessment of the issues in April 2007 (available at www.emfs.info/sage).

Financial performance

NGET aims to continue to improve financial performance, to deliver returns appropriate to its risk profile and to be financially disciplined.

Profit and cash flow	If objectives are achieved NGET 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 used to monitor financial performance are adjusted operating profit and operating cash flows. Adjusted operating profit is operating profit before exceptional items and remeasurements.

Financial results and position are reported in accordance with International Financial Reporting Standards (IFRS).

Measurement of financial performance and use of adjusted profit measures

In considering the financial performance of the Transmission business, the primary financial measures of operating profit, profit before tax and profit for the year are analysed 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 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 the business has 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. It is believed 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

The operating financial performance of the Transmission business for the years ended 31 March 2008 and 31 March 2007 was as follows:

	Years ended 31 March	
Transmission business	**2008**	2007
	£m	£m
Revenue	**2,106**	1,991
Operating costs	**(1,461)**	(1,433)
Total operating profit	**645**	558
Analysed as:		
Adjusted operating profit	**650**	564
Exceptional items	**(5)**	(6)
Total operating profit	**645**	558

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

Revenues

Revenue of £2,106 million was £115 million higher than in 2006/07, principally due to an £85 million increase in allowed revenues, with £13 million from timing of allowed revenue recoveries and £17 million from other factors, including recovery of higher Balancing Services Incentive Scheme (BSIS) costs.

Adjusted operating profit

Adjusted operating profit increased by £86 million to £650 million from £564 million in 2006/07, as a result of the £115 million increase in revenue explained above, less a £29 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.

Total operating profit after exceptional items

Total operating profit increased by £87 million to £645 million from £558 million in 2006/07. This was due to the £86 million increase in adjusted operating profit and a £1 million reduction in exceptional items.

Exceptional items of £5 million in 2007/08 and £6 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		
Transmission business	**2008**	2007
	£m	£m
Adjusted operating profit	**650**	564
Net finance costs excluding exceptional items and remeasurements	**(171)**	(136)
Adjusted profit before taxation	**479**	428
Taxation excluding taxation on exceptional items and remeasurements	**(140)**	(128)
Adjusted profit from continuing operations	**339**	300

Earnings

Years ended 31 March		
Transmission business	**2008**	2007
	£m	£m
Total operating profit	**645**	558
Net finance costs	**(166)**	(145)
Profit before taxation	**479**	413
Taxation	**(93)**	(126)
Profit from continuing operations	**386**	287

Net finance costs

Net interest excluding exceptional finance costs and remeasurements was £171 million in 2007/08 compared with £136 million in 2006/07. The increase of £35 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 £93 million arose in 2007/08 comprising a £140 million charge on adjusted profit before tax and a £47 million credit on exceptional items and remeasurements. This compares with a net charge of £126 million in 2006/07, comprising a £128 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 29% 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 £287 million in 2006/07 to £386 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		
Transmission business	**2008**	2007
	£m	£m
Adjusted operating profit	**650**	564
Exceptional items	**(5)**	(6)
Total operating profit	**645**	558

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		
Transmission business	**2008**	2007
	£m	£m
Adjusted profit before taxation	**479**	428
Exceptional items	**(5)**	(14)
Derivative financial remeasurements	**5**	(1)
Total profit before taxation	**479**	413

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		
Transmission business	**2008**	2007
	£m	£m
Adjusted earnings	**339**	300
Exceptional items	**44**	(10)
Derivative financial remeasurements	**3**	(3)
Earnings	**386**	287

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

Net profit for the year

Net profit for the year was £386 million in 2007/08 compared with £287 million in 2006/07.

Cash flows

Cash flows from operating activities

Cash generated from continuing operations was £783 million in 2007/08 compared with £783 million in 2006/07. This included cash outflows relating to exceptional items of £5 million and £6 million respectively. After reflecting cash flows relating to tax paid, net cash inflow from operating activities was £807 million in 2007/08, compared with £637 million in 2006/07.

In 2007/08, there were net corporation tax receipts of £24 million compared with payments of £146 million in 2006/07.

Cash flows from investing activities

Cash outflows from investing activities increased from £880 million in 2006/07 to £1,233 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 £504 million in 2006/07, reflecting 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 £516 million in 2007/08.

Cash flows from financing activities

Net cash flow related to financing activities decreased from an inflow of £615 million in 2006/07 to an inflow of £276 million in 2007/08. Net inflows from loans decreased from £735 million in 2006/07 to £408 million in 2007/08. Net interest cash outflows, excluding exceptional debt redemption costs, increased from £112 million in 2006/07 to £132 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 the debt portfolio.

Returns on investments	The Transmission business aims to generate value from investments by improving the operating performance of the networks and by investing to deliver regulatory commitments.
	Financial performance of the Transmission business is measured 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.

The Transmission business 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 it is necessary to be disciplined in the way the balance sheet is managed. This means that the parent company, National Grid, will return cash to its shareholders to the extent it is not required for investment objectives.
	The principal measure used 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 the regulated electricity transmission business measured at their estimated regulatory values.

The adjusted gearing ratio of the regulated Transmission business amounted to 73% at 31 March 2008 compared with 71% at 31 March 2007.

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

Transmission business	**2008**	2007
	£m	£m
Net assets per balance sheet	**457**	326
Adjustments for regulatory asset values	**1,112**	1,244
Deferred tax on adjustments	**(311)**	(373)
Adjusted net assets	**1,258**	1,197
Net debt	**3,336**	2,936
Adjusted net assets plus net debt	**4,594**	4,133

Financial position and financial management

Going concern

Having made enquiries, the Directors consider that National Grid Electricity Transmission plc 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 financial statements of the Company.

Financial position

Balance sheet

The balance sheet of the Transmission business at 31 March 2008 can be summarised as follows:

Transmission business	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment and non-current intangible assets	5,393	-	5,393
Current assets and liabilities	344	(729)	(385)
Other non-current assets and liabilities	-	(145)	(145)
Pension obligations	-	(403)	(403)
Deferred tax	-	(667)	(667)
Total before net debt	5,737	(1,944)	3,793
Net debt	1,019	(4,355)	(3,336)
Total as at 31 March 2008	6,756	(6,299)	457
Total as at 31 March 2007	6,213	(5,887)	326

The £131 million increase in net assets from £326 million at 31 March 2007 to £457 million at 31 March 2008 resulted from the profit for the year from continuing operations of £386 million, net income recognised directly in equity of £20 million, offset by other changes in equity of £5 million and transfers of £270 million. Transfers represent the reallocation of funding balances between the regulated Transmission business and other activities of National Grid Electricity Transmission plc, principally arising from dividend payments made by the company.

Net debt

Net debt increased by £400 million from £2,936 million at 31 March 2007 to £3,336 million at 31 March 2008, as cash inflows from operations of £783 million were exceeded by the combination of capital expenditure of £717 million, funding transfers arising from dividends paid by National Grid Electricity Transmission plc of £270 million and interest charge of £214 million, plus other movements of £18 million.

At 31 March 2008, net debt comprised borrowings of £4,301 million less financial investments of £914 million, derivative financial instruments with a net carrying value of £42 million and cash and cash equivalents of £9 million. At 31 March 2007, net debt comprised borrowings of £3,712 million, bank overdrafts of £26 million and derivative financial instruments of £35 million, less financial investments of £376 million and cash and equivalents of £461 million.

The maturity of borrowings is shown in note 13 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. Management do not consider that this standard gearing ratio is an appropriate measure as it does not reflect the economic value of the assets of the regulated businesses. For performance measurement purposes, gearing is measured on an adjusted basis, as described under financial performance on page 16.

Equity shareholders' funds

Equity shareholders' funds rose from £326 million at 31 March 2007 to £457 million at 31 March 2008. This increase arose from the same factors that gave rise to the change in net assets.

Liquidity and treasury management

Cash flow

Cash flows from operations are largely stable over a period of years, but they do depend on the timing of customer payments. Electricity transmission operations are subject to multi-year price control agreements with the 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, cash flows are essentially stable.

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. Committed facilities are also maintained to support liquidity requirements.

Credit facilities and unutilised commercial paper and medium term note programmes

National Grid Electricity Transmission plc has both committed and uncommitted borrowing facilities that are available for general corporate purposes. At 31 March 2008, the Company 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 13 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 the regulatory arrangements, National Grid Electricity Transmission plc's operations are subject to a number of restrictions on the way it can operate. These include a regulatory 'ring-fence' that requires adequate financial resources to be maintained and restricts the 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 plc 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 plc.

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

Borrowings outstanding at 31 March 2008 for the regulated Transmission business amounted to £4,301 million (31 March 2007: £3,738 million).

National Grid Electricity Transmission plc believes that the maturing amounts in respect of contractual obligations can be met from existing cash and investments, operating cash flows and other refinancings that are reasonably expected to be secured in the future, together with the use of committed facilities if required. The Company's financial position and expected future operating cash flows are such that it can borrow on the wholesale capital and money markets and most borrowings are through public bonds and commercial paper.

Surplus funds are placed 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 11 and 12 to the consolidated financial statements.

It is a condition of the electricity transmission licence that National Grid Electricity Transmission plc 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 National Grid Electricity Transmission plc's 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 only long-term debt was issued.

Note 13 to the consolidated financial statements sets out the contractual maturities of 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

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. National Grid Electricity Transmission plc's interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints so that, even with large movements in interest rates, neither the interest cost nor the total financing cost can exceed pre-set limits. Some bonds in issue are index-linked, that is their cost is linked to changes in the UK Retail Prices Index (RPI). It is believed that these bonds provide a good hedge for revenues and for regulatory asset values that are also RPI-linked under price control formulas.

The performance of the Treasury function in interest rate risk management is measured by comparing the actual total financing costs of debt with those of a passively-managed benchmark portfolio. More information on the interest rate profile of debt is included in note 24(a) to the consolidated financial statements.

Foreign exchange risk management

National Grid Electricity Transmission plc has 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, National Grid Electricity Transmission plc is 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 of the regulated Transmission business are shown in note 24(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 24 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, standard International Swap Dealers Association (ISDA) documentation is used, 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 business operations, National Grid Electricity Transmission plc is exposed to risks arising from fluctuations in interest rates and exchange rates. Financial instruments are used, including derivatives, to manage exposures of this type and they are a useful tool in managing risk. The policy is not to use derivatives for trading purposes. Derivative transactions can, to varying degrees, carry both counterparty and market risk.

National Grid Electricity Transmission plc enters into interest rate swaps to manage the composition of floating and fixed rate debt and so hedge the exposure of borrowings to interest rate movements. National Grid Electricity Transmission plc 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.

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

More details on derivative financial instruments are provided in notes 8 and 23 to the consolidated financial statements.

Valuation and sensitivity analysis

The fair value of debt and derivative instruments is calculated 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, a sensitivity analysis technique is utilised 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 24(d) to the consolidated financial statements. Under the assumptions set out in note 24(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

National Grid Electricity Transmission plc has 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 the obligations under the electricity transmission licence. The Company has not and does not expect to enter into any significant derivatives in connection with the BETTA role.

Commitments and contingencies

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

Transmission business	**2008 £m**	2007 £m
Future capital expenditure contracted but not provided for	**482**	497
Total operating lease commitments	**66**	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'.

It is proposed to meet all commitments from existing cash and investments, operating cash flows, existing credit facilities, future facilities and other financing that are reasonably expected to be secured in the future.

Details of material litigation as at 31 March 2008

National Grid Electricity Transmission plc was not party to litigation that was considered to be material as at 31 March 2008.

Related party transactions

National Grid Electricity Transmission plc provides services to and receives services from related parties, principally fellow subsidiaries of National Grid. In the year ended 31 March 2008, the regulated Transmission business charged £41 million and received charges of £55 million from related parties (other than Directors and key managers), compared with £39 million and £42 million respectively in 2006/07.

Further information relating to related party transactions is contained within note 21 to the consolidated financial statements. Details of key management compensation is included within note 1(c) to the consolidated financial statements.

Retirement arrangements

The substantial majority of the employees of National Grid Electricity Transmission plc are members of the National Grid Electricity Group of the Electricity Supply Pension Scheme which is operated on their behalf by National Grid Electricity Transmission plc. 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. No other post-retirement benefits are provided.

Net pension obligations

The following table summarises the allocated pension obligations recorded in the consolidated financial statements for the regulated Transmission business:

	£m
As at 1 April 2007	(482)
Pension service cost	(18)
Interest less expected return	(8)
Curtailments and settlements	(3)
Actuarial gains and losses	
– on plan assets	(76)
– on plan liabilities	126
Contributions:	
– ordinary contributions	18
– additional contributions	40
As at 31 March 2008	**(403)**

Plan assets	1,304
Plan liabilities	(1,707)
Net plan liability	(403)

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, National Grid Electricity Transmission plc has 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. It is expected 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 the results for the years ended 31 March 2008 and 2007 and financial position as at 31 March 2008 and 2007 for the regulated Transmission business. They have been prepared using the accounting policies shown, in accordance with International Financial Reporting Standards (IFRS).

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

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

Choices permitted under IFRS

Since 1 April 2005, the consolidated financial statements have been presented in accordance with IFRS. A number of choices were required to be made on the adoption of IFRS and in addition it is necessary to 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	The opening IFRS balance sheet was established as at 1 April 2004. Certain balances were used in previous UK GAAP financial statements as the basis for the opening IFRS balance sheet.
Business combinations	Business combinations prior to 1 April 2004 were not changed retrospectively.
Carrying value of assets at transition	Brought forward depreciated cost, as adjusted for changes in accounting policies to conform to IFRS, was used to be the opening carrying value under IFRS.
Share-based payments	All active share option grants were recognised retrospectively.
Cumulative translation differences	A choice was made to measure and present cumulative translation differences arising since 1 April 2004 only.

Significant choices that continue to be made on an ongoing basis include the following:

Presentation formats	The nature of expense method is used for the income statement and balance sheet is totalled to net assets and total equity. In the income statement, subtotals of total operating profit, profit before tax and profit from continuing operations are presented, together with additional subtotals excluding exceptional items and remeasurements. Exceptional items and remeasurements are presented on the face of the income statement.
Pensions	Actuarial gains and losses are recognised each year in the statement of recognised income and expense.
Capitalised interest	Interest is capitalised into the cost of assets constructed, 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	Hedge accounting is normally opted to be applied in most circumstances where this is permitted.
Individual accounts	A choice has been made 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 the consolidated financial statements the business has 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 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

The results, assets and liabilities of the regulated Transmission business are reported separately in these regulatory accounting statements, and therefore no further segmental analysis is required.

Critical accounting policies

The application of accounting principles requires estimates, judgments and assumptions to be made that may affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the accounts. On an ongoing basis, estimates are evaluated using historical experience, consultation with experts and other methods that are considered reasonable in the particular circumstances to ensure compliance with IFRS. Actual results may differ significantly from 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 accounting policies set out in the consolidated financial statements.

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 £244 million in 2007/08 and £245 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. Total assets at 31 March 2008 were £6,756 million, including £5,337 million of property, plant and equipment and £56 million of intangible assets (31 March 2007: £6,213 million, £4,772 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. 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	Derivative financial instruments are used 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 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 remeasure-ments	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 financial performance and 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, 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 the business has no control.
Tax estimates	The tax charge is based on the profit for the year and tax rates in effect. The determination of appropriate provisions for taxation requires the business to take into account anticipated decisions of tax authorities and estimate the ability to utilise tax benefits through future earnings and tax planning. Estimates and assumptions may differ from future events.

In order to illustrate the impact that changes in assumptions could have on 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 the annual depreciation charge on property, plant and equipment by £7 million (before tax) and the annual amortisation charge on intangible assets by £3 million (before tax).
Revenue accruals	A 10% change in estimated unbilled revenues at 31 March 2008 would result in an increase or decrease in 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	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.
Borrowing costs	An amendment to IAS 23, on borrowing costs, will require interest to be capitalised into the cost of assets under construction. The Transmission business already follows 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. The Transmission business does 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. The Transmission business does 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 Transmission business as the accounting surpluses that could arise in the 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 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 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. The Transmission business does 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 the Transmission business accounts for our Save as You Earn share schemes, but due to the low levels of cancellations by employees in the past, a material impact on future results is not anticipated.
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. The Transmission business currently has no such instruments and so this will have no impact.

Corporate Governance

As part of the National Grid group of companies, National Grid Electricity Transmission plc does not have a separate corporate governance process but instead is subject to National Grid plc's corporate governance policies, which are described on pages 88 to 97 of the National Grid plc Annual Report and Accounts 2007/08.

The Board of National Grid considers that it complied in full with the Combined Code during 2007/08 except temporarily in respect of the requirement for at least half the Board, excluding the Chairman, to consist of independent Non-executive Directors, a position which has now been corrected.

National Grid corporate governance process

The principle elements of National Grid's corporate governance process comprise:

- a published governance framework
- independent Non-executive Directors for National Grid plc
- separation of the roles of Chairman and Chief Executive of National Grid plc
- appointment of a Senior Independent Director
- appropriate development of Directors
- monitoring of the performance of the Board of National Grid plc
- clear definition of the role and responsibilities of the Board of National Grid plc, including the establishment of an Executive Committee and a Finance Committee
- independent Audit, Nominations, Remuneration, and Risk & Responsibility Committees comprised of Non-executive Directors

Internal control

The Board of National Grid plc is responsible for internal control within the National Grid group of companies. Details of this internal control process are set out on page 94 of the National Grid plc Annual Report and Accounts 2007/08.

Compliance management

Compliance management is undertaken on a National Grid wide basis and details of the compliance management process are set out on page 95 of the National Grid plc Annual Report and Accounts 2007/08.

Board of National Grid

The Board of National Grid plc has delegated responsibility for the operational management of the businesses of National Grid to executive committees, composed of members of the Board of National Grid and directors of the businesses. Responsibility for the operational management of the electricity transmission business has been delegated to the Transmission Executive Committee, which manages this business jointly with National Grid's UK gas transmission business.

Responsibility for treasury activities in respect of National Grid Electricity Transmission plc is retained by the Finance Committee of National Grid and a detailed description of treasury policy is provided on page 17.

Matters reserved for the Board of National Grid include:

- corporate governance including establishment of executive committees, internal control arrangements, National Grid Code of Business Practice, delegations of authority, and public position statements and codes
- approval of financial policy, material changes to accounting policies, the budget and business plan for National Grid and the business strategy of National Grid
- funding and managerial arrangements for pension schemes
- appointment of auditors.

Board of National Grid Electricity Transmission plc

The Board of National Grid Electricity Transmission plc is responsible for ensuring that all the businesses of National Grid Electricity Transmission plc comply with all relevant laws and regulations, including compliance with the Electricity Transmission Licence.

The Board of National Grid Electricity Transmission plc, with the Board of National Grid Gas plc, is responsible for appointing the members of the Transmission Executive Committee.

Transmission Executive Committee

The Transmission Executive Committee acts within National Grid's overall corporate governance framework and delegated authorities and is responsible for the operational and financial management of the transmission businesses and achieving performance targets set by the Board of National Grid.

The Transmission Executive Committee meets on a monthly basis and its membership and attendance at meetings was as follows during 2007/08:

		Attendance*
Nick Winser (Chair)	Executive Director of National Grid	10 of 12
Chris Battersby	HR Manager – Transmission (resigned January 2008)	9 of 10
Thomas Board	HR Business Partner – Transmission (appointed February 2008)	2 of 2
Andy Chapman	Finance Director – Transmission	12 of 12
Simon Cocks	Commercial Director – Transmission (resigned February 2008)	11 of 11
Madalyn Hanley	Head of IS – Transmission (appointed July 2007)	8 of 9
Nabil Hitti	Director – Applications Development (resigned June 2007)	1 of 3
Isobel Hoseason	Director of Communications	10 of 12
Alison Kay	Commercial Director – Transmission	10 of 12
Adam Mallalieu	Director of UK Safety, Health, Environment and Security	12 of 12
Jonathan Munsey	Senior Counsel (appointed March 2008)	1 of 1
Chris Murray	Director of Asset Management – UK Transmission	11 of 12
Masheed Saidi	Head of US Transmission	12 of 12
Rowan Sharples	Director of UK Construction	12 of 12
Chris Train	Network Operations Director – UK Transmission	12 of 12
Paul Whittaker	UK Director of Regulation	11 of 12

* Attendance is expressed as number of meetings attended out of number eligible to attend. It includes attendance by a nominated deputy.

The Transmission Executive Committee has a number of sub-committees dealing with matters such as investment governance and coordination of operations.

Risk management

Understanding and managing risks is integral to the way the business is run. National Grid Electricity Transmission plc has 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 the business's assets and reputation. It has been designed to manage rather than eliminate material risks to the achievement of strategic and business objectives, while also recognising that any such process can provide only reasonable, and not absolute, assurance against material misstatement or loss. This process complies with the Turnbull working party guidance (revised October 2005).

The risk management process continues to be based on both bottom-up and top-down assessments of operational, financial and other business or project risks. From the bottom-up, National Grid Electricity Transmission plc's business units prepare and maintain risk registers that capture key risks and the actions being taken to manage them. These risk registers are regularly reviewed and discussed by the executive committees for those business units. The key element in the top-down assessments of the enterprise-wide risk profile is the involvement of Directors and other senior management at critical stages in the review process. Their review and debate of bottom-up assessments produces the overall evaluations of the risks that are faced by National Grid Electricity Transmission plc. In addition, the Executive, the Risk & Responsibility and the Audit Committees of National Grid plc review National Grid's overall risk profile twice a year. The Audit Committee of National Grid plc also reviews the risk management process at least once a year and reports on this to the Board of National Grid plc.

Principal risk factors

National Grid Electricity Transmission plc's risk management process has identified the following principal risk factors which could have a material adverse effect on its business, financial condition, results of operations and reputation, as well as the value and liquidity of securities. Not all of these factors are within the business's control. In addition, other factors besides those listed below may have an adverse effect on National Grid Electricity Transmission plc. These risk factors should be read in conjunction with the rest of this Operating and Financial Review on pages 2 to 23.

Changes in law or regulation

The Transmission business is 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 the business, could have an adverse impact on the results of operations, cash flows, the financial condition of the business and the ability to develop the business in the future.

Breaches of environmental or health and safety law or regulations

The operation and maintenance of electricity transmission lines is potentially dangerous. The Transmission business also uses or generates in operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of 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. The business is subject to laws and regulations relating to pollution, the protection of the environment, and how hazardous substances and waste materials are used and disposed of. These expose the business to costs and liabilities relating to operations and properties whether current, including those inherited from predecessor bodies, or formerly owned by National Grid Electricity Transmission plc. The business is also subject to laws and regulations governing health and safety matters protecting the public and its employees.

Significant expenditure is committed towards complying with these laws and regulations. If additional requirements are imposed or the ability to recover these costs changes, this could have a material impact on the businesses and the results of operations and financial position. Any breach of these obligations, or even incidents that do not amount to a breach, could adversely affect the results of operations and the business's 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

The Transmission business 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 a failure 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 the reputation of the business.

In addition to these risks, the business may be affected by other potential events that are largely outside its 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 reputation. Terrorist attack, sabotage or other intentional acts may also physically damage 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 the Transmission business will be affected by the ability to meet or exceed efficiency targets and service quality standards set by or agreed with Ofgem. In addition, from time to time, cost and efficiency savings targets are published for the business. The business has also substantially completed reorganising operations along lines of business. To meet these targets and standards, it is necessary to continue to improve operational performance, service reliability and customer service. If these targets and standards are not met, or implementation of this reorganisation is not completed as envisaged, it may not be possible to achieve the expected benefits, the business may be adversely affected and the business's performance, results of operations and reputation may be harmed.

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

The Transmission business is responsible for transporting available electricity. The business consults with and provides information to regulators, governments and industry participants about future demand and the availability of supply. However, where there is insufficient supply, the business's role is to manage the relevant network safely, which in extreme circumstances may require it to disconnect consumers, which may damage the business's reputation.

Fluctuations in interest rates and their impact on borrowings and derivatives

The results of operations may be affected because a significant proportion of 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

National Grid Electricity Transmission plc is subject to certain covenants and restrictions in relation to listed debt securities and bank lending facilities. It is also subject to restrictions on financing which have been imposed by regulators. These restrictions may hinder the Company in servicing the financial requirements of the Transmission business. Some of the Company's debt is rated by credit rating agencies and changes to these ratings may affect both the Company's borrowing capacity and the cost of those borrowings. Borrowing capacity and cost of borrowing could also be affected by adverse changes in the global credit markets. The effective rate of tax paid by the Company 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 the employees of National Grid Electricity Transmission plc are members of a defined benefit scheme where the scheme assets are held independently of the Company's 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 additional contributions to be made to the pension scheme, which, to the extent that they are not recoverable under price controls, could adversely affect the 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 financial position and results of operations are reported. As a body of practice develops for IFRS, the application and interpretation of accounting principles to the circumstances of the Transmission business, and to those areas in particular, could result in changes in the financial results and financial position reported. In addition, new standards, rules or interpretations may be issued which could also have significant effects.

Directors' Report

for the year ended 31 March 2008

The information in this Directors' report does not comprise a Directors' report within the meaning of the Companies Act 1985. Such a report for National Grid Electricity Transmission plc is included within the company's Annual Report and Accounts 2007/08. As the regulated Transmission business reported on within these regulatory accounting statements does not comprise a legal entity, the information is provided for National Grid Electricity Transmission plc as a whole.

Directors

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

Malcolm Cooper	Appointed July 2007
Mark Fairbairn	Appointed July 2007
Stuart Humphreys	Appointed 7 July 2008
Paul Whittaker	Appointed July 2007
Nick Winser	Appointed April 2003

The following also served as Directors during the period:

Andy Chapman (resigned 7 July 2008).
Steve Holliday (resigned 13 July 2007
Steve Lucas (resigned 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 2 to 23, 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.

Directors' interests

None of the Directors of National Grid Electricity Transmission plc (nor any person connected with them) has a beneficial interest or a non-beneficial interest in the shares, or any other securities (including options over shares) of National Grid Electricity Transmission plc.

Directors' remuneration

Details of the remuneration of the Directors of National Grid Electricity Transmission plc are shown in the Annual Report and accounts 2007/08 of the company at note 3.

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 as defined 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 18 to 19 in the Operating and Financial Review.

Disability

Through National Grid's inclusion and diversity programme, National Grid Electricity Transmission plc 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 plc, 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 plc 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

The Directors' Report for National Grid Electricity Transmission plc, included in its annual report and accounts 2007/08, includes a statement in respect of that annual report and accounts, that having made the requisite enquiries, so far as the Directors of National Electricity Transmission plc in office at the date of the signing of that Directors' 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 establish that the auditors are aware of that information.

On behalf of the Board of National Grid Electricity Transmission plc

Stuart Humphreys
Director
25 July 2008

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

Contents of financial statements

Directors' statement and independent auditors' report

Consolidated financial statements under IFRS

Basis of preparation

Primary statements

Notes to the consolidated financial statements

Statement of Directors' responsibilities

The Directors of National Grid Electricity Transmission plc are required by Condition B1 of the Transmission Licence granted under section 6(1)(b) of the Electricity Act 1989 to prepare regulatory accounting statements for each financial year which comply with the requirements set out in that condition.

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

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

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

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

The Directors have responsibility to ensure that, so far as reasonably practicable, the regulatory accounting statements have the same form and content in respect of the business to which they relate as the equivalent statutory accounts of National Grid Electricity Transmission plc, and that they comply in all material respects with all relevant accounting standards currently in force which have been issued or adopted by the International Accounting Standards Board.

The Directors have responsibility to ensure that the regulatory accounting statements include an income statement, a statement of changes in equity and, if appropriate, a statement of recognised income and expense, a balance sheet and a cash flow statement, including notes thereto. The Directors also have responsibility to ensure that the regulatory accounting statements include a statement of accounting policies adopted, a corporate governance statement, a directors' report and an operating and financial review.

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

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

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

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

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

On behalf of the Board of National Grid Electricity Transmission plc

Stuart Humphreys
Director
25 July 2008

Independent auditors' report to the Gas and Electricity Markets Authority and to the Directors of National Grid Electricity Transmission plc

We have audited the regulatory accounting statements of National Grid Electricity Transmission plc ("the Company") for the year ended 31 March 2008 on pages 34 to 70 which comprise the accounting policies, adoption of new accounting standards, consolidated income statement, consolidated balance sheet, consolidated statement of recognised income and expense, consolidated cash flow statement and the related notes to the regulatory accounting statements.

This report is made, on terms that have been agreed, solely to the Company and the Gas and Electricity Markets Authority ("the Authority") in accordance with Standard Special Condition B1 ("the Condition") of the Regulatory Licence granted to the Company, being the Electricity Transmission Licence. Our audit work has been undertaken so that we might state to the Company and the Authority those matters we have agreed to state to them in our report, in order to: (a) assist the Company to meet its obligations under the Regulatory Licence to procure such a report; and (b) to facilitate the carrying out by the Authority of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Authority, for our audit work, for this report or for the opinions we have formed.

Basis of preparation

The regulatory accounting statements have been prepared under the historical cost convention and in accordance with the Condition and the accounting policies set out on pages 21 and 34.

Note 28 includes disclosure of amounts charged to or from other businesses of National Grid plc or amounts determined by apportionment. The Condition requires these disclosures to be made to the Authority, but allows the Company to remove these disclosures from the information made available to the public as per paragraph 10 of the Condition.

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

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

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

The directors of the Company are responsible for preparing the regulatory accounting statements and for compliance with the Condition, as described on page 31.

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

We report to you our opinion as to whether the regulatory accounting statements have been properly prepared in accordance with the Condition and whether they fairly present the financial position, financial performance and cash flows of, or reasonably attributable to, its Electricity Transmission business. We also report to you if the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the regulatory accounting statements, on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the regulatory accounting statements. The other information comprises: about regulatory accounting statements; the Operating and Financial Review; the corporate governance statement and the Directors' Report.

Basis of audit opinion

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

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

Our opinion on the regulatory accounting statements is separate from our opinion on the statutory financial statements of the Company on which we reported on 5 June 2008, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory" audit) was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditors' report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

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

Opinion

In our opinion, on the basis set out above, the regulatory accounting statements fairly present in accordance with the Condition and the accounting policies set out on pages 21 and 34, the state of National Grid Electricity Transmission plc's Electricity Transmission business at 31 March 2008 and profit and cash flows of its Electricity Transmission business for the year then ended and have been properly prepared in accordance with the Condition and the accounting policies.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT
25 July 2008

1. The maintenance and integrity of the Company web site is the responsibility of the directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Authority; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the regulatory accounting statements since they were initially presented on the web sites.

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

Accounting policies

for the year ended 31 March 2008

A. Basis of preparation of consolidated financial statements under IFRS

These regulatory consolidated financial statements have been prepared in accordance with Standard Condition B1 of National Grid Electricity Transmission plc's Electricity Transmission Licence granted under the Electricity Act 1989 and 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 applicable United Kingdom law and Article 4 of the European Union IAS regulation. The 2007 comparative financial information has also been prepared on this basis.

The consolidated regulatory 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.

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.

Attribution of revenue, costs, assets, liabilities and equity

These regulatory accounting statements contain arbitrary apportionments of certain centrally held balances of National Grid Electricity Transmission plc which are not specifically attributable to the Transmission business. The centrally held balances and the method of apportionment are as follows:

Balance	Method of apportionment
Net debt (borrowings, derivatives, bank overdrafts net of cash, cash equivalents and financial investments).	Fixed asset net book value at balance sheet date.
Interest payable and receivable relating to net debt.	Fixed asset net book value at balance sheet date.
Intercompany balances.	Fixed asset net book value at balance sheet date.
Interest payable and receivable relating to intercompany balances	Fixed asset net book value at balance sheet date.
Deferred tax liabilities.	Fixed asset net book value at balance sheet date.
Retirement benefit obligations	According to the Licencee's final proposals.
Taxation charge and corporate tax payable	Calculation to be specific to each business
Total equity (called up share capital, share premium account, retained profits and other reserves).	Balancing item.

B. Basis of consolidation

The regulatory consolidated financial statements are based on consolidated financial statements which 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.

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. 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.

I. 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.

J. 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.

K. Leases

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

L. 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.

M. 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.

N. 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.

O. 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.

P. 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.

Q. 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 2.
- The exemptions adopted on transition to IFRS on 1 April 2004.
- Hedge accounting – accounting policy M.

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 3.
- Valuation of financial instruments and derivatives – notes 8 and 24.
- Revenue recognition and assessment of unbilled revenue – accounting policy I.
- Recoverability of deferred tax assets – accounting policy G and note 16.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2007/08

During the year ended 31 March 2008, the National Grid Electricity Transmission plc 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			**2,106**		1,991
Operating costs	1		**(1,461)**		(1,433)
Operating profit					
Before exceptional items		**650**		564	
Exceptional items	2	**(5)**		(6)	
Total operating profit			**645**		558
Interest income and similar income	4		**141**		120
Interest expense and other finance costs					
Before exceptional items and remeasurements	4	**(312)**		(256)	
Exceptional items and remeasurements	2, 4	**5**		(9)	
	4		**(307)**		(265)
Profit before taxation					
Before exceptional items and remeasurements		**479**		428	
Exceptional items and remeasurements		**-**		(15)	
Total profit before taxation			**479**		413
Taxation					
Before exceptional items and remeasurements	5	**(140)**		(128)	
Exceptional items and remeasurements	2, 5	**47**		2	
Total taxation	5		**(93)**		(126)
Profit after taxation					
Before exceptional items and remeasurements		**339**		300	
Exceptional items and remeasurements	2	**47**		(13)	
Profit for the year			**386**		287

The notes on pages 44 to 70 form part of the consolidated financial statements.

Consolidated balance sheet

at 31 March

	Notes	**2008** **£m**	2007 £m
Non-current assets			
Intangible assets	6	**56**	65
Property, plant and equipment	7	**5,337**	4,772
Derivative financial assets	8	**20**	3
Total non-current assets		**5,413**	4,840
Current assets			
Inventories	9	**16**	16
Trade and other receivables	10	**328**	508
Current tax assets		**-**	10
Financial investments	11	**914**	376
Derivative financial assets	8	**76**	2
Cash and cash equivalents	12	**9**	461
Total current assets		**1,343**	1,373
Total assets		**6,756**	6,213
Current liabilities			
Borrowings	13	**(925)**	(262)
Derivative financial liabilities	8	**(6)**	(4)
Trade and other payables	14	**(725)**	(845)
Provisions	17	**(4)**	(2)
Total current liabilities		**(1,660)**	(1,113)
Non-current liabilities			
Borrowings	13	**(3,376)**	(3,476)
Derivative financial liabilities	8	**(48)**	(36)
Other non-current liabilities	15	**(134)**	(130)
Deferred tax liabilities	16	**(667)**	(644)
Pension obligations	3	**(403)**	(482)
Provisions	17	**(11)**	(6)
Total non-current liabilities		**(4,639)**	(4,774)
Total liabilities		**(6,299)**	(5,887)
Net assets		**457**	326
Total equity		**457**	326

These regulatory accounting statements were approved by the Board of Directors of National Grid Electricity Transmission plc on 25 July 2008 and were signed on its behalf by:

Mark Fairbairn Director

Stuart Humphreys Director

Consolidated statement of recognised income and expense

for the years ended 31 March

	Notes	**2008** **£m**	2007 £m
Actuarial gains/(losses)	3	**50**	(92)
Net (losses)/gains taken to equity in respect of cash flow hedges		**(19)**	1
Tax on items taken directly to or transferred from equity	5	**(11)**	28
Net income/(expense) recognised directly in equity		**20**	(63)
Profit for the year		**386**	287
Total recognised income and expense for the year		**406**	224

Consolidated cash flow statement

for the years ended 31 March

	Notes	2008 £m	2007* £m
Cash flows from operating activities			
Total operating profit		**645**	558
Adjustments for:			
Exceptional items and remeasurements		**5**	6
Depreciation and amortisation		**244**	245
Share based payment charge		**3**	4
Changes in working capital		**(70)**	(25)
Changes in provisions		**-**	(4)
Changes in pension obligations		**(39)**	5
Cash flows relating to exceptional items		**(5)**	(6)
Cash generated from operations		**783**	783
Tax received/(paid)		**24**	(146)
Net cash inflow from operating activities		**807**	637
Cash flows from investing activities			
Purchases of intangible assets		**(15)**	(12)
Purchases of property, plant and equipment		**(702)**	(492)
Purchases of financial investments		**(516)**	(376)
Net cash flow used in investing activities		**(1,233)**	(880)
Cash flows from financing activities			
Proceeds from loans received		**199**	796
Repayment of loans		**-**	(247)
Net movements in short-term borrowings and derivatives		**209**	186
Interest received		**55**	38
Interest paid		**(187)**	(150)
Exceptional finance costs on the repayment of debt		**-**	(8)
Net cash flow from financing activities		**276**	615
Net (decrease)/increase in cash and cash equivalents		**(150)**	372
Transfers (i)		**(276)**	55
Net (decrease)/increase in cash and cash equivalents - after transfers		**(426)**	427
Cash and cash equivalents at the start of the year (ii)		**435**	-
Transfers (i)		**-**	8
Cash and cash equivalents at the start of the year - after transfers (ii)		**435**	8
Net cash and cash equivalents at the end of the year (ii)	12	**9**	435

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

(i) Transfers represent the reallocation of balances between the regulated Transmission business and other businesses carried on by National Grid Electricity Transmission plc, principally arising from dividend payments made by the company.

(ii) Net of bank overdrafts of £nil (2007: £26m, 2006: £15m).

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

1. 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	**220**	222	**-**	-	**220**	222
Amortisation of intangible assets	**24**	23	**-**	-	**24**	23
Payroll costs	**89**	85	**5**	4	**94**	89
Other operating charges:						
Rates	**97**	95	**-**	-	**97**	95
Electricity transmission services scheme direct costs	**575**	551	**-**	-	**575**	551
Payments to Scottish electricity transmission network owners	**270**	280	**-**	-	**270**	280
Other	**181**	171	**-**	2	**181**	173
	1,456	1,427	**5**	6	**1,461**	1,433
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	**97**	86
Social security costs	**10**	9
Other pension costs	**21**	17
Share-based payments	**3**	4
Severance costs (excluding pension costs)	**3**	4
	134	120
Less: payroll costs capitalised	**(40)**	(31)
	94	89

1. Operating costs continued

(b) Average number of employees

	2008 Number	2007 Number
United Kingdom	**2,288**	2,073

Information is not available on the number of people employed in the Transmission business, as many of National Grid Electricity Transmission plc's activities are undertaken on a centralised or shared service basis. National Grid Electricity Transmission plc employee numbers have therefore been apportioned relative to wages and salaries in order to arrive at numbers for the Transmission business.

(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 National Grid Electricity Transmission plc.

(d) Directors' emoluments

The business reported in these regulatory statements is not a legal entity with statutory directors, and therefore there are no relevant directors' emoluments. Information on the emoluments of the directors of National Grid Electricity Transmission plc are provided in the statutory accounts of the company on page 42.

(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

The amounts shown relate to National Grid Electricity Transmission plc. 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).

2. Exceptional items and remeasurements

	2008 £m	2007 £m
Exceptional items - restructuring costs (i)	**(5)**	(6)
Total exceptional items included within operating profit	**(5)**	(6)
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	**-**	(15)
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**	(13)
Total exceptional items after taxation	**44**	(10)
Total remeasurements after taxation	**3**	(3)
Total exceptional items and remeasurements after taxation	**47**	(13)

(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 the 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.

3. Pensions

Substantially all of National Grid Electricity Transmission plc'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 22.

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

	2008	2007
	£m	£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	**96**	82
Expected return on plan assets	**(88)**	(83)
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	2007
	£m	£m
Actuarial gain/(loss) during the year	**50**	(92)
Cumulative actuarial gain/(loss)	**39**	(11)

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

	2008	2007
	£m	£m
Present value of funded obligations	**(1,693)**	(1,788)
Fair value of plan assets	**1,304**	1,318
	(389)	(470)
Present value of unfunded obligations	**(14)**	(12)
Net liability in the balance sheet	**(403)**	(482)

Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation (including unfunded obligations)	**(1,800)**	(1,701)
Current service cost	**(18)**	(20)
Interest cost	**(96)**	(82)
Actuarial gains/(losses)	**126**	(66)
Net increase in liabilities from redundancies	**(2)**	(3)
Employee contributions	**(6)**	(6)
Benefits paid (including unfunded obligations)	**82**	80
Net transfers	**8**	(1)
Other augmentations	**(1)**	(1)
Closing defined benefit obligation (including unfunded obligations)	**(1,707)**	(1,800)

Changes in the fair value of plan assets		
Opening fair value of plan assets	**1,318**	1,316
Expected return on plan assets	**88**	83
Actuarial losses	**(76)**	(26)
Employer contributions	**58**	18
Employee contributions	**6**	6
Benefits paid (including unfunded obligations)	**(82)**	(80)
Net transfers	**(8)**	1
Closing fair value of plan assets	**1,304**	1,318

Actual return on plan assets	**12**	58
Expected contributions to defined benefit plans in the following year	**19**	12

4. Finance income and costs

	2008 £m	2007 £m
Interest income and similar income		
Expected return on pension plan assets	**86**	83
Interest income on financial instruments:		
Interest income from bank deposits and other financial assets	**55**	37
Interest income and similar income	**141**	120
Interest expense and other financial costs		
Interest on pension plan obligations	**(96)**	(82)
Interest expense on financial liabilities held at amortised cost:		
Interest on bank loans and overdrafts	**(25)**	(20)
Interest on other borrowings	**(227)**	(169)
Preference dividends	**-**	(1)
Exceptional debt redemption costs	**-**	(8)
Interest on derivatives	**(17)**	(16)
Less: interest capitalised (i)	**53**	32
Interest expense	**(312)**	(264)
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	**(307)**	(265)
Net finance costs	**(166)**	(145)
Comprising:		
Interest income and similar income	**141**	120
Interest expense and other finance costs		
Before exceptional items and remeasurements	**(312)**	(256)
Exceptional items and remeasurements	**5**	(9)
	(166)	(145)

(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.

5. Taxation

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

	Before exceptional items and remeasurements		Exceptional items and remeasurements		Total	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
United Kingdom						
Corporation tax at 30% (2007: 30%)	**143**	132	**-**	-	**143**	132
Corporation tax adjustment in respect of prior years	**(56)**	(14)	**-**	-	**(56)**	(14)
	87	118	**-**	-	**87**	118
Deferred tax	**3**	(4)	**-**	(2)	**3**	(6)
Deferred tax credit arising from change in UK tax rates	**-**	-	**(47)**	-	**(47)**	-
Deferred tax adjustment in respect of prior years	**50**	14	**-**	-	**50**	14
	53	10	**(47)**	(2)	**6**	8
Total tax charge	**140**	128	**(47)**	(2)	**93**	126

Taxation on items charged/(credited) to equity

	2008 £m	2007 £m
Deferred tax credit on revaluation of cash flow hedges	**(3)**	(2)
Deferred tax charge/(credit) on actuarial gains/losses	**14**	(26)
Tax charge/(credit) recognised in consolidated statement of recognised income and expense	**11**	(28)
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	(33)

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	**479**	**479**	428	428
Exceptional items and remeasurements	**-**	**-**	-	(15)
Profit before taxation from continuing operations	**479**	**479**	428	413
Profit on continuing operations multiplied by the rate of corporation tax in the UK of 30% (2007: 30%)	**144**	**144**	128	124
Effects of:				
Adjustments in respect of previous years	**(6)**	**(6)**	-	-
Expenses not deductible for tax purposes	**4**	**4**	-	-
Remeasurement of deferred tax - change in UK tax rate	**-**	**(47)**	-	-
Other	**(2)**	**(2)**	-	2
Total taxation from continuing operations	**140**	**93**	128	126
	%	**%**	%	%
At the effective income tax rate	**29.2**	**19.4**	29.9	30.5

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.

6. 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

7. Property, plant and equipment

	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 2006	101	5,953	654	94	6,802
Additions	-	5	584	3	592
Disposals	-	(26)	-	(3)	(29)
Reclassifications	17	480	(509)	12	-
Cost at 31 March 2007	118	6,412	729	106	7,365
Additions	2	3	781	(1)	785
Disposals	-	(13)	-	(32)	(45)
Reclassifications	7	241	(263)	15	-
Cost at 31 March 2008	127	6,643	1,247	88	8,105
Depreciation at 1 April 2006	(13)	(2,303)	-	(85)	(2,401)
Depreciation charge for the year	-	(212)	-	(10)	(222)
Disposals	-	27	-	3	30
Depreciation at 31 March 2007	(13)	(2,488)	-	(92)	(2,593)
Depreciation charge for the year	(4)	(206)	-	(10)	(220)
Disposals	-	13	-	32	45
Depreciation at 31 March 2008	(17)	(2,681)	-	(70)	(2,768)
Net book value at 31 March 2008	**110**	**3,962**	**1,247**	**18**	**5,337**
Net book value at 31 March 2007	105	3,924	729	14	4,772

The net book value of land and buildings comprised:

	2008 £m	2007 £m
Freehold	**102**	96
Long leasehold (over 50 years)	**3**	3
Short leasehold (under 50 years)	**5**	6
	110	105

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.

8. Derivative financial instruments

For further information and a detailed description of our derivative financial instruments and hedge type designations, refer to note 23. The fair value by designated hedge type can be analysed as follows:

	2008			2007		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £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 £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £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 £m	2007 £m
Interest rate swaps	**(1,981)**	(1,402)
Cross-currency interest rate swaps	**(512)**	(512)
Foreign exchange forward contracts	**(4)**	(6)
Total	**(2,497)**	(1,920)

9. Inventories

	2008 **£m**	2007 £m
Raw materials and consumables	**12**	12
Work in progress	**4**	4
	16	16

10. Trade and other receivables

	2008 **£m**	2007 £m
Trade receivables	**12**	26
Amounts owed by fellow subsidiaries	**187**	372
Other receivables	**14**	6
Prepayments and accrued income	**115**	104
	328	508

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 24.

11. Financial investments

	2008 **£m**	2007 £m
Current		
Loans and receivables - amounts due from fellow subsidiaries	**914**	376

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

12. Cash and cash equivalents

	2008 **£m**	2007 £m
Cash at bank	**9**	26
Short-term deposits	**-**	435
Cash and cash equivalents excluding bank overdrafts	**9**	461
Bank overdrafts	**-**	(26)
Net cash and cash equivalents	**9**	435

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.

13. Borrowings

The following table analyses borrowings, including bank overdrafts:

	2008 £m	2007 £m
Current		
Bank loans	**1**	1
Bonds	**517**	41
Borrowings from fellow subsidiaries	**407**	194
Bank overdrafts	**-**	26
	925	262
Non-current		
Bank loans	**398**	398
Bonds	**2,978**	3,078
	3,376	3,476
Total borrowings	**4,301**	3,738

Total borrowings are repayable as follows:	**2008 £m**	2007 £m
In one year or less	**925**	262
In more than one year, but not more than two years	**-**	405
In more than two years, but not more than three years	**248**	-
In more than three years, but not more than four years	**-**	244
In more than four years, but not more than five years	**199**	-
In more than five years other than by instalments	**2,929**	2,827
	4,301	3,738

The fair value of borrowings at 31 March 2008 was £4,187m (2007: £3,840m). 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 £4,284m (2007: £3,734m).

As at 31 March 2008, National Grid Electricity Transmission plc 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.

14. Trade and other payables

	2008 £m	2007 £m
Trade payables	**377**	332
Amounts owed to fellow subsidiaries	**203**	383
Social security and other taxes	**4**	16
Other payables	**79**	55
Deferred income	**62**	59
	725	845

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

15. Other non-current liabilities

	2008 £m	2007 £m
Other payables	**15**	6
Deferred income	**119**	124
	134	130

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

16. 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 tax depreciation £m	Employee share options £m	Pensions £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2006	-	(10)	(118)	(3)	(4)	(135)
Deferred tax liabilities at 31 March 2006	817	-	-	-	-	817
At 1 April 2006	817	(10)	(118)	(3)	(4)	682
Charged/(credited) to income statement	4	2	(1)	-	3	8
Credited to equity	-	(5)	(26)	(2)	-	(33)
Transfers	(13)	-	-	-	-	(13)
At 31 March 2007	808	(13)	(145)	(5)	(1)	644
Deferred tax assets at 31 March 2007	-	(13)	(145)	(5)	(1)	(164)
Deferred tax liabilities at 31 March 2007	808	-	-	-	-	808
At 1 April 2007	808	(13)	(145)	(5)	(1)	644
Charged/(credited) to income statement	(3)	-	18	-	(9)	6
Charged/(credited) to equity	-	6	14	(3)	-	17
At 31 March 2008	**805**	**(7)**	**(113)**	**(8)**	**(10)**	**667**
Deferred tax assets at 31 March 2008	-	(7)	(113)	(8)	(10)	(138)
Deferred tax liabilities at 31 March 2008	805	-	-	-	-	805
	805	(7)	(113)	(8)	(10)	667

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).

17. Provisions

	Environmental £m	Other £m	Total provisions £m
At 1 April 2006	8	5	13
Utilised	(4)	(1)	(5)
At 31 March 2007	4	4	8
Additions	-	2	2
Other movements	-	7	7
Utilised	(2)	-	(2)
At 31 March 2008	**2**	**13**	**15**

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

	2008 £m	2007 £m
Current	**4**	2
Non-current	**11**	6
	15	8

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.

Other movements

Other movements represents the reclassification of provisions not included within the Transmission business in previous years.

18. Reconciliation of movements in total equity

The Transmission business to which these regulatory accounts relate is not a statutory entity with share capital and reserves. Accordingly the movements on equity are shown in total only.

	Total equity £m
At 1 April 2006	99
Total recognised income and expense for the year	224
Share-based payments	3
Tax on share-based payments	5
Transfers (i)	(5)
At 31 March 2007	326
Total recognised income and expense for the year	406
Share-based payments	(2)
Tax on share-based payments	(3)
Transfers (i)	(270)
At 31 March 2008	**457**

(i) Transfers represent the reallocation of balances between the regulated Transmission business and other businesses carried on by National Grid Electricity Transmission plc, principally arising from dividend payments made by the company and, in 2006/07, the transfer of a business to a fellow subsidiary entity of National Grid plc.

National Grid Electricity Transmission plc 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

19. Consolidated cash flow statement

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

	2008	2007
	£m	£m
Movement in cash and cash equivalents	**(426)**	427
Increase in financial investments	**516**	376
Increase in borrowings and derivatives	**(408)**	(735)
Net interest paid	**132**	120
Change in net debt resulting from cash flows	**(186)**	188
Changes in fair value of financial assets and liabilities	**(14)**	(4)
Net interest charge	**(214)**	(176)
Other non-cash movements	**14**	(52)
Movement in net debt (net of related derivative financial instruments) in the year	**(400)**	(44)
Net debt at start of year	**(2,936)**	(2,892)
Net debt (net of related derivative financial instruments) at end of year	**(3,336)**	(2,936)

(b) Analysis of changes in net debt

	Cash and cash equivalents	Bank overdrafts	Net cash and cash equivalents	Financial investments	Borrowings	Derivatives	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2006	15	(15)	-	-	(2,912)	20	(2,892)
Cash flow	438	(11)	427	338	(593)	16	188
Fair value gains and losses	-	-	-	-	50	(54)	(4)
Interest charges	-	-	-	38	(198)	(16)	(176)
Other non-cash movements	8	-	8	-	(59)	(1)	(52)
At 31 March 2007	461	(26)	435	376	(3,712)	(35)	(2,936)
Cash flow	(452)	26	(426)	461	(240)	19	(186)
Fair value gains and losses	-	-	-	-	(89)	75	(14)
Interest charges	-	-	-	55	(252)	(17)	(214)
Other non-cash movements	-	-	-	22	(8)	-	14
At 31 March 2008	**9**	**-**	**9**	**914**	**(4,301)**	**42**	**(3,336)**

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

20. Commitments and contingencies

(a) Future capital expenditure

	2008 £m	2007 £m
Contracted for but not provided	**482**	497

(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	**40**	**57**
	66	**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 relating to National Grid Electricity Transmission plc 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.

21. 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 share-based payments	**-**	-	**(3)**	(4)	**(3)**	(4)
Interest paid on borrowings from fellow subsidiaries	**-**	(1)	**(17)**	(6)	**(17)**	(7)
	-	(1)	**(55)**	(41)	**(55)**	(42)
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:						
Amounts receivable	**-**	-	**196**	144	**196**	144
Amounts payable	**-**	-	**(203)**	(155)	**(203)**	(155)
Advances to fellow subsidiaries (amounts due within one year):						
At 1 April	**283**	1	**113**	145	**396**	146
Advances	**-**	282	**730**	91	**730**	373
Repayments	**(212)**	-	**-**	(143)	**(212)**	(143)
At 31 March	**71**	283	**843**	93	**914**	376
Borrowings payable to fellow subsidiaries (amounts due within one year):						
At 1 April	**-**	(45)	**(194)**	(181)	**(194)**	(226)
Advances	**-**	-	**(221)**	(90)	**(221)**	(90)
Repayments	**-**	45	**8**	77	**8**	122
At 31 March	**-**	-	**(407)**	(194)	**(407)**	(194)

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 1(c).

22. Actuarial information on pensions

The following information relates to National Grid Electricity Transmission plc's section of the scheme as a whole. The information in note 3 relates to the amounts apportioned to the Transmission business.

The Electricity Supply Pension Scheme is a funded scheme which is divided into two sections, one of which is National Grid Electricity Transmission plc'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.

Additional information on National Grid Elecitricity Transmission plc's section of the Electricity Supply Pension Scheme

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.

22. 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 for National Grid Electricity Transmission's section of the scheme 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 plc adopted IAS 19 from 1 April 2004, no information has been provided for the year ended 31 March 2004.

23. 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. Derivatives are used by National Grid Electricity Transmission plc to manage 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 24. 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

The policy of National Grid Electricity Transmission plc 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.

24. Financial risk

The activities of National Grid Electricity Transmission plc expose the company 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 treasury policy, described on pages 18 to 19 of the Operating and Financial Review.

24. Financial risk continued

(a) Market risk

(i) Foreign exchange risk

National Grid Electricity Transmission plc 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, foreign exchange forwards are used to manage foreign exchange transaction exposure. The policy of National Grid Electricity Transmission plc 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, a percentage of the foreign currency flows is generally covered 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 £m	**Euro £m**	**US dollar £m**	**Other £m**	**Total £m**
Cash and cash equivalents	**9**	**-**	**-**	**-**	**9**
Financial investments	**914**	**-**	**-**	**-**	**914**
Borrowings	**(3,719)**	**(483)**	**(1)**	**(98)**	**(4,301)**
Pre-derivative position	**(2,796)**	**(483)**	**(1)**	**(98)**	**(3,378)**
Derivative effect	**(543)**	**483**	**4**	**98**	**42**
Net debt position	**(3,339)**	**-**	**3**	**-**	**(3,336)**

	2007				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Cash and cash equivalents	461	-	-	-	461
Financial investments	376	-	-	-	376
Borrowings	(3,239)	(414)	-	(85)	(3,738)
Pre-derivative position	(2,402)	(414)	-	(85)	(2,901)
Derivative effect	(537)	414	3	85	(35)
Net debt position	(2,939)	-	3	-	(2,936)

The currency exposure on other financial instruments is as follows:

	2008				2007			
	Sterling £m	**Euro £m**	**US dollar £m**	**Total £m**	Sterling £m	Euro £m	US dollar £m	Total £m
Trade and other receivables	**177**	**24**	**12**	**213**	401	3	-	404
Trade and other payables	**659**	**-**	**-**	**659**	770	-	-	770
Other non-current liabilities	**15**	**-**	**-**	**15**	6	-	-	6
	851	**24**	**12**	**887**	1,177	3	-	1,180

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from borrowings. Borrowings issued at variable rates expose National Grid Electricity Transmission plc to cash flow interest rate risk. Borrowings issued at fixed rates expose National Grid Electricity Transmission plc to fair value interest rate risk. Interest rate risk management policy as further explained on page 18 is to minimise the finance costs (being interest costs and changes in the market value of debt). Some of the company's borrowings issued are index-linked, that is their cost is linked to changes in the UK Retail Prices Index (RPI). These borrowings are believed to provide a good hedge for revenues and regulatory asset values that are also RPI-linked.

Interest rate risk arising from financial investments is primarily variable.

24. 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 £m	2007 £m
Fixed interest rate borrowings		
In one year or less	**911**	31
In more than one year but not more than two years	**-**	405
In more than two years but not more than three years	**248**	-
In more than three years but not more than four years	**-**	244
In more than five years	**890**	867
	2,049	1,547
Floating interest rate borrowings (including RPI)	**2,252**	2,191
Total borrowings	**4,301**	3,738

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

	2008				
	Fixed rate £m	**Floating rate £m**	**RPI(i) £m**	**Other(ii) £m**	**Total £m**
Cash and cash equivalents	**-**	**9**	**-**	**-**	**9**
Financial investments	**-**	**884**	**-**	**30**	**914**
Borrowings	**(2,049)**	**(402)**	**(1,850)**	**-**	**(4,301)**
Pre-derivative position	**(2,049)**	**491**	**(1,850)**	**30**	**(3,378)**
Derivative effect	**337**	**(291)**	**(4)**	**-**	**42**
Net debt position	**(1,712)**	**200**	**(1,854)**	**30**	**(3,336)**

	2007				
	Fixed rate £m	Floating rate £m	RPI(i) £m	Other(ii) £m	Total £m
Cash and cash equivalents	-	461	-	-	461
Financial investments	-	376	-	-	376
Borrowings	(1,547)	(619)	(1,572)	-	(3,738)
Pre-derivative position	(1,547)	218	(1,572)	-	(2,901)
Derivative effect	685	(720)	-	-	(35)
Net debt position	(862)	(502)	(1,572)	-	(2,936)

(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.

24. 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. Limits are managed by the central treasury department of National Grid plc, as explained in treasury policies on page 18.

As at 31 March 2008 and 2007, there were a number of exposures to individual counterparties. In accordance with 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 8 was £96m (2007: £5m); after netting agreements it was £70m (2007: £1m).

Wholesale and retail credit risk

The 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. There is no retail credit risk. Management does not expect any significant losses of receivables that have not been provided for as shown in note 10.

(c) Liquidity analysis

Liquidity requirements are managed 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 £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial liabilities					
Borrowings	**(882)**	**-**	**(249)**	**(3,153)**	**(4,284)**
Interest payments on borrowings (i)	**(139)**	**(129)**	**(128)**	**(2,523)**	**(2,919)**
Other non-interest bearing liabilities	**(670)**	**(15)**	**-**	**-**	**(685)**
Derivative financial liabilities					
Derivative contracts - receipts	**78**	**8**	**8**	**851**	**945**
Derivative contracts - payments	**(15)**	**(14)**	**(14)**	**(1,212)**	**(1,255)**
Total at 31 March 2008	**(1,628)**	**(150)**	**(383)**	**(6,037)**	**(8,198)**

At 31 March 2007	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial liabilities					
Borrowings	(220)	(405)	-	(3,109)	(3,734)
Interest payments on borrowings (i)	(140)	(134)	(127)	(2,408)	(2,809)
Other non-interest bearing liabilities	(788)	(8)	-	-	(796)
Derivative financial liabilities					
Derivative contracts - receipts	2	1	-	25	28
Derivative contracts - payments	(21)	(16)	(10)	(41)	(88)
Total at 31 March 2007	(1,167)	(562)	(137)	(5,533)	(7,399)

(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.

24. 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 objective of National Grid Electricity Transmission plc when managing capital is to safeguard its ability to continue as a going concern and to remain within regulatory constraints. The principal measure of balance sheet efficiency is adjusted gearing ratio. Adjusted gearing ratio for the regulated Transmission business at 31 March 2008 was 73% compared to 71% at 31 March 2007. For further details see page 16 of the Operating and Financial Review.

25. 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 and the Deferred Share Plan. In addition there are two historical plans under which awards are outstanding, but no further awards will be granted. These are the Executive Plan and the Share Matching Plan. Information for these plans is only available for National Grid Electricity Transmission plc as a whole and not in respect of the business and activities included in these regulatory statements. The information in respect of National Grid Electricity Transmission plc can be found in the 2008 Annual Report and Accounts on page 64.

26. 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.

27. Subsidiary undertakings

The principal subsidiary undertakings included in the consolidated financial statements of National Grid Electricity Transmission plc 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.

The activities of the principal subsidiaries are not included within the regulatory accounting statements of the regulated Transmission business.

28. Charges and apportionments
Statement required by the Transmission Licence, Condition B1, Part B, paragraph 3(b)(viii)(aa) and (bb)

In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, note 28 does not form part of the published regulatory accounting statements.

28. Charges and apportionments continued
Statement required by the Transmission Licence, Condition B1, Part B, paragraph 3(b)(viii)(cc)

In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, note 28 does not form part of the published regulatory accounting statements.

28. Charges and apportionments continued
Statement required by the Transmission Licence, Condition B1, Part B, paragraph 3(b)(viii)(cc) continued

In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, note 28 does not form part of the published regulatory accounting statements.

Definitions

References to the 'Company' and the use of the abbreviation 'NGET' refer to National Grid Electricity Transmssion plc, or to National Grid Electricity Transmission plc and its subsidiaries collectively, depending on context.

References to the Transmission business refer to the regulated business as defined by the Electricity Transmission Licence.

References to the Electricity Transmission Licence refer to the licence granted under the Electricity Act 1989.

Other definitions

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.

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.

National Grid Electricity Transmission plc
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