

National Grid Gas plc

NTS Regulatory Accounting Statements 2007/2008

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About regulatory accounting statements

About regulatory accounting statements

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

These NTS regulatory accounting statements are in respect of National Grid Gas's NTS businesses, including its LNG storage business. National Grid Gas also prepares and publishes regulatory accounting statements in respect of its DN business, including its metering businesses. Together, these two sets of regulatory accounting statements must comprise all the businesses and activities of National Grid Gas.

Reconciliations between certain financial information included in these DN regulatory accounting statements and the equivalent financial information for National Grid Gas as a whole, are provided in note 1 to these NTS regulatory accounting statements.

Scope of the NTS regulatory accounting statements

These NTS regulatory accounting statements are in respect of the following regulatory businesses of National Grid Gas plc:

- the NTS business;
- the LNG storage business; and
- de-minimis and other activities associated with these businesses

These regulatory businesses are collectively the gas transmission businesses.

Further information about these businesses can be found in the Operating and Financial Review on page 2.

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

Relationship of regulatory accounting statements with statutory accounts

The financial information contained in these regulatory accounting statements does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for National Grid Gas plc for the year ended 31 March 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 Companies Act 1985. The auditors' opinion on the National Grid Gas plc statutory accounts is addressed to, and for the benefit of, the members of National Grid Gas plc and not for any other person or purpose. The auditors have clarified, in giving their opinion on those statutory accounts, that it has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. In giving their opinion, they do not accept or assume responsibility for any other purpose or to any other person to whom their audit report on the statutory accounts is shown or into whose hands it may come save where expressly agreed by their prior consent in writing.

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

Basis of preparation of regulatory accounting statements

These regulatory accounting statements contain arbitrary apportionments of certain revenues, costs, assets, liabilities and shareholders' equity which are not specifically attributable to the businesses and activities reported in these regulatory accounting statements, but which, nevertheless, are required by the gas transporter licence under which these regulatory accounting statements are prepared, to be reported against those businesses and activities. Further details of these items are provided in the Basis of preparation on page 33.

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

Operating and Financial Review

This operating and financial review describes the main trends and factors underlying the development, performance and position of the businesses reported in these regulatory accounting statements during the year ended 31 March 2008 as well as those likely to affect their future development, performance and position. It has been prepared in line with the guidance provided in the Reporting Statement on the Operating and Financial Review issued by the UK Accounting Standards Board in January 2006, except that in accordance with the requirements of the gas transportation licence under which these regulatory accounting statements are prepared, performance during the year is only discussed for the businesses in aggregate.

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Principal operations

National Grid Gas is a part of the National Grid group of businesses. Its principal operations are in regulated gas networks in the UK, and comprise the transmission and distribution of gas and the provision of gas metering services. It also has interests in liquefied natural gas (LNG) storage facilities in the UK.

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

Regulatory business	Description of principal activities
NTS businesses	<p>Owns and operates the gas national transmission system (NTS) in Great Britain which comprises approximately 7,400 kilometres of high pressure pipeline and 26 compressor stations, connecting to eight distribution networks and to third party independent systems for onward transmission of gas to end consumers.</p> <p>Day to day operation includes balancing supply and demand, maintaining satisfactory system pressures and ensuring gas quality standards are met.</p>
LNG storage business	<p>Owns and operates four liquefied natural gas (LNG) storage facilities in the UK.</p>

De-minimis activities	<p>Comprise those activities of National Grid Gas which do not form part of its DN businesses, metering business, meter reading business, NTS business or LNG storage business, based on the definitions of those businesses in its two gas transporter licences, and which have not been specifically consented to by Ofgem.</p>
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De-minimis activities mainly comprise the provision of contracting type services for other companies in the National Grid group of companies and for third parties. Under its two gas transporter licences, National Grid Gas can earn no more than 2.5% of its revenue from, nor invest more than 2.5% of its net assets in de-minimis activities

Other activities	<p>Comprise those activities of National Grid Gas which would be classed as de-minimis activities except that Ofgem has given National Grid Gas specific consents to undertake them.</p>
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Other activities mainly comprise the provision of common services to other companies in the National Grid group of companies and the provision of specific services to the four gas distribution networks sold in 2005.

History

National Grid Gas originated from the restructuring of the UK gas industry in 1986.

Key milestones

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

Vision, strategy and objectives

Vision

National Grid Gas is a 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. National Grid Gas 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	The focus is on a clear business model based on the ownership and operation of large scale asset intensive businesses within National Grid Gas's principal growth market of gas infrastructure in the UK.
Integration	National Grid Gas's aim is to run its 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	National Grid Gas's aim is to be disciplined in the application of best practice, increasingly standardising its approach in the way it operates and finances its activities. Its aim is for rigorous financial discipline, ensuring that it has the capital it needs to grow, while maintaining the investor confidence that comes from a disciplined approach to its balance sheet.

Objectives

Building on National Grid's strategy, National Grid Gas has set objectives to deliver National Grid's vision of becoming the foremost international electricity and gas company. By achieving these objectives it aims to deliver sustainable growth and so create value for National Grid's shareholders.

Delivering National Grid's strategy	<ul style="list-style-type: none"> - Create lines of business - Build operating model – common systems and processes, sharing best practice
Operating performance	<ul style="list-style-type: none"> - Improve safety - Improve efficiency - Improve reliability - Improve customer service - Deliver capital investment plans

Talent	<ul style="list-style-type: none"> - Identify and develop talent and skills - Improve engagement and performance - Enhance inclusion and diversity
Relationships	<ul style="list-style-type: none"> - Help investors understand National Grid Gas's value - Improve relationships with customers, regulators and governments - Work effectively with suppliers - Deepen involvement with communities
Environment	<ul style="list-style-type: none"> - Lead on climate change - Manage and remediate contaminated land - Protect the environment - Be efficient in use of natural resources
Financial performance	<ul style="list-style-type: none"> - Increase profits - Obtain appropriate returns on investments - Maintain financial discipline

This strategy is underpinned by National Grid Gas's commitment to corporate responsibility, including the core values that it expects its management and employees to operate by.

Responsibility	<ul style="list-style-type: none"> - Operate to the highest standards of corporate governance - Conduct business in a lawful and ethical manner - Live the core values of: <ul style="list-style-type: none"> ● Respect others and value diversity ● Take ownership for driving performance ● Demonstrate integrity and openness in all relationships ● Work together as one team
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The meaning of these objectives, how National Grid Gas plans to achieve them and the progress made this year are described in the performance summary and performance against objectives sections of this Operating and Financial Review on pages 8 to 17.

Business drivers, risks and opportunities

Business drivers

National Grid Gas's principal activities include the operation of highly complex gas infrastructure networks. As a consequence, there are many factors that influence the financial returns it obtains.

National Grid Gas considers the following to be its principal business drivers in respect of its gas transmission businesses:

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

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

Weather and volumes	<p>Changes in the quantities of gas delivered through National Grid Gas's gas transmission networks may result in an increase or decrease in its revenues. Volumes are affected by weather and consumer demand 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.</p>
Seasonality	<p>National Grid Gas's current price control arrangements for its gas transmission networks mean that revenues are less weighted towards the winter months than previously. Seasonality does not have a significant impact on National Grid Gas's other revenues.</p> <p>With the exception of commodity costs, National Grid Gas's operating costs are generally not seasonal.</p>
Commodity and other pass-through costs	<p>National Grid Gas's is allowed to recover commodity costs and certain other direct 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.</p> <p>National Grid Gas's is affected by commodity prices to the extent that they affect its own energy requirements, most significantly gas purchases for the operation of its gas transmission networks.</p>
Inflation	<p>Without action to improve efficiency, National Grid Gas's operating costs increase each year as a result of wage increases and inflation in external costs. In general, its revenues also increase each year, although not necessarily at the same rate, depending on its regulatory or contractual arrangements. As a consequence, National Grid Gas's ability to control costs and improve efficiency is important to its ability to increase operating profits.</p> <p>National Grid Gas's price controls are linked to retail price inflation, as is a proportion of its borrowings.</p>
Interest rates	<p>The costs of financing National Grid Gas's operations are affected by changes in prevailing interest rates, as some of its debt is at floating rates. National Grid Gas hedges some of its exposure to interest rates with fixed-rate debt and derivative financial instruments to maintain a proportion of its debt at fixed interest rates.</p>

Risks and opportunities

Risks and opportunities

National Grid Gas believes that the principal opportunities it has to contribute to the achievement of National Grid's vision and to the delivery of growth in value for National Grid's shareholders have been identified in National Grid's strategy and National Grid Gas's objectives.

Conversely, National Grid Gas risks a shortfall in this contribution if it does not fulfil National Grid's strategy or if it fails to achieve its objectives.

Delivering National Grid's strategy	<p>National Grid Gas believes that by implementing National Grid's strategy and transforming its businesses, it will be able to deliver increased value for National Grid's shareholders.</p> <p>Conversely, if National Grid Gas does not achieve this transformation, or the benefits in efficiency and effectiveness are not achieved, then its contribution to shareholder value will not grow as hoped or will diminish.</p>
Operating performance	<p>The operating profits and cash flows National Grid Gas generates are dependent on its 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.</p>
Talent	<p>The skills and talents of National Grid Gas's employees, and their motivation and dedication, are critical to the achievement of its objectives. Failure to develop existing employees or to attract and recruit talented new employees could hamper its ability to deliver in the future.</p>
Relationships	<p>Relationships with National Grid Gas's stakeholders are critical to its 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 it addresses the concerns of, and interacts with, all its stakeholders.</p>
Environment	<p>Safeguarding the 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.</p>
Financial performance	<p>Strong financial performance and operating cash flows are the basis for funding National Grid Gas's future capital investment programmes, for servicing its borrowings and paying dividends, as well as in increasing its value to National Grid's shareholders.</p>

Responsibility

Strong corporate governance is essential to operating responsibly and the achievement of all National Grid Gas's objectives.

National Grid Gas's reputation as a responsible business is dependent on ensuring all its behaviours are lawful and ethical, on complying with its policies and licences and on living up to its core values.

If National Grid Gas does not live up to these high standards it could be exposed to adverse financial or other consequences.

How National Grid Gas intends to achieve its objectives and the progress made during the year against its objectives are set out on pages 9 to 17.

Risk management

National Grid Gas's approach to risk management is described in the corporate governance section on page 26. In addition, information on how certain financial risks are addressed is included in the financial position and financial management section of this Operating and Financial Review on pages 18 to 20.

Risk factors

Through its risk management process, National Grid Gas has identified a number of significant risks and uncertainties in achieving its 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;
- regulatory treatment of commodity costs passed through to consumers;
- reputation damage from disruptions to supply, even if outside National Grid Gas'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 pension schemes; and
- changes in accounting standards.

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

These risk factors are described in more detail in the corporate governance section on pages 26 to 28.

External market and regulatory environment

Markets in which National Grid Gas operates

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

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

Natural gas delivery in the UK

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

National Grid Gas is the owner and operator of the gas national transmission system and of four of the eight regional gas distribution networks in Great Britain. It charges gas shippers for its services, which they then incorporate into the prices charged to end consumers.

The gas distribution networks in Scotland and southern England are owned by Scotia Gas Networks, in the north of England by Northern Gas Networks, and in Wales and the west of England by Wales & West Utilities.

Other markets in which National Grid Gas operates

National Grid Gas also operates in gas related markets in Great Britain which are directly connected to its regulated businesses described above. National Grid Gas's regulated metering business owns approximately 80% of the domestic gas meters in Great Britain, although as the competitive market for metering services expands, this portfolio of gas meters will decline as its gas meters are displaced. National Grid Gas also participates in the competitive market for the provision of LNG storage services in Great Britain.

Regulation

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

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

Economic regulation of National Grid Gas's gas transmission businesses is undertaken by the Office of Gas and Electricity Markets (Ofgem). Ofgem operates under the direction and governance of the Gas and Electricity Markets Authority and has established price control mechanisms that restrict the amount of revenue that can be earned by regulated businesses.

National Grid Gas holds a gas transporter licence in respect of the national transmission system. Under the Gas Act 1986 it has a duty to develop and maintain an efficient and economical pipeline system for the conveyance of gas. National Grid Gas's LNG storage business is managed as a separate business from the NTS business. However, it is regulated under the same gas transporter licence.

Ofgem sets price controls in respect of the amounts that can be charged by the owners and operators of gas infrastructure in the UK. These controls are reviewed every five years and the current price control for gas transmission activities covers the period 1 April 2007 to 31 March 2012.

The key elements of the current price control are that National Grid Gas earns a 4.4% post-tax real rate of return on its regulatory asset value, a £0.9 billion baseline five year capital expenditure allowance and a £0.3 billion five year operating expenditure allowance.

The charges that National Grid Gas can make for access to its gas transmission system are determined by a formula linked to the Retail Prices Index (RPI). This formula is based upon Ofgem's estimates of National Grid Gas's operating expenditure, capital expenditure and asset replacement, together with an allowed rate of return.

In addition, National Grid Gas's gas system operation activities are subject to financial incentive schemes to promote efficiency. If National Grid Gas operates its network more efficiently than Ofgem's forecasts, it can increase revenues, with penalties for reductions in performance.

There are a number of incentive schemes covering activities such as cost of investment for additional capacity to facilitate new connections to the system, managing constraints, the provision of market information, the cost of purchasing shrinkage gas (gas used in operating the system) and other gas system operation costs.

Current and future developments

External market developments

Market structure and ownership

There have been no significant changes in the structure of the UK gas infrastructure market since 2005, when National Grid Gas sold four of our regional gas distribution networks to other operators.

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 decline in UK continental shelf gas reserve means more reliance is placed on imported gas for both consumption and use in power generation. As a consequence of the decline in gas production from the UK continental shelf, National Grid Gas's latest forecast is that the UK will import around 50% of its gas requirements by the end of the decade.

These changes are impacting National Grid Gas's gas networks with significant investment underway and planned to link gas import facilities with domestic, business and industrial consumers.

Activity to increase the UK's import capability has involved the development of new import infrastructure by National Grid and other market participants. During the year, a number of significant infrastructure projects were commissioned, including a major gas pipeline in south Wales, linking the Milford Haven LNG import terminal to our gas network.

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 National Grid Gas's transmission network came into operation on 1 April 2007, together with a one year system operator price control. National Grid Gas has also accepted system operator price controls for its gas transmission operations for 2008/09.

Other developments

The 316 kilometre pipeline connecting the new LNG importation terminals at Milford Haven has been completed on time and in advance of the terminals. The pipeline is the largest single extension to the system since it was originally constructed and has been delivered to a very challenging timetable. It was formally opened by UK Energy Minister, Malcolm Wickes, in November 2007.

The pipeline will initially have to operate at 70 bar pressure rather than its design pressure of 94 bar because, following a public inquiry, planning permission has been refused for a pressure reduction installation at the end of the pipeline at Tirley in Gloucestershire. The effect of this is to reduce the pipelines capacity by approximately 25% and a force majeure notice for this shortfall has been issued under our contracts with the gas shippers. Work is progressing towards the submission of revised planning applications in autumn 2008.

Major pipelines have also been completed and commissioned from Nether Kellett in Lancashire, to Pannal in North Yorkshire, as part of works to import gas from Norwegian gas fields through Easington and in south west England to meet increased demand requirements.

Performance summary and key performance indicators

Delivering National Grid's strategy	Lines of business	<ul style="list-style-type: none"> Integrated the gas transmission business into National Grid's global Gas 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	<ul style="list-style-type: none"> 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: zero 2006/07: zero	Target: zero
		Employee lost time injury frequency rate	2007/08: 0.36 2006/07: 0.29	Target: zero
	Reliability	Gas transmission network reliability	2007/08: 100% 2006/07: 100%	Target: 100%
	Efficiency	Cost reduction programmes undertaken in gas transmission		
	Capital investment	Capital expenditure	2007/08: £801 million 2006/07: £628 million	
Talent	Talent, skills, engagement and performance	<ul style="list-style-type: none"> Gas transmission's directors and senior managers have been through a 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 The talent review process has been upgraded and aligned across National Grid Gas's businesses. 		
Environment	Climate change	Reduction in greenhouse gas emissions	2007/08: 10% 2006/07: 25%	Target: year on year reduction
	Protecting the environment	Significant direct environmental incidents (own, contractors)	2007/08: 1, 24 2006/07: 2, 13	Target: zero
		Total value of fines from environmental prosecutions	2007/08: zero 2006/07: zero	Target: zero
Financial performance	Profit and cash flow	Adjusted operating profit*	2007/08: £312 million 2006/07: £308 million	
		Cash generated by operations	2007/08: £467 million 2006/07: £406 million	
	Returns from investment	Gas transmission return on investment	2007/08: 7.2% 2006/07: 7.3%	
	Financial discipline	Adjusted gearing ratio**	2007/08: 53% 2006/07: 45%	

* Adjusted operating profit excludes exceptional items and remeasurements.

** For the adjusted gearing ratio NTS assets are measured at their regulatory value.

Performance against objectives

In accordance with the requirements of National Grid Gas's NTS gas transporter licence, the performance of the businesses included within these NTS regulatory accounting statements is considered in aggregate.

Business performance and the progress made against objectives are described below and on the following pages. This includes commentary on financial results on pages 13 to 17.

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 the operating objectives, both financial and non-financial KPIs are used. Where relevant, KPIs are used as the primary measures of whether objectives are being achieved. However, the scale and size of National Grid Gas's operations mean many 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 has been included as one of the KPIs measuring financial performance. The other KPIs are unchanged from last year.

Responsibility

National Grid Gas believes operating responsibly is essential to the way it conducts its operations, invests, develops its people and manages its relationships. It underpins everything it does.

National Grid Gas always 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 its 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 within National Grid Gas is described in more detail in the corporate governance section on pages 25 to 28.

Delivering National Grid's strategy

National Grid Gas is in the process of transforming its 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

National Grid Gas has integrated the management of its gas transmission business with National Grid's US gas transmission business, as part of National Grid's plan to create a single gas transmission business operating in both the UK and the US.

Common functions

National Grid Gas's gas transmission 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 its 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, National Grid Gas has implemented a new back office system, which will underpin the development of common processes and integrate with front office systems used by its businesses.

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

Identification of best practice

Achievements by the gas transmission business so far have been the sharing of best practice with regard to safety and the development of a common financial approval process.

Business process review

During 2007/08, the NTS business completed a business process review, focused on improving the efficiency of delivery of its capital investment programme and operation efficiencies to meet the challenges within its price control plans. 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 and managing a higher volume of work that is potentially more volatile if not managed effectively. The NTS business has also been working with its suppliers to constrain or reduce costs wherever possible, with the aim of using the scale of its operations, and the increased level of capital expenditure, to increase efficiency.

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 of National Grid Gas's managers will be accountable for safety, health and environmental management in their areas of operations.

Operating performance

National Grid Gas aims for operational excellence by performing to the highest standards of safety, efficiency, and reliability and by improving customer service. By delivering on its capital investment plans the gas transmission business can create value through organic growth.

Safety

Safety is paramount.

National Grid Gas's most important goals are: to ensure that members of the public are not injured as a direct result of its operations; to deliver a working environment where there are zero work-related injuries and illness; to reduce gas leaks on its distribution networks; and to improve the health of its employees so they are fit for work every day.

National Grid Gas uses a range of lagging and leading indicators to measure performance against its safety objectives, including: members of the public injured as a direct result of its operations; employee lost time injury frequency rate; achievement of gas safety service standards; and employee sickness absence rate.

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

National Grid Gas has also reinforced its approach to process safety. During 2007/08, it has reviewed the risk profile of its assets and has completed a culture survey to find out the views of employees on process safety. National Grid Gas has also trained Directors and senior managers in process safety and issued a new commitment statement agreed by the Board of National Grid.

Public safety

No members of the public were injured as a result of gas transmission operations during 2007/08 or 2006/07.

Employee safety

During 2007/08, 5 gas transmission employees received injuries that resulted in them taking time off work, compared with 5 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 were 0.36 in 2007/08 compared with 0.29 in the previous year.

Employee health

National Grid Gas is committed to protecting employees' health during work activities. National Grid Gas 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.

For National Grid Gas as a whole, around 2.18% of available work days were lost due to sickness absence in 2007/08, compared with 2.20% in 2006/07.

Contractor safety

There was a decrease in contractor lost time injuries from 32 in 2006/07 to 18 in 2007/08.

Efficiency

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

National Grid Gas's primary method of measuring improvements in efficiency is through financial performance.

Gas transmission has been undertaking a number of internal business process reviews to seek out further savings without compromising other objectives. Information on financial performance during the year is set out on pages 13 to 17.

Reliability

National Grid Gas's principal operations are critical to the functioning of the UK economy. The reliability of its gas networks is one of its highest priorities after safety.

National Grid Gas uses business-specific reliability performance indicators to measure reliability performance.

National Grid Gas's approach to maintaining and improving reliability involves: investing in infrastructure and systems to provide the operational tools and techniques necessary to manage our assets and operations to high standards and investing in the renewal of assets; investing in the skills and capabilities of its people to give them the ability to operate the

networks to a high degree of service excellence; and maintaining a constant focus on reliability as one of its principal objectives, ensuring it is proactive about planning to ensure reliability and that it reacts quickly to factors that could compromise reliability.

The winter of 2007/08 saw a maximum gas demand of 419 million cubic metres on 17 and 20 December 2007. This is lower than the previous year's peak of 436 million cubic metres.

The NTS business again achieved its target of 100% reliability for the gas transmission network.

Gas compressor fleet performance declined during 2007/08, with the mean time between compressor failures falling to 259 hours compared with 430 hours in 2006/07. In order to improve gas compressor resilience and to support variations in operating conditions such as experienced this year, the NTS business is progressing investments in electrical drive compressors at approximately 20% of its sites.

Customer service	National Grid Gas's objective is to impress customers with the quality of the services provided, with its responsiveness when things go wrong and with its dedication to continued improvement.
	National Grid Gas uses business-specific service quality KPIs to measure performance in this area.

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

Capital investment	Capital investment is one of the principal drivers of future growth, as the majority of capital investment enables National Grid Gas 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.

Investment in gas transmission systems is, by its nature, variable and is largely driven by changing sources of supply and asset replacement requirements. The NTS gas transporter licence also obliges the NTS business to provide connections and capacity upon request.

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

Capital investment in the replacement, reinforcement and extension of the Gas Transmission systems in 2007/08 was £801 million compared with £628 million in 2006/07. 2007/08 has seen a further substantial increase in the level of investment in gas pipeline projects, some £138 million higher than 2006/07.

Talent

National Grid Gas aims to maximise the contribution of its 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 are critical to National Grid Gas's future success. National Grid Gas aims to support all its employees so that they can operate to the best of their abilities by creating an environment that allows them to realise their full potential.
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National Grid Gas 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, it has conducted cross-business talent planning sessions using consistent processes to support senior management in developing employees within each business area and to address succession issues.

National Grid Gas's 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.

National Grid Gas 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, National Grid Gas needs to engage its employees to strive for continued improvement. For that purpose the aim is to implement a world-class performance management process.
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National Grid Gas's approach involves adopting integrated common performance processes and a single set of performance criteria, with pay linked to leadership qualities (how employees deliver) as well as operational and financial performance (what employees deliver), providing for clearer differentiation between levels of performance.

Employee engagement

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

In February 2008, National Grid conducted a comprehensive employee engagement survey, in which over 83% of its global work force took part in what will now be an annual exercise. Separate results are not available for the employees of National Grid Gas alone, but the survey demonstrated that National Grid Gas's employees see its 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 National Grid Gas's 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, a Performance for Growth programme was successfully launched for Directors and senior managers.

National Grid Gas continues to expand and embed its 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 National Grid Gas 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 this objective of promoting inclusion and diversity include the percentage of female employees and the percentage of black and minority ethnic employees.

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

At 31 March 2008, 24.5% of National Grid Gas's employees were female and 5.8% were from black and minority ethnic groups compared with 20.0% and 4.5% respectively at 31 March 2007.

Relationships

National Grid Gas aims to enhance its relationships with all of its external stakeholders – investors, customers, regulators, government, suppliers and the communities in which National Grid Gas operates.

Investor relations National Grid Gas's aim is to make itself attractive to debt investors so that it can finance its operations as effectively as possible.

During the year, National Grid Gas participated in the presentations and conference calls targeted at debt investors and conducted by National Grid. Despite turbulent market conditions National Grid Gas has continued to issue long-term bonds, raising £700 million during the year.

Customers, regulators and government

The primary concern of National Grid Gas's customers, regulators and the UK Government is that National Grid Gas delivers a safe, reliable and efficient service, now and into the future. Hence the foundation of National Grid Gas's relationships reflects the quality of its operational performance.

For customers, it is important that National Grid Gas treats them with respect, that it communicates clearly and that it makes interaction with them as straightforward as possible. National Grid Gas's focus on customer service and operational excellence is also a critical component of its relationship with Ofgem and the UK Government, underpinning the building of trust with them both. This involves being responsive to the need of Ofgem for high quality information, complying with rules and regulations, operating in an ethical way and, most importantly, delivering on National Grid Gas's promises.

National Grid Gas continues to work very closely with Ofgem on the expansion of its gas networks to meet new and changing demand. In addition, National Grid Gas seeks to maintain a professional approach with Ofgem in areas of disagreement.

Suppliers

National Grid Gas aims to work effectively in partnership with its suppliers, developing constructive relationships and working together effectively. National Grid Gas's objective is to develop contractual arrangements with suppliers that align their interests with National Grid Gas's own, as far as possible, and share financial risks appropriately.

National Grid Gas'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.

During the year, National Grid Gas implemented a new back office system, which has improved its ability to manage procurement activities as well as providing other benefits. Unfortunately, relationships with certain suppliers were temporarily hampered by teething problems with the new system, leading to delays in payment in some circumstances. National Grid Gas has resolved many of the issues that have arisen and continues to address those that remain, aiming to ensure suppliers are paid on time while maintaining appropriate financial controls.

In addition to focusing on efficiency and value for money, National Grid Gas has established clear principles and objectives concerning the impact of its supply chain economically, socially, environmentally and on human rights. National Grid Gas expects suppliers to address these wider areas in working with it.

Community involvement

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

National Grid Gas's community investment objectives include supporting communities, developing its business, supporting its employees and enhancing its reputation through targeted community involvement activities. National Grid Gas's approach continues to be

centred on three key themes: energy and environment; education and skills; and community development.

During the year National Grid Gas has again reviewed its social policy to ensure its 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.

National Grid Gas invested some £3.0 million in support of community initiatives and relationships across its operations in 2007/08.

Environment

National Grid Gas 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.

National Grid Gas's key performance indicator to monitor performance in this area is the annual percentage reduction in its greenhouse gas emissions. National Grid Gas also measures absolute emissions.

National Grid Gas reports greenhouse gas emissions in line with National Grid's corporate reporting principles which include National Grid's interpretation of the World Resources Institute Greenhouse Gas Protocol Initiative. This protocol provides a breakdown of National Grid Gas's direct emissions (Scope 1), indirect emissions resulting from purchased electricity (Scope 2) and other indirect emissions (Scope 3). National Grid Gas believes this provides greater transparency and focuses attention on those emissions over which it 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 challenge National Grid Gas to develop, now and over the next 42 years, new ways of conducting its 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 National Grid Gas believes will transform its 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; and

- helping and supporting customers, employees and suppliers in changing their behaviours to be more considerate of the environment.

As National Grid Gas does not have a separate verified base line for greenhouse gas emissions, it monitors emissions in terms of year on year reductions. During 2007/08, Scope 1 and Scope 2 greenhouse gas emissions in respect of the gas transmission business amounted to some 0.9 million tonnes CO₂ equivalent, a 10% reduction compared with emissions of 1 million tonnes in 2006/07.

Total Scope 1 and 2 emissions per £million of revenue amounted to some 1,190 tonnes CO₂ equivalent compared with 1,372 tonnes in 2006/07.

Protecting the environment

National Grid Gas's objective is to help protect the environment for future generations and so it is committed to continuous improvement in its 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; and
- improving, where it can, the environmental status of the land on which it 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 National Grid Gas'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 gas transmission operations was 25, which includes 24 contractor-related incidents. In 2006/07, there were 15 incidents including 13 contractor-related incidents. There were no prosecutions by enforcing bodies resulting from these incidents.

Financial performance

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

Profit and cash flow

If National Grid Gas achieved its objectives it 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 National Grid Gas uses to monitor financial performance are adjusted operating profit and operating cash flows. Adjusted operating profit is operating profit before exceptional items and remeasurements.

National Grid Gas reports its financial results and position in accordance with International Financial Reporting Standards (IFRS).

Continuing operations

The financial results of National Grid Gas's gas transmission business (as described on page 2) are presented within continuing operations.

Measurement of financial performance and use of adjusted profit measures

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

Measures of business performance are referred to in these regulatory accounting statements 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 National Grid Gas's 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 National Grid Gas has no control.

Adjusted profit measures are limited in their usefulness compared with the comparable total profit measures, as they exclude important elements of underlying financial performance, namely exceptional items and remeasurements. Management believes 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 overall financial performance.

Returns on investment

National Grid Gas's aim is to meet or exceed the base investment financial returns in its DN price controls.

National Grid Gas measures the financial performance of its DNs using an operational return metric, comparable to the vanilla return defined in the price controls from 1 April 2007. This metric expresses profit on a price control basis as a percentage of estimated DN regulatory value.

In 2007/08, the NTS business achieved a 7.2% return, significantly outperforming regulatory assumptions, mainly as a result of performance under its incentive schemes. This compares with an operational return of 7.3% in 2006/07 calculated on the same basis.

Operating financial performance

	Years ended 31 March	
	2008	2007
	£m	£m
Revenue	756	729
Operating costs excluding exceptional items	(444)	(421)
Adjusted operating profit	312	308
Exceptional items	(3)	(5)
Total operating profit	309	303

Revenue, operating costs and operating profit

The movements in the year in revenue, operating costs and operating profit can be summarised as follows by regulatory business:

	Revenue	Operating costs	Operating profit
	£m	£m	£m
2006/07 results	729	(426)	303
Add back 2006/07 exceptional items	-	5	5
2006/07 adjusted results	729	(421)	308
NTS	74	(48)	26
LNG storage	(37)	15	(22)
De-minimis activities	(1)	1	-
Other activities	(5)	5	-
Inter-business trading	(4)	4	-
2007/08 adjusted results	756	(444)	312
2007/08 exceptional items	-	(3)	(3)
2007/08 results	756	(447)	309

The principal factors causing the movements between 2006/07 and 2007/08 are summarised below:

	Revenue £m	Operating costs £m	Operating profit £m
2006/07 results	729	(426)	303
Add back 2006/07 exceptional items	-	5	5
2006/07 adjusted results	729	(421)	308
Allowed revenues	91	-	91
Timing of recoveries	(3)	-	(3)
LNG storage auction revenue	(37)	-	(37)
Depreciation and amortisation	-	(25)	(25)
Other	(24)	2	(22)
2007/08 adjusted results	756	(444)	312
2007/08 exceptional items	-	(3)	(3)
2007/08 results	756	(447)	309

Revenue increased by £27 million in 2007/08 compared with 2006/07. Allowed revenues increased by £91 million, driven by the five-year transmission price controls that came into effect on 1 April 2007. As expected, revenues from the LNG storage business were lower in 2007/08, down by £37 million on 2006/07, as demand for capacity returned closer to normal levels following the abnormal demand in 2006/07.

Operating costs, excluding exceptional items, increased by £23 million in 2007/08 compared to 2006/07. As expected, depreciation and amortisation increased by £25 million as a result of increasing capital investment. Exceptional charges of £3 million in 2007/08 and £5 million in 2006/07 relate to costs incurred in establishing a shared services function in the UK and from the transmission business process review.

As a consequence of these items, adjusted operating profit, excluding exceptional items, increased by £4 million in 2007/08 compared with 2006/07, while operating profit increased by £6 million.

Profit for the year

Net finance costs and taxation largely comprise amounts relating to National Grid Gas as a whole which have been allocated as described in the basis of preparation of regulatory accounting statements on page 33.

Adjusted profit for the year

	Years ended 31 March	
	2008 £m	2007 £m
Adjusted operating profit	312	308
Net finance costs excluding exceptional items and remeasurements	(90)	(55)
Adjusted profit before taxation	222	253
Taxation excluding taxation on exceptional items and remeasurements	(96)	(97)
Adjusted profit	126	156

Profit for the year

	Years ended 31 March	
	2008 £m	2007 £m
Total operating profit	309	303
Net finance costs	(82)	(63)
Profit before taxation	227	240
Taxation	(66)	(95)
Profit	161	145

Net finance costs

Net interest excluding exceptional finance costs and remeasurements, as allocated to the gas transmission business, increased by £35 million from 2006/07 to 2007/08. This was primarily explained by an increase in average debt balances.

Exceptional finance costs and remeasurements

There were no exceptional finance costs in 2007/08. Exceptional finance costs allocated to the gas transmission business of £9 million in 2006/07 relate to the early repayment of debt.

Financial remeasurements relate to allocated net gains on derivative financial instruments of £8 million, compared with allocated net gains of £1 million in 2006/07.

Taxation

A net charge of £66 million was allocated to the gas transmission business in 2007/08, comprising a £96 million charge on adjusted profit before tax and a £30 million credit on exceptional items and remeasurements. This compares with an allocated net charge of £95 million in 2006/07, comprising a £97 million charge on adjusted profit before tax and a £2 million credit on exceptional items and remeasurements. The 2007/08 net charge included an allocated exceptional credit of £31 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 43% and 29% respectively (2006/07: 38% and 40%), compared with a standard UK corporation tax rate of 30% for both years.

The effective tax rates before exceptional items reflect prior year tax charges equivalent to an effective tax rate of 14% in 2007/08 and 7% in 2006/07. These prior year items principally relate to additional tax arising under UK transfer pricing arrangements, which is offset by equivalent tax credits in other UK companies in the National Grid group.

Profit for the year

The gas transmission business profit for the year rose from £145 million in 2006/07 to £161 million in 2007/08 as a consequence of the above changes.

Adjusted profit measures

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

Reconciliation of adjusted operating profit to total operating profit

	Years ended 31 March	
	2008	2007
	£m	£m
Adjusted operating profit	312	308
Exceptional items	(3)	(5)
Total operating profit	309	303

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

Reconciliation of adjusted profit before taxation to profit before taxation

	Years ended 31 March	
	2008	2007
	£m	£m
Adjusted profit before taxation	222	253
Exceptional items	(3)	(14)
Derivative financial remeasurements	8	1
Total profit before taxation	227	240

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

Reconciliation of adjusted profit for the year to profit for the year

	Years ended 31 March	
	2008	2007
	£m	£m
Adjusted profit for the year	126	156
Exceptional items	29	(10)
Derivative financial remeasurements	6	(1)
Profit for the year	161	145

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

Cash flows

Cash flows from operating activities

Cash generated from operations for the gas transmission businesses was £467 million in 2007/08 compared with £406 million in 2006/07. This included cash outflows relating to exceptional items of £4 million and £2 million respectively. After reflecting cash flows relating to tax paid, net cash inflow from operating activities was £360 million, compared with £406 million in 2006/07.

In 2007/08, corporate tax payments of £107 million were allocated to gas transmission compared with an allocation of £nil in 2006/07.

Cash inflows from investing activities

Cash outflows from investing activities for gas transmission rose from £681 million in 2006/07 to £923 million in 2007/08. This rise was primarily a result of increased capital investment, with cash outflows to purchase property, plant and equipment and intangible fixed assets increasing to £843 million in 2007/08 from £561 million in 2006/07. Allocated cash outflows in respect of the acquisition of financial investments reduced from £120 million in 2006/07 to £83 million in 2007/08.

Cash flows from financing activities

Cash flows from financing activities largely comprise cash flows of National Grid Gas as a whole which have been allocated as described in the basis of preparation of regulatory accounting statements on page 33.

Net cash inflows related to financing activities increased from £267 million in 2006/07 to £504 million in 2007/08. This reflected net allocated inflows from loans of £751 million (2006/07: £968 million inflow) and net allocated payments to providers of finance, in the form of net interest and dividends, of £247 million (2006/07: £701 million).

Allocated net interest cash outflows, excluding exceptional debt redemption costs, reduced from £88 million in 2006/07 to £84 million in 2007/08. There were no allocated exceptional debt redemption payments in 2007/08 compared with £9 million in 2006/07 which arose from restructuring National Grid Gas's debt portfolio.

Financial discipline In order to deliver sustainable growth National Grid Gas must be disciplined in the way it manages its balance sheet. This means that National Grid Gas's parent National Grid will return cash to its shareholders to the extent it is not required for investment objectives.

The principal measure National Grid Gas uses 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 DN businesses measured at their estimated regulatory values.

The adjusted gearing ratio for the gas transmission business amounted to 53% at 31 March 2008 compared with 45% at 31 March 2007.

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

	2008	2007
	£m	£m
Net assets per balance sheet	1,712	1,768
Adjustments for regulatory asset values	822	730
Deferred tax on adjustments	(230)	(219)
Adjusted net assets	2,304	2,279
Net debt	2,596	1,832
Adjusted net assets plus net debt	4,900	4,111

Dividends

Dividends in respect of the financial year

The following table shows the ordinary dividends paid or payable by National Grid Gas in respect of the last two financial years and which have been allocated to the gas transmission business as described in the basis of preparation of regulatory accounting statements on page 33. These dividends do not include any associated UK tax credit in respect of such dividends.

	2008	2007
	£m	£m
Interim	163	179
Total	163	179

In accordance with IFRS, dividends are reported in the financial statements for the year in which they are approved.

Financial position and financial management

Going concern

Having made enquiries, the Directors consider that National Grid Gas 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 these regulatory accounting statements of National Grid Gas.

Capital structure

Balance sheet

The balance sheet of the gas transmission businesses at 31 March 2008 can be summarised as follows:

	Assets	Liabilities	Net assets
	£m	£m	£m
Property, plant and equipment and non-current intangible assets	3,504	-	3,504
Other non-current assets and liabilities	1,588	(146)	1,442
Current assets and liabilities	141	(341)	(200)
Deferred tax	-	(438)	(438)
Total before net debt	5,233	(925)	4,308
Net debt	316	(2,912)	(2,596)
Total as at 31 March 2008	5,549	(3,837)	1,712
Total as at 31 March 2007	4,786	(3,018)	1,768

The reduction in net assets from £1,768 million at 31 March 2007 to £1,712 million at 31 March 2008 resulted from attributed dividends paid of £163 million and changes in the allocation of funding between National Grid Gas's regulatory businesses of £60 million, partly offset by the profit for the year of £161 million, net income recognised directly in equity of £5 million and other changes in equity of £1 million.

Net debt

Allocated net debt increased by £764 million from £1,832 million at 31 March 2007 to £2,596 million at 31 March 2008, as cash flows from operations of £360 million were exceeded by capital expenditure of £840 million, attributed dividends paid of £163 million, the net interest charge of £132 million and other cash outflows of £3 million, less net increases in the value of derivatives of £14 million.

Allocated debt includes a proportion of the bonds, with a nominal value of £982 million and a fair value of £1,203 million plus accrued interest, which were transferred to National Grid Gas plc from National Grid Gas Holdings plc during 2007/08, in return for repayment of inter-company loans.

At 31 March 2008, allocated net debt comprised borrowings of £2,864 million and bank overdrafts of £2 million, less derivative financial instruments with a net carrying value of £50 million, cash and cash equivalents of £2 million and financial investments of £218 million (31 March 2007: borrowings of £2,017 million, bank overdrafts of £2 million and derivative financial instruments with a net carrying value of £7 million, less cash and cash equivalents of £61 million and financial investments of £133 million).

The maturity of borrowings is shown in note 16 to the regulatory accounting statements.

Gearing

Gearing at 31 March 2008 and 31 March 2007, calculated as allocated net debt at that date expressed as a percentage of allocated net debt plus net assets shown in the balance sheet, amounted to 60% and 51% respectively. National Grid Gas does not consider that this standard gearing ratio is an appropriate measure as it does not reflect the economic value of the assets of its regulated businesses. For performance measurement purposes, National Grid Gas measures gearing on an adjusted basis, as described under financial discipline on page 17.

Equity shareholders' funds

Equity shareholders' funds fell from £1,768 million at 31 March 2007 to £1,712 million at 31 March 2008. This increase was mainly explained by the £60 million transfer of funds to other regulatory businesses of National Grid Gas.

Liquidity and treasury management

Cash flow

Cash flows from National Grid Gas's operations are largely stable over a period of years, but they do depend on the timing of customer payments. National Grid Gas's DN operations are subject to multi-year price control agreements with the regulator, Ofgem. Significant changes in volumes, for example as a consequence of weather conditions, can affect cash flows in those businesses, with abnormally mild or cold weather driving volumes 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 the liquidity requirements of National Grid Gas. 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. National Grid Gas also maintains a minimum level of committed facilities to support its liquidity requirements.

Credit facilities and unutilised Commercial Paper and Medium Term Note Programmes

At 31 March 2008, National Grid Gas plc had a \$2.5 billion US commercial paper programme (unutilised), a \$1.25 billion Euro commercial paper programme (unutilised) and a €10 billion Euro medium term note programme (€5.3 billion unissued).

National Grid Gas has both committed and uncommitted facilities that are available for general corporate purposes. At 31 March 2008, it had £0.8 billion of long-term committed facilities (undrawn) and around £0.4 billion of uncommitted borrowing facilities (undrawn).

Note 16 to the regulatory accounting statements shows the maturity profile of undrawn committed borrowing facilities in sterling as at 31 March 2008.

Regulatory restrictions

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

Treasury policy

The funding and treasury risk management for National Grid Gas is carried out on its behalf by a central department operating under policies and guidelines approved by the Board of National Grid 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 Gas.

There is a separate financing programme for National Grid Gas. The Finance Committees of both National Grid plc and of National Grid Gas approve all funding programmes.

The Treasury function is not operated as a profit centre. Debt and treasury positions are managed in a non-speculative manner, such that all transactions in financial instruments or products are matched to an underlying current or anticipated business requirement.

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

Borrowings outstanding at 31 March 2008 and allocated to the gas transmission business amounted to £2,866 million (31 March 2007: £2,019 million). The table in note 16 shows the expected maturity of these borrowings.

Management believes that the maturing amounts in respect of National Grid Gas's contractual obligations can be met from existing cash and investments, operating cash flows and other refinancings that that can reasonably be expected to be able to secure in the future, together with the use of committed facilities if required. National Grid Gas's financial position and expected future operating cash flows are such that it can borrow on the wholesale capital and money markets and most of its 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 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 14 and 15 to the regulatory accounting statements.

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

Moody's	A3/P2
Standard & Poor's (S&P)	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 Gas'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, National Grid Gas issued a mixture of short and long-term debt.

Note 16 to the regulatory accounting statements sets out the contractual maturities of borrowings over the next five years, with total contracted borrowings maturing over 45 years in compliance with the 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. The interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints so that, even with large movements in interest rates, neither the interest cost nor the total financing cost can exceed pre-set limits. Some of National Grid Gas's bonds in issue are index-linked, that is their cost is linked to changes in the UK Retail Prices Index (RPI). Management believe that these bonds provide a good hedge for revenues and National Grid Gas's regulatory asset values that are also RPI-linked under its price control formulae.

The performance of the Treasury function in interest rate risk management is measured by comparing the actual total financing costs of our debt with those of a passively-managed benchmark portfolio. More information on the interest rate profile of debt is included in note 27(a) to the regulatory accounting statements.

Foreign exchange risk management

National Grid Gas 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 Gas 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 are shown in note 27(a) to the regulatory accounting 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 27(b) to the regulatory accounting statements.

Where multiple transactions are entered into with a single counterparty, a master netting arrangement can be put in place to reduce our exposure to credit risk of that counterparty. At the present time, we use standard International Swap Dealers Association (ISDA) documentation, which provides for netting in respect of all transactions governed by a specific ISDA agreement with a counterparty, when transacting interest rate and exchange rate derivatives.

Derivative financial instruments held for purposes other than trading

As part of its business operations, National Grid Gas 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 reducing risk. National Grid Gas's policy is not to use derivatives for trading purposes. Derivative transactions can, to varying degrees, carry both counterparty and market risk.

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

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

More details on derivative financial instruments are provided in notes 11 and 26 to the regulatory accounting statements.

Valuation and sensitivity analysis

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

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 27(d) to the regulatory accounting statements. Under the assumptions set out in note 27(d), a 0.50% change in the UK Retail Prices Index would affect the income statement by £4 million, but would have no effect on equity, while a 0.50% change in UK interest rates would affect the income statement by £2 million and equity by £5 million.

Commodity contracts

Commodity derivatives

In the normal course of business, the NTS business is party to commodity derivatives. These have included gas futures, gas options and gas forwards that are used to manage commodity prices associated with gas delivery operations. This includes the buying back of capacity rights already sold in accordance with gas transporter licence and Uniform Network Code obligations.

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

Commodity trading

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

Commitments and contingencies

Commitments and contingencies outstanding at 31 March in respect of the gas transmission businesses are summarised in the following table:

	2008	2007
	£m	£m
Future capital expenditure contracted but not provided for	108	481
Total operating lease commitments	13	11

In addition, National Grid Gas has other commitments at 31 March 2008 of £84 million (2007: £213 million) which relate to the company and are not attributable to the regulatory businesses.

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

National Grid Gas proposes to meet all of its commitments from existing cash and investments, operating cash flows, existing credit facilities, future facilities and other financing that it reasonably expects to be able to secure in the future.

Details of material litigation as at 31 March 2008

National Grid Gas's gas transmission and LNG storage businesses were not party to litigation that it considers to be material as at 31 March 2008.

Related party transactions

National Grid Gas provides services to and receives services from related parties. In the year ended 31 March 2008, the gas transmission and LNG storage businesses charged £1 million and received credits of £1 million from National Grid Gas's related parties (other than Directors and key managers), compared with charges made of £2 million and charges received of £46 million in 2006/07.

Further information relating to related party transactions is contained within note 24 to the regulatory accounting statements. Details of key management compensation are included within note 2(c) to the regulatory accounting statements.

Retirement arrangements

The substantial majority of National Grid Gas's employees are members of the National Grid UK Pension Scheme, which is operated by Lattice Group plc, an intermediate holding company of National Grid Gas. National Grid Gas does not provide any other post-retirement benefits.

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

As there is no contractual arrangement or stated policy for charging the net defined benefit cost of the scheme to National Grid Gas, it accounts for the scheme as if it were a defined contribution scheme and does not recognise any share of the assets and liabilities of the scheme.

Actuarial position

The last completed full actuarial valuation of the scheme was as at 31 March 2006. This concluded that the pre-tax funding deficit was £371 million in the defined benefit section on the

basis of the funding assumptions. Employer cash contributions for the ongoing cost of the scheme are currently being made at a rate of 32.7% of pensionable payroll.

Contributions

The actuarial valuation of the scheme as at 31 March 2007 is currently in progress, but has not yet been concluded. In advance of finalising the valuation, National Grid Gas has made deficit contributions of £114 million during 2007/08, which were reimbursed by Lattice Group plc, and a further £305 million to 31 May 2008, in addition to ongoing employer contributions. National Grid is currently in the process of agreeing a recovery plan with the trustees in respect of the deficit expected to be included in the valuation.

Accounting policies

Basis of accounting

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

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

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

Choices permitted under IFRS

Since 1 April 2005, National Grid Gas has presented its regulatory accounting statements in accordance with IFRS. National Grid Gas was required to make a number of choices on the adoption of IFRS and in addition it continues 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	National Grid Gas's opening IFRS balance sheets were established as at 1 April 2004. National Grid Gas used certain balances in its previous UK GAAP regulatory accounting statements as the basis for the opening IFRS balance sheets.
Business combinations	Business combinations prior to 1 April 2004 were not changed retrospectively.
Carrying value of assets at transition	In most cases National Grid Gas used brought forward depreciated cost, as adjusted for changes in accounting policies to conform to IFRS, to be the opening carrying value under IFRS.
Share-based payments	National Grid Gas recognised all active grants retrospectively.
Cumulative translation differences	National Grid Gas chose to present cumulative translation differences arising since 1 April 2004 only.

Significant choices that National Grid Gas continues to make on an ongoing basis include the following:

Presentation formats	National Grid Gas uses the nature of expense method for its income statements and totals its balance sheets to net assets and total equity. In the income statement, National Grid Gas presents subtotals of total operating profit, profit before tax and profit from continuing operations, together with additional subtotals excluding exceptional items and remeasurements. Exceptional items and remeasurements are presented on the face of the income statement.
Pensions	National Grid Gas recognises transactions with the defined benefits section of the National Grid UK Pension Scheme as if it was a defined contribution

	scheme, and does not recognise any of the scheme assets and liabilities or actuarial gains and losses.
Capitalised interest	National Grid Gas capitalises interest into the cost of assets that it constructs 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	National Grid Gas normally opts to apply hedge accounting in most circumstances where this is permitted.

New IFRS accounting standards and interpretations adopted in 2007/08

In preparing these regulatory accounting statements, National Grid Gas 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 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 results, assets or liabilities.
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Segmental reporting

As the results, assets and liabilities of the gas distribution and metering businesses are reported separately in these regulatory accounting statements for each regulatory business, no further segmental reporting is provided.

Critical accounting policies

The application of accounting principles requires National Grid Gas to make estimates, judgments and assumptions that may affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the accounts. On an ongoing basis, National Grid Gas evaluates its estimates 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 these estimates, the effect of which is 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 the accounting policies set out in these regulatory accounting statements.

National Grid Gas's critical accounting policies and accounting treatments for the gas distribution and metering businesses are considered to be:

Attribution of revenues, Many of the amounts reported in these regulatory accounting statements

costs, assets, liabilities and equity to regulatory businesses include or comprise amounts which are not directly attributable to the regulatory businesses concerned and which have been apportioned between the regulatory businesses. Significant judgement is exercised in determining those bases of apportionment. Where there is no reasonable basis of apportionment, arbitrary bases have been adopted.

Amounts determined by apportionment within these regulatory accounting statements comprise net costs of £238 million included in the income statements (2007: £222 million), assets of £2,031 million (2007: £1,910 million) and liabilities of £3,617 million (2007: £2,854 million).

Estimated economic lives of property, plant and equipment The reported amounts for depreciation of property, plant and equipment can be materially affected by the judgments exercised in determining their estimated economic lives.

Depreciation of property, plant and equipment amounted to £115 million in 2007/08 and £90 million in 2006/07.

Carrying value of assets and potential for impairment The carrying value of assets recorded in the balance sheets could be materially reduced if an impairment were to be assessed as being required. Total assets at 31 March 2008 were £5,549 million, including £3,478 million of property, plant and equipment, £26 million of intangible assets and £1,588 million owed by National Grid Gas's immediate parent undertaking.

Impairment reviews are carried out either when a change in circumstance is identified that indicates an asset might be impaired. An impairment review involves calculating either or both of the fair value or the value-in-use of an asset or group of assets and comparing with the carrying value in the balance sheet. These calculations involve the use of assumptions as to the price that could be obtained for, or the future cash flows that will be generated by, an asset or group of assets, together with an appropriate discount rate to apply to those cash flows.

Revenue Revenue includes an assessment of transportation services supplied to customers between the date of the last invoice and the year end. Changes to the estimate of the transportation services supplied during this period would have an impact on reported results.

Estimates of unbilled revenues included in these regulatory accounting statements amounted to £39 million at 31 March 2008 compared with £38 million at 31 March 2007.

Assets and liabilities carried at fair value Certain assets and liabilities, principally financial investments and derivative financial instruments, are carried in the balance sheet at their fair value rather than historical cost.

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

Hedge accounting	<p>National Grid Gas uses derivative financial instruments to hedge certain economic exposures arising from movements in exchange and interest rates or other factors that could affect either the value of its assets or liabilities or affect future cash flows.</p> <p>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.</p>
Pensions	<p>Defined benefit pension obligations are accounted for as if the National Grid UK Pension Scheme were a defined contribution scheme as there is neither a contractual arrangement, nor a stated policy under which National Grid Gas is charged for the costs of providing pensions.</p> <p>A change in these arrangements may lead to National Grid Gas recognising the cost of providing pensions on a different basis, together with a proportion of the actuarial gains and losses and of the assets and liabilities of the pension scheme.</p>
Exceptional items and remeasurements	<p>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 National Grid Gas's financial performance and distort the comparability between periods.</p> <p>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, gains or losses on disposals of businesses or investments.</p> <p>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 National Grid Gas has no control.</p>
Tax estimates	<p>National Grid Gas's tax charge is based on the profit for the year and tax rates in effect, but it does not recognise current year transfer pricing adjustments which are expected to be settled through use of group relief.</p> <p>The determination of appropriate provisions for taxation requires National Grid Gas to take into account anticipated decisions of tax authorities and estimate its ability to utilise tax benefits through future earnings and tax planning. These estimates and assumptions may differ from future events.</p>

In order to illustrate the impact that changes in assumptions could have on our reported 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 £3 million, but would have a negligible effect on the annual amortisation charge on intangible assets.
Revenue accruals	A 10% change in the estimate of unbilled revenues at 31 March 2008 would result in an increase or decrease in recorded net assets and profit for the year of approximately £3 million net of tax.
Assets carried at fair value	A 10% change in assets and liabilities carried at fair value would result in an increase or decrease in the carrying value of derivative financial instruments of £5 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 £13 million higher than that reported net of tax and net assets would have been £10 million higher.

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. National Grid Gas 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.
	National Grid Gas 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.
	National Grid Gas does not have any loyalty programmes of this nature and so this will have no impact.
Pension	IFRIC 14, on when net pension assets can be recognised in the balance

assets and minimum funding	<p>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.</p> <p>National Grid Gas does not recognise any net pension assets or obligations in our balance sheet and so this will have no impact.</p>	National Grid Gas currently has no such instruments and so this will have no impact.
Presentation of financial statements	<p>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.</p> <p>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 National Grid Gas's results, assets or liabilities.</p>	
Business combinations	<p>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.</p> <p>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 National Grid Gas's current results, assets or liabilities.</p>	
Non-controlling interests	<p>IAS 27 (revised), expected to be adopted in 2010, requires transactions with non-controlling (minority) interests to be recorded in equity.</p> <p>National Grid Gas does not have any material non-controlling interests and so this change will have no material impact.</p>	
Share based payments	<p>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.</p> <p>This will affect the way National Grid Gas accounts for Save as You Earn share schemes, but due to the low levels of cancellations by employees in the past, it is not anticipate that this is likely to have a material impact on future results.</p>	
Financial instrument presentation	<p>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.</p>	

Corporate governance

Corporate governance within National Grid

As a part of the National Grid group of companies, National Grid Gas does not have a separate corporate governance process, but instead is subject to National Grid's corporate governance process, which is 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; and

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.

Corporate governance within National Grid Gas

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 gas distribution businesses has been delegated to the Distribution Executive Committee.

Responsibility for treasury activities in respect of National Grid Gas is retained by the Finance Committee of National Grid and a detailed description of treasury policy is provided on page 18 of the Operating and Financial Review.

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; and
- appointment of auditors.

Board of National Grid Gas

The Board of National Grid Gas plc is responsible for ensuring that all the businesses of National Grid Gas comply with all relevant laws and regulations, including compliance with the Gas Transporter Licences and with the business separation requirements of Special Condition C20 of the NTS Gas Transporter Licence. These business separation requirements are discussed in more detail below.

The Board of National Grid Gas, with the Board of National Grid Electricity Transmission 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 membership and attendance at meetings were as follows during 2007/08:

Name		Attendance*
Nick Winsor (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.

Business separation

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

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

National Grid Gas's policy on business separation is set out in its Compliance Statement.

National Grid Gas has taken the following actions to comply with the requirements of Special Condition C20:

- established separate management for the gas transmission and gas distribution businesses, as described above;
- appointed separate Compliance Committees for each of the gas transmission business and the gas distribution business. Each Compliance Committee reports directly to the board of National Grid Gas and also to the Audit Committee of National Grid; and
- appointed a Business Separation Compliance Officer, who reports to the Compliance Committees and twice yearly to the Audit Committee of National Grid.

Risk management

Understanding and managing risks is integral to the way National Grid Gas is run. National Grid Gas 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 its assets and reputation. It has been designed to manage rather than eliminate material risks to the achievement of our strategic and business objectives, while also recognising that any such process can provide only reasonable, and not absolute, assurance against material misstatement or loss. 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 Gas'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 Gas. 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.

Risk factors

National Grid Gas'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 its securities. Not all of these factors are within its control. In addition, other factors besides those listed below may have an adverse effect on National Grid Gas. These risk factors should be read in conjunction with the Operating and Financial Review on pages 2 to 24.

Changes in law or regulation

National Grid Gas's principal businesses are subject to regulation by the UK Government and other authorities such as Ofgem. Consequently, changes in law or regulation could adversely affect it. 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 National Grid Gas's businesses, could have an adverse impact on its results of operations, cash flows, the financial condition of its businesses and the ability to develop those businesses in the future.

Breaches of environmental or health and safety law or regulations

The transmission and distribution of natural gas is potentially dangerous. National Grid Gas also uses or generate in its operations hazardous and potentially hazardous products and by-products. National Grid Gas is subject to laws and regulations relating to pollution, the protection of the environment, and how it uses and disposes of hazardous substances and waste materials. These expose National Grid Gas to costs and liabilities relating to its operations and its properties whether current, including those inherited from predecessor bodies, or formerly owned by it. National Grid Gas is also subject to laws and regulations governing health and safety matters protecting the public and its employees.

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

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

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

National Grid Gas 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 it to fail to meet agreed standards of service or be in breach of a licence or approval, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming National Grid Gas's reputation.

In addition to these risks, National Grid Gas may be affected by other potential events that are largely outside of its control such as the impact of weather or unlawful acts of third parties. Weather conditions can affect financial performance and severe weather that damages infrastructure will adversely affect operational and potentially business performance and National Grid Gas's reputation. Terrorist attack, sabotage or other intentional acts may also physically damage National Grid Gas's 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 National Grid Gas's regulated gas businesses will be affected by its ability to meet or exceed efficiency targets and service quality standards set by or agreed with Ofgem. In addition, from time to time, National Grid Gas publishes cost and efficiency savings targets for its businesses. National Grid Gas has also substantially completed reorganising its operations along lines of business. To meet these targets and standards, National Grid Gas must continue to improve operational performance, service reliability and customer service. If National Grid Gas do not meet these targets and standards, or it does not complete implementation of this reorganisation as envisaged, it may not achieve the expected benefits, its business may be adversely affected and its performance, results of operations and reputation may be harmed.

Regulatory treatment of commodity costs passed through to consumers

Changes in commodity prices could potentially impact National Grid Gas's gas transmission and distribution businesses. Current regulatory arrangements provide the ability to pass-through virtually all of the increased costs related to commodity prices to consumers. However, if Ofgem were to restrict this ability, it could have an adverse effect on National Grid Gas's operating results.

Reputation damage from disruptions to supply, even if outside National Grid Gas's control

National Grid Gas's gas transmission and distribution businesses are responsible for transporting available gas. National Grid Gas 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, National Grid Gas's role is to manage the relevant network safely, which in extreme circumstances may require it to disconnect consumers, which may damage National Grid Gas's reputation.

Fluctuations in interest rates and their impact on borrowings and derivatives

National Grid Gas's results of operations may be affected because a significant proportion of its 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 Gas is subject to certain covenants and restrictions in relation to its listed debt securities and its bank lending facilities. National Grid Gas is also subject to restrictions on financing which have been imposed by regulators. These restrictions may hinder it in servicing the financial requirements of its businesses. Some of National Grid Gas's debt is rated by credit rating agencies and changes to these ratings may affect both its borrowing capacity and the cost of those borrowings. National Grid Gas's borrowing capacity and cost of borrowing could also be affected by adverse changes in the global credit markets. The effective rate of tax National Grid Gas pays 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 National Grid Gas's employees are members of a defined benefit pension scheme where the scheme assets are held independently of National Grid Gas'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 result in a requirement for it to make additional contributions to the pension scheme. National Grid Gas's legal obligations to the scheme are limited to paying the employers' contribution rate set by the trustees of the scheme. However, circumstances may require that National Grid Gas makes additional contributions. To the extent that any increases in contributions are not recoverable under National Grid Gas's price controls, results of operations could be adversely affected.

Changes in accounting standards

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

Directors' Report

The information in this Directors' Report does not comprise a Directors' Report within the meaning of the Companies Acts. Such a report for National Grid Gas plc is included within that company's annual report and accounts.

As the gas distribution and metering businesses reported on within these regulatory accounting statements do not comprise a legal entity, the following information is provided for National Grid Gas as a whole.

Further details of matters required to be included in a Directors' Report are incorporated by reference into this report, as detailed below.

Directors of National Grid Gas plc

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

Malcolm Cooper	Appointed June 2007
Mark Fairbairn	Appointed June 2003
Stuart Humphreys	Appointed July 2007
Paul Whittaker	Appointed June 2007
Nick Winser	Appointed July 2003
Adam Wiltshire	Appointed July 2006

The following also served as Directors during the period: Steve Holliday, Steve Lucas and Chris Murray, who resigned on 27 June 2007, and Andy Chapman who resigned on 7 July 2008.

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

Principal activities and business review

The principal activities of the Company and its subsidiaries during the year were the transmission and distribution of gas and the provision of gas metering services. A full description of the gas transmission business and its principal risks and uncertainties, is contained in the Operating and Financial Review on pages 2 to 24, and are incorporated by reference into this report.

Material interests in shares

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

Dividends

During the year, two interim dividends totalling £500 million were paid (2007: £350 million interim dividend and £1,500 million final dividend in respect of 2005/06). The Directors have not proposed a final dividend.

Donations

During 2007/08, some £3.0 million was invested in support of community initiatives and relationships in the UK, including direct charitable donations of £0.4 million (2007: £0.7 million).

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

Research and development

Expenditure on research and development was £2.1 million during the year (2007: £1.5 million).

Financial instruments

Details on the use of financial instruments and financial risk management are included on pages 18 to 20 in the Operating and Financial Review.

Disability

Through National Grid's inclusion and diversity programme, National Grid Gas 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 Gas, 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 Gas 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 National Grid Gas's policy to include in contracts or other agreements, terms of payment with suppliers. Once agreed, the National Grid Gas aims to abide by these terms of payment.

The average creditor payment period at 31 March 2008 was 22 days (23 days at 31 March 2007).

Audit information

The Directors' Report for National Grid Gas 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 Grid Gas 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.

On behalf of the Board of National Grid Gas plc

A Wiltshire Director, 25 July 2008

National Grid Gas plc, 1-3 Strand, London WC2N 5EH
Registered in England and Wales No. 2006000

Statement of Directors' responsibilities for preparing regulatory accounting statements

The Directors of National Grid Gas plc are obliged by Standard Special Condition A30 of National Grid Gas's NTS Gas Transporter Licence to prepare regulatory accounting statements for each financial period, which comply with the requirements set out in Standard Special Condition A30, as amended by consents received from Ofgem.

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

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

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

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

The Directors have responsibility to ensure that, so far as is reasonably practicable, the regulatory accounting statements have the same content and format in respect of the businesses to which they relate as the equivalent statutory accounts of National Grid Gas plc and that they comply with all relevant accounting and reporting 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 for each regulatory business and for the regulatory businesses in total, 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, for the regulatory businesses in total, a statement of the 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 include a reconciliation between the regulatory accounting statement and the statutory accounts of National Grid Gas.

The Directors have responsibility to ensure that the regulatory accounting statements show separately and in appropriate detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions that have been charged from or to any non-National Grid Gas business

of National Grid, or that have been determined by apportionment, where they relate to goods or services received or supplied for the purposes of the regulatory businesses.

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

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

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

The Directors are responsible for ensuring that the regulatory accounting statements are published in accordance with the requirements of Amended Standard Condition A30 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 Gas plc

A Wiltshire Director, 25 July 2008

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

We have audited the regulatory accounting statements of National Grid Gas plc (the Company) for the year ended 31 March 2008 on pages 33 to 66 which comprise the accounting policies, adoption of new accounting standards, consolidated income statements, consolidated balance sheets, consolidated statements of recognised income and expense, consolidated cash flow statements and the related notes to the regulatory accounting statements.

This report is made, on terms that have been agreed, solely to the Company and the Gas and Electricity Markets Authority ('the Authority') in order to meet the requirements of Standard Special Condition A30 ('the Condition') of the Regulatory Licence granted to the Company, being the Gas Transporter Licence in respect of the NTS dated 18 April 2008. Our audit work has been undertaken so that we might state to the Company and the Authority those matters we have agreed to state to them in our report, in order to: (a) assist the Company to meet its obligations under the Regulatory Licence to procure such a report; and (b) to facilitate the carrying out by the Authority of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Authority for our audit work, for this report or 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 33 to 39.

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

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

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

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

The directors of the Company are responsible for preparing the regulatory accounting statements and for compliance with the Condition, as described on page 30.

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

We report to you our opinion as to whether the regulatory accounting statements have been properly prepared in accordance with the Condition and, in respect of each of its NTS business, LNG storage business, the de-minimis business and the other activities, whether they fairly present the financial position, financial performance and cash flows of, or reasonably attributable to those businesses. We also report to you if 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 Gas plc are responsible for determining the bases of charges and apportionments, which requires a number of judgements and assumptions to be made. We do not give an opinion on the appropriateness of the bases of charges and apportionments.

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 33 to 38, the state of affairs of the Company's NTS business, LNG storage business, de-minimis activities and other activities at 31 March 2008 and the profit and cash flows of its NTS business, LNG storage business, de-minimis activities and other activities for the year then ended and have been properly prepared in accordance with the Condition and the accounting policies.

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

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

A. Basis of preparation of regulatory accounting statements

These regulatory accounting statements have been prepared in accordance with Standard Special Condition A30 (the condition) of National Grid Gas plc's DN gas transporter licence issued under the Utilities Act 2000 (the licence) 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 the Companies Act 1985 applicable to companies reporting under IFRS and Article 4 of the European Union IAS regulation. The 2007 comparative financial information has also been prepared on this basis.

These regulatory accounting statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments.

These regulatory accounting statements are presented in pounds sterling, which is the functional currency of National Grid Gas plc.

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

Attribution of revenues, costs, assets, liabilities and equity

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

Related items

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

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

Unrelated items

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

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

- Corporate costs charged to National Grid Gas by National Grid are apportioned between the regulatory businesses using the same metrics as National Grid uses to determine the allocated charge to National Grid Gas. These metrics take into account relative revenue, operating profit, employees and net assets of the regulatory businesses.
- The non-current amount owed by National Grid Gas Holdings plc is apportioned between the regulatory businesses in the ratio of their estimated regulatory values.
- Net debt at 1 April 2005 (the first balance sheet date for this format of regulatory accounting statements), which comprises borrowings and bank overdrafts, less cash, cash equivalents and financial investments at that date, was apportioned between regulatory businesses in the ratio of estimated regulatory values at that date. No amounts were apportioned to the de-minimis business or to other activities. The amounts at subsequent period ends are determined by separately adjusting these initially apportioned amounts by the cash generated or used by each regulatory business, movements in fair value of net debt allocated to each business and other funding movements. Movements in fair value and other funding movements are apportioned between the regulatory businesses relative to the net debt at the start of the period in which the movements occurred.
- Interest is apportioned between the regulatory businesses according to the relative level of net debt determined according to the principles set out above.
- Current and deferred taxation are apportioned between the regulatory businesses relative to the results of undertaking notional current and deferred tax computations for each regulatory business, commencing from 1 April 2005. Prior year tax adjustments substantially relating to transactions which occurred prior to 1 April 2005 are apportioned in the ratio of estimated regulatory values at that date. The estimated capital allowances pools at 1 April 2005 were apportioned between the regulatory businesses in the ratio of estimated regulatory values at that date. Current tax liabilities have been apportioned relative to current tax charges and tax paid or recovered is determined by balance.
- Equity dividends primarily funded from profits for the year have been apportioned on the basis of profits for the year. Equity dividends primarily funded from retained earnings have been apportioned on the basis of relative regulatory values.
- The total equity of National Grid Gas at 1 April 2005, comprising called up share capital, share premium account, retained profits and other reserves, was determined as a balancing item at that date. The amounts at subsequent period ends are determined by separately adjusting these initially allocated amounts by the equity movements derived for each regulatory business as a consequence of all other allocations and funding movements.

B. Basis of consolidation

These regulatory accounting statements incorporate the financial information of the Company and its subsidiaries in respect of the regulatory businesses specified in the condition.

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) or other framework used in the individual financial statements of the Company and its subsidiaries into line with those used by the Company in its consolidated financial statements under IFRS. Inter-company transactions are eliminated.

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

C. Foreign currencies

Transactions in currencies other than the functional currency of National Grid Gas plc or the 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.

On consolidation, the assets and liabilities of overseas financing operations are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the weighted average exchange rates for the period. Exchange differences arising are classified as equity and transferred to the consolidation translation reserve.

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

Intangible emission allowances are accounted for in accordance with accounting policy P.

E. Property, plant and equipment

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

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

Property, plant and equipment include assets in which National Grid Gas's interest comprises legally protected statutory or contractual rights of use.

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

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

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 below:

Depreciation periods	Years
Freehold and leasehold buildings	up to 50
Plant and machinery:	
– mains, services and regulating equipment	30 to 100
Motor vehicles and office equipment	3 to 10

F. Impairment of assets

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, 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 it 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, which comprise raw materials and consumables, are stated at cost less provision for damage and obsolescence. Cost comprises acquisition cost and those costs that have been incurred in bringing the inventories to their present location and condition.

I. Revenues

Revenue principally represents the sales value derived from the transmission of gas during the year. It excludes value added tax and intra-group sales.

The sales value for the transmission of gas is largely determined from the amount of system capacity sold for the year and the amount of gas transported in the year, evaluated at contractual prices on a monthly basis. 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

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

K. Leases

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

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. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

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.

Other financial investments are recognised at fair value plus directly related incremental transaction costs and are subsequently carried at fair value on the balance sheet. Changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time, the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Investment income on investments classified as available-for-sale is recognised on an effective interest rate basis and taken through interest income 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.

Where derivatives are 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

National Grid Gas enters into both derivative financial instruments (derivatives) and non-derivative financial instruments in order to manage interest rate and foreign currency exposures, and commodity price risks 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. National Grid Gas 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 National Grid Gas.

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

O. Business performance and exceptional items and remeasurements

National Grid Gas's 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. Emission allowances

Emission allowances, which relate to the emissions of carbon dioxide, are recorded as an intangible asset within current assets and are initially recorded at cost, and subsequently at the lower of cost and net realisable value. For allocations of emission allowances granted by the UK Government, cost is deemed to be equal to fair value at the date of allocation. Receipts of such grants are treated as deferred income and are recognised in the income statement in the period in which carbon dioxide emissions are made. A provision is recorded in respect of the obligation to deliver emission allowances and charges are recognised in the income statement in the period in which carbon dioxide emissions are made.

Income from the sale of emission allowances is reported as part of other operating income.

Q. Cash and cash equivalents

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

R. Equity

The businesses reported in these regulatory accounting statements do not have their own and separate share capital or reserves. Accordingly, equity is reported only in total for each business.

S. Dividends

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

T. Areas of judgement and key sources of estimation uncertainty

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

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

- The basis of attributing items to the regulatory businesses – accounting policy A.
- The categorisation of certain items as exceptional and the definition of adjusted profits – note 3.
- The exemptions adopted under IFRS including, in particular, those relating to business combinations – accounting policy A.
- The non-recognition of certain net current tax liabilities expected to arise from transfer pricing adjustments – accounting policy G.
- The recognition of defined benefit pension costs as if the National Grid UK Pension Scheme was a defined contribution scheme – accounting policy J.
- Hedge accounting and derivative financial instruments – 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 other intangible assets and property, plant and equipment – accounting policies D, E and F.
- Valuation of financial instruments and derivatives – notes 11, 14 and 16.
- Revenue recognition and assessment of unbilled revenue – accounting policy I.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2007/08

During the year ended 31 March 2008, National Grid Gas 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

National Grid Gas 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 of 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 statements

For the years ended 31 March											
	Notes	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Total revenue		714	48	2	8	772	640	85	3	13	741
Less inter-business revenue		-	(16)	-	-	(16)	-	(12)	-	-	(12)
Revenue		714	32	2	8	756	640	73	3	13	729
Operating costs	2	(417)	(20)	(2)	(8)	(447)	(371)	(39)	(3)	(13)	(426)
Operating profit											
Before exceptional items		300	12	-	-	312	274	34	-	-	308
Exceptional items	3	(3)	-	-	-	(3)	(5)	-	-	-	(5)
Total operating profit		297	12	-	-	309	269	34	-	-	303
Interest income and similar income	5	6	-	-	-	6	3	-	-	-	3
Interest expense and other finance costs											
Before exceptional items and remeasurements	5	(94)	(2)	-	-	(96)	(58)	-	-	-	(58)
Exceptional items and remeasurements	3, 5	8	-	-	-	8	(8)	-	-	-	(8)
Profit before taxation											
Before exceptional items and remeasurements		212	10	-	-	222	219	34	-	-	253
Exceptional items and remeasurements		5	-	-	-	5	(13)	-	-	-	(13)
Total profit before taxation		217	10	-	-	227	206	34	-	-	240
Taxation											
Before exceptional items and remeasurements	6	(93)	(3)	-	-	(96)	(86)	(11)	-	-	(97)
Exceptional items and remeasurements	3, 6	29	1	-	-	30	2	-	-	-	2
Total taxation		(64)	(2)	-	-	(66)	(84)	(11)	-	-	(95)
Profit for the year after taxation											
Before exceptional items and remeasurements		119	7	-	-	126	133	23	-	-	156
Exceptional items and remeasurements		34	1	-	-	35	(11)	-	-	-	(11)
Profit for the year		153	8	-	-	161	122	23	-	-	145

The notes on pages 44 to 66 form part of these regulatory accounting statements.

Consolidated balance sheets

At 31 March	Notes	2008				2007					
		NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Non-current assets											
Intangible assets	8	26	-	-	-	26	25	-	-	-	25
Property, plant and equipment	9	3,401	77	-	-	3,478	2,734	72	-	-	2,806
Other non-current assets	10	1,554	34	-	-	1,588	1,555	34	-	-	1,589
Derivative financial assets	11	57	1	-	-	58	26	-	-	-	26
Total non-current assets		5,038	112	-	-	5,150	4,340	106	-	-	4,446
Current assets											
Inventories and current intangible assets	12	10	1	-	-	11	14	1	-	-	15
Trade and other receivables	13	124	5	-	1	130	114	13	-	1	128
Financial investments	14	215	3	-	-	218	132	1	-	-	133
Derivative financial assets	11	37	1	-	-	38	3	-	-	-	3
Cash and cash equivalents	15	2	-	-	-	2	60	1	-	-	61
Total current assets		388	10	-	1	399	323	16	-	1	340
Total assets		5,426	122	-	1	5,549	4,663	122	-	1	4,786
Current liabilities											
Borrowings	16	(532)	(8)	-	-	(540)	(658)	(8)	-	-	(666)
Derivative financial liabilities	11	(11)	-	-	-	(11)	(5)	-	-	-	(5)
Trade and other payables	17	(305)	(12)	-	(5)	(322)	(322)	(25)	(1)	(5)	(353)
Current tax liabilities		(12)	(1)	-	-	(13)	(19)	(2)	-	-	(21)
Provisions	20	(6)	-	-	-	(6)	(4)	-	-	-	(4)
Total current liabilities		(866)	(21)	-	(5)	(892)	(1,008)	(35)	(1)	(5)	(1,049)
Non-current liabilities											
Borrowings	16	(2,291)	(34)	(1)	-	(2,326)	(1,336)	(17)	-	-	(1,353)
Derivative financial liabilities	11	(34)	(1)	-	-	(35)	(30)	(1)	-	-	(31)
Other non-current liabilities	18	(146)	-	-	-	(146)	(148)	-	-	-	(148)
Deferred tax liabilities	19	(427)	(11)	-	-	(438)	(425)	(11)	-	-	(436)
Provisions	20	-	-	-	-	-	(1)	-	-	-	(1)
Total non-current liabilities		(2,898)	(46)	(1)	-	(2,945)	(1,940)	(29)	-	-	(1,969)
Total liabilities		(3,764)	(67)	(1)	(5)	(3,837)	(2,948)	(64)	(1)	(5)	(3,018)
Net assets/(liabilities)		1,662	55	(1)	(4)	1,712	1,715	58	(1)	(4)	1,768
Total equity	21	1,662	55	(1)	(4)	1,712	1,715	58	(1)	(4)	1,768

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

Mark Fairbairn Director

Adam Wiltshire Director

Consolidated statements of recognised income and expense

For the years ended 31 March	Notes	NTS	LNG storage	De-minimis activities	Other activities	Total	NTS	LNG storage	De-minimis activities	Other activities	Total
		2008	2008	2008	2008	2008	2007	2007	2007	2007	2007
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net gains taken to equity in respect of cash flow hedges		5	-	-	-	5	1	-	-	-	1
Transferred to profit or loss on cash flow hedges		-	-	-	-	-	4	-	-	-	4
Tax on items taken directly to or transferred from equity	6	-	-	-	-	-	(2)	-	-	-	(2)
Net income recognised directly in equity		5	-	-	-	5	3	-	-	-	3
Profit for the year		153	8	-	-	161	122	23	-	-	145
Total recognised income and expense for the year		158	8	-	-	166	125	23	-	-	148

Consolidated cash flow statements

For the years ended 31 March

	Notes	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Cash flows from operating activities											
Operating profit		297	12	-	-	309	269	34	-	-	303
Adjustments for:											
Exceptional items		3	-	-	-	3	5	-	-	-	5
Depreciation and amortisation		117	6	-	-	123	91	7	-	-	98
Share-based payment charge		1	-	-	-	1	2	-	-	-	2
Changes in working capital		34	(2)	(1)	-	31	18	-	1	3	22
Changes in provisions		4	-	-	-	4	(22)	-	-	-	(22)
Cash flows relating to exceptional items		(4)	-	-	-	(4)	(2)	-	-	-	(2)
Cash generated from/(used in) operations		452	16	(1)	-	467	361	41	1	3	406
Tax paid		(98)	(9)	-	-	(107)	-	-	-	-	-
Net cash inflow/(outflow) from operating activities		354	7	(1)	-	360	361	41	1	3	406
Cash flows from investing activities											
Purchases of intangible assets		(9)	-	-	-	(9)	(6)	-	-	-	(6)
Purchases of property, plant and equipment		(822)	(12)	-	-	(834)	(537)	(18)	-	-	(555)
Disposals of property, plant and equipment		3	-	-	-	3	-	-	-	-	-
Purchases of financial investments		(81)	(2)	-	-	(83)	(119)	(1)	-	-	(120)
Net cash flow used in investing activities		(909)	(14)	-	-	(923)	(662)	(19)	-	-	(681)
Cash flows from financing activities											
Net increase/(decrease) in borrowings and derivatives (i)		735	15	1	-	751	955	17	(1)	(3)	968
Interest received		5	-	-	-	5	3	-	-	-	3
Interest paid		(88)	(1)	-	-	(89)	(90)	(1)	-	-	(91)
Exceptional finance costs on repayment of debt		-	-	-	-	-	(9)	-	-	-	(9)
Dividends paid to shareholders		(155)	(8)	-	-	(163)	(566)	(38)	-	-	(604)
Net cash flow generated from/(used in) financing activities		497	6	1	-	504	293	(22)	(1)	(3)	267
Net decrease in cash and cash equivalents		(58)	(1)	-	-	(59)	(8)	-	-	-	(8)
Net cash and cash equivalents at start of the year (ii)		58	1	-	-	59	66	1	-	-	67
Net cash and cash equivalents at end of the year (ii)	15	-	-	-	-	-	58	1	-	-	59

(i) As borrowings and derivatives have been allocated to the businesses as at 31 March, it is not meaningful to further analyse the movements in allocated borrowings and derivatives between proceeds from loans received, repayment of loans and net movements in short-term borrowings and derivatives, as is required by IAS 7. Therefore, only the net movement is presented.

(ii) Net of bank overdrafts.

Notes to the regulatory accounting statements

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

These regulatory accounting statements only comprise certain businesses and activities of National Grid Gas plc. They do not include those businesses and activities which are reported in the DN regulatory accounting statements or amounts in respect of the four DNs sold in 2005/06. Reconciliations between these regulatory accounting statements and the National Grid Gas plc Annual Report and Accounts 2007/08 are provided below. Copies of the National Grid Gas plc Annual Report and Accounts 2007/08 are available to download from www.nationalgrid.com/corporate/investor+relations/.

	These regulatory accounting statements 2008 £m	DN regulatory accounting statements 2008 £m	Sold DNs 2008 £m	Inter -business 2008 £m	National Grid Gas annual report and accounts 2008 £m	These regulatory accounting statements 2007 £m	DN regulatory accounting statements 2007 £m	Sold DNs 2007 £m	Inter -business 2007 £m	National Grid Gas annual report and accounts 2007 £m
Income statements										
Total revenue	772	1,708	-	(40)	2,440	741	1,472	-	(14)	2,199
Total operating profit	309	662	-	-	971	303	475	-	-	778
Net finance costs	(82)	(235)	-	-	(317)	(63)	(208)	-	-	(271)
Taxation	(66)	(95)	-	-	(161)	(95)	(137)	-	-	(232)
Profit for the year from discontinued operations	-	-	3	-	3	-	-	13	-	13
Profit for the year	161	332	3	-	496	145	130	13	-	288
Balance sheets										
Non-current assets	5,150	10,413	-	-	15,563	4,446	10,105	-	-	14,551
Current assets	399	610	-	-	1,009	340	587	-	-	927
Total assets	5,549	11,023	-	-	16,572	4,786	10,692	-	-	15,478
Current liabilities	(892)	(1,331)	(17)	-	(2,240)	(1,049)	(1,822)	(8)	-	(2,879)
Non-current liabilities	(2,945)	(5,407)	-	-	(8,352)	(1,969)	(4,647)	(16)	-	(6,632)
Total liabilities	(3,837)	(6,738)	(17)	-	(10,592)	(3,018)	(6,469)	(24)	-	(9,511)
Net assets	1,712	4,285	(17)	-	5,980	1,768	4,223	(24)	-	5,967
Called up share capital					45					45
Share premium account					204					204
Retained earnings					4,434					4,435
Cash flow hedges					(35)					(49)
Other reserves					1,332					1,332
Total shareholders' equity	1,712	4,285	(17)	-	5,980	1,768	4,223	(24)	-	5,967
Cash flow statements										
Net cash inflow from operating activities	360	967	-	-	1,327	406	1,011	-	-	1,417
Net cash (used in)/from investing activities	(923)	(683)	(1)	-	(1,607)	(681)	(820)	28	-	(1,473)
Net cash from/(used) in financing activities	504	(394)	1	-	111	267	(238)	(28)	-	1
Net decrease in cash and cash equivalents	(59)	(110)	-	-	(169)	(8)	(47)	-	-	(55)
Net cash and cash equivalents at start of year	59	109	-	-	168	67	156	-	-	223
Net cash and cash equivalents at end of year	-	(1)	-	-	(1)	59	109	-	-	168

The DN regulatory accounting statements are published on the National Grid plc website: www.nationalgrid.com/corporate/investor+relations/. Sold DNs represent the results, assets and liabilities attributed to the four DNs sold by National Grid Gas on 1 June 2005.

2. Operating costs

For the year ended 31 March	NTS	LNG storage	De-minimis activities	Other activities	Total	NTS	LNG storage	De-minimis activities	Other activities	Total
	2008	2008	2008	2008	2008	2007	2007	2007	2007	2007
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Before exceptional items										
Depreciation of property, plant and equipment	109	6	-	-	115	83	7	-	-	90
Amortisation of intangible assets	8	-	-	-	8	8	-	-	-	8
Payroll costs	37	7	1	1	46	47	6	-	1	54
Other operating charges:										
Purchases of gas	85	-	-	-	85	80	-	-	-	80
Rates	73	2	-	-	75	69	2	-	-	71
Other	102	5	1	7	115	79	24	3	12	118
	414	20	2	8	444	366	39	3	13	421
Exceptional items										
Payroll costs	1	-	-	-	1	4	-	-	-	4
Other operating charges:										
Other	2	-	-	-	2	1	-	-	-	1
	3	-	-	-	3	5	-	-	-	5
Total										
Depreciation of property, plant and equipment	109	6	-	-	115	83	7	-	-	90
Amortisation of intangible assets	8	-	-	-	8	8	-	-	-	8
Payroll costs	38	7	1	1	47	51	6	-	1	58
Other operating charges:										
Purchases of gas	85	-	-	-	85	80	-	-	-	80
Rates	73	2	-	-	75	69	2	-	-	71
Other	104	5	1	7	117	80	24	3	12	119
	417	20	2	8	447	371	39	3	13	426
Operating costs include:										
Consumption of inventories	1	-	-	-	1	-	-	-	-	-
Research expenditure	1	-	-	-	1	1	-	-	-	1
Operating lease rentals:										
Plant and machinery	1	-	-	-	1	1	-	-	-	1
Other	2	-	-	-	2	2	-	-	-	2

2. Operating costs continued

a) Payroll costs

	NTS 2008	LNG storage 2008	De-minimis activities 2008	Other activities 2008	Total 2008	NTS 2007	LNG storage 2007	De-minimis activities 2007	Other activities 2007	Total 2007
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Wages and salaries	31	5	1	1	38	36	5	-	1	42
Social security costs	4	1	-	-	5	5	-	-	-	5
Pension costs	9	1	-	-	10	13	1	-	-	14
Share-based payments	1	-	-	-	1	1	-	-	-	1
Severance costs	1	-	-	-	1	2	-	-	-	2
	46	7	1	1	55	57	6	-	1	64
Less: amounts capitalised	(8)	-	-	-	(8)	(6)	-	-	-	(6)
	38	7	1	1	47	51	6	-	1	58

b) Average number of employees

	NTS 2008	LNG storage 2008	De-minimis activities 2008	Other activities 2008	Total 2008	NTS 2007	LNG storage 2007	De-minimis activities 2007	Other activities 2007	Total 2007
United Kingdom	846	133	11	19	1,009	1,038	125	-	14	1,177

Information is not available on the actual number of employees by regulatory business, as many of National Grid Gas's activities are undertaken on a centralised or shared services basis. Therefore, National Grid Gas employee numbers have been apportioned between the different regulatory businesses relative to wages and salaries.

c) Key management compensation

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

	Total 2008	Total 2007
	£m	£m
Salaries and short-term employee benefits	1	1
Post-employment benefits	-	1
	1	2

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

d) Directors' emoluments

The businesses reported in these regulatory accounting statements are not entities with statutory Directors. Accordingly, there are no relevant Directors' emoluments. Details of the emoluments of the Directors of National Grid Gas plc are provided in its annual report and accounts.

e) Auditors' remuneration

Auditors' remuneration for National Grid Gas and its subsidiaries amounted to £0.9m (2007: £0.4m) for audit of the parent company, and its consolidated financial statements and £0.4m (2007: £0.4m) for other services provided pursuant to legislation, including fees for audit reports on regulatory returns and fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley).

3. Exceptional items and remeasurements

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Exceptional items – restructuring costs (i)	(3)	-	-	-	(3)	(5)	-	-	-	(5)
Total exceptional items included within operating profit	(3)	-	-	-	(3)	(5)	-	-	-	(5)
Exceptional items – debt restructuring costs (ii)	-	-	-	-	-	(9)	-	-	-	(9)
Remeasurements – gains on derivative financial instruments (iii)	8	-	-	-	8	1	-	-	-	1
Total exceptional items and remeasurements included within finance costs	8	-	-	-	8	(8)	-	-	-	(8)
Total exceptional items and remeasurements before taxation	5	-	-	-	5	(13)	-	-	-	(13)
Exceptional tax item – deferred tax credit arising from reduction in UK tax rate (iv)	30	1	-	-	31	-	-	-	-	-
Tax on exceptional items – restructuring costs (i)	1	-	-	-	1	1	-	-	-	1
Tax on exceptional items – debt restructuring costs (ii)	-	-	-	-	-	3	-	-	-	3
Tax on remeasurements – derivative financial instrument (iii)	(2)	-	-	-	(2)	(2)	-	-	-	(2)
Tax on exceptional items and remeasurements	29	1	-	-	30	2	-	-	-	2
Total exceptional items and remeasurements after taxation	34	1	-	-	35	(11)	-	-	-	(11)
Total exceptional items after taxation	28	1	-	-	29	(10)	-	-	-	(10)
Total derivative financial instrument remeasurements after taxation	6	-	-	-	6	(1)	-	-	-	(1)
Total exceptional items and remeasurements	34	1	-	-	35	(11)	-	-	-	(11)

(i) Restructuring costs relate to planned cost reduction programmes. These included pension curtailment costs arising as a result of redundancies of £1m (2007: £2m).

(ii) Debt restructuring costs for the year ended 31 March 2007 represent debt redemption costs related to the restructuring of National Grid Gas's debt portfolio.

(iii) Remeasurements – gains 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 year 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.

4. Pensions

Substantially all of National Grid Gas's employees are members of the defined benefit section of the National Grid UK Pension Scheme. There is no contractual arrangement or stated policy for charging the net defined benefit cost of the scheme to National Grid Gas. Accordingly, National Grid Gas accounts for the scheme as if it were a defined contribution scheme. For further details regarding the nature and terms of the scheme and the actuarial assumptions used to value the assets and pension obligations, refer to note 25.

The following disclosures relate to the scheme as a whole and include amounts not recognised in these regulatory accounting statements, but which are recognised in the consolidated financial statements of National Grid plc.

	2008 £m	2007 £m
Amounts recognised in the consolidated balance sheet of National Grid plc		
Present value of fund obligations	(11,814)	(12,814)
Fair value of plan assets	12,660	12,865
	846	51
Present value of unfunded obligations	(17)	(14)
Asset in the balance sheet	829	37
	2008 £m	2007 £m
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation (including unfunded obligations)	12,828	13,267
Current service cost	60	64
Interest cost	677	636
Actuarial gains	(1,134)	(564)
Curtailment gains on redundancies	(1)	(9)
Curtailment gain on sale of business	(12)	-
Special termination benefits	4	19
Curtailment cost – augmentations	11	2
Employee contributions	9	7
Benefits paid (including unfunded obligations)	(611)	(594)
Closing defined benefit obligation (including unfunded obligations)	11,831	12,828
	2008 £m	2007 £m
Changes in the fair value of plan assets		
Opening fair value of plan assets	12,865	12,739
Expected return on plan assets	760	643
Actuarial gains/(losses)	(550)	(9)
Employer contributions	200	93
Employee contributions	9	7
Benefits paid	(611)	(593)
Expenses paid	(13)	(15)
Closing fair value of plan assets	12,660	12,865
Expected contributions to defined benefit plans in the following year	311	163

5. Finance income and costs

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Interest income on financial instruments (i)	6	-	-	-	6	3	-	-	-	3
Interest income and similar income	6	-	-	-	6	3	-	-	-	3
Interest expense on financial liabilities held at amortised cost (ii)	(130)	(2)	-	-	(132)	(78)	(1)	-	-	(79)
Interest on derivatives	(6)	-	-	-	(6)	-	-	-	-	-
Exceptional debt redemption costs	-	-	-	-	-	(9)	-	-	-	(9)
Other interest	(2)	-	-	-	(2)	(3)	-	-	-	(3)
Less: interest capitalised (iii)	44	-	-	-	44	23	1	-	-	24
Interest expense	(94)	(2)	-	-	(96)	(67)	-	-	-	(67)
Net gains on derivative financial instruments included in remeasurements:										
Ineffectiveness on designated fair value hedges (iv)	2	-	-	-	2	2	-	-	-	2
Ineffectiveness on designated cash flow hedges	1	-	-	-	1	-	-	-	-	-
On derivatives not designated as hedges or ineligible for hedge accounting	5	-	-	-	5	(1)	-	-	-	(1)
Net gains on derivative financial instruments included in remeasurements (v)	8	-	-	-	8	1	-	-	-	1
Interest expense and other finance costs	(86)	(2)	-	-	(88)	(66)	-	-	-	(66)
Net finance costs	(80)	(2)	-	-	(82)	(63)	-	-	-	(63)
Comprising:										
Interest income and similar income	6	-	-	-	6	3	-	-	-	3
Interest expense and other finance costs:										
Before exceptional items and remeasurements	(94)	(2)	-	-	(96)	(58)	-	-	-	(58)
Exceptional items and remeasurements	8	-	-	-	8	(8)	-	-	-	(8)
	(80)	(2)	-	-	(82)	(63)	-	-	-	(63)

(i) Interest income on financial instruments comprises an allocation of interest income from bank deposits and other financial assets.

(ii) Interest expense on financial liabilities held at amortised cost comprises allocations of interest on bank loans and overdrafts and interest on other borrowings.

(iii) Interest on the funding attributable to assets in the course of construction was capitalised during the year at a rate of 6.4% (2007: 5.9%).

(iv) Derivative net gains on fair value hedges includes a net gain on the hedging instruments of £16m (2007: £9m net loss) less a net loss of £14m (2007: £11m net gain) from the fair value adjustments to the carrying value of debt.

(v) Gains on derivative financial instruments include a net foreign exchange loss on financing activities of £28m (2007: £31m gain). This figure excludes derivative net foreign exchange gains and losses, which have been disclosed at fair value.

6. Taxation

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

	NTS 2008	LNG storage 2008	De-minimis activities 2008	Other activities 2008	Total 2008	NTS 2007	LNG storage 2007	De-minimis activities 2007	Other activities 2007	Total 2007
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Before exceptional items and remeasurements										
United Kingdom										
Corporation tax at 30%	36	2	-	-	38	48	10	-	-	58
Adjustment in respect of prior years	26	-	-	-	26	18	-	-	-	18
	62	2	-	-	64	66	10	-	-	76
Deferred tax	27	1	-	-	28	20	1	-	-	21
Deferred tax adjustment in respect of prior years	4	-	-	-	4	-	-	-	-	-
	31	1	-	-	32	20	1	-	-	21
	93	3	-	-	96	86	11	-	-	97
Exceptional items and remeasurements										
United Kingdom										
Corporation tax at 30%	3	-	-	-	3	(5)	-	-	-	(5)
	3	-	-	-	3	(5)	-	-	-	(5)
Deferred tax credit arising from reduction in UK tax rates	(30)	(1)	-	-	(31)	-	-	-	-	-
Deferred tax adjustment in respect of prior years	-	-	-	-	-	1	-	-	-	1
	(30)	(1)	-	-	(31)	1	-	-	-	1
Overseas										
Corporate tax	(2)	-	-	-	(2)	2	-	-	-	2
	(2)	-	-	-	(2)	2	-	-	-	2
	(29)	(1)	-	-	(30)	(2)	-	-	-	(2)
Total										
United Kingdom										
Corporation tax at 30%	39	2	-	-	41	43	10	-	-	53
Adjustment in respect of prior years	26	-	-	-	26	18	-	-	-	18
	65	2	-	-	67	61	10	-	-	71
Deferred tax	27	1	-	-	28	20	1	-	-	21
Deferred tax credit arising from reduction in UK tax rates	(30)	(1)	-	-	(31)	-	-	-	-	-
Deferred tax adjustment in respect of prior years	4	-	-	-	4	1	-	-	-	1
	1	-	-	-	1	21	1	-	-	22
Overseas										
Corporate tax	(2)	-	-	-	(2)	2	-	-	-	2
	(2)	-	-	-	(2)	2	-	-	-	2
Total tax charge	64	2	-	-	66	84	11	-	-	95

6. Taxation continued

Taxation on items charged/(credited) to equity

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Deferred tax charge on revaluation of cash flow hedges	-	-	-	-	-	2	-	-	-	2
Tax charge recognised in statement of recognised income and expense	-	-	-	-	-	2	-	-	-	2
Deferred tax charge on share-based payments recognised directly in equity	1	-	-	-	1	(1)	-	-	-	(1)
Corporate tax credit on share-based payments recognised directly in equity	(1)	-	-	-	(1)	-	-	-	-	-
	-	-	-	-	-	1	-	-	-	1

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

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Profit before taxation before exceptional items and remeasurements	212	10	-	-	222	219	34	-	-	253
Multiplied by UK corporation tax rate of 30% (2007: 30%)	63	3	-	-	66	66	10	-	-	76
Effects of:										
Adjustments in respect of previous years	30	-	-	-	30	18	-	-	-	18
Expenses not deductible for tax purposes	2	-	-	-	2	2	-	-	-	2
Non-taxable income	(1)	-	-	-	(1)	(1)	-	-	-	(1)
Impact of employee share schemes	-	-	-	-	-	2	-	-	-	2
Other	(1)	-	-	-	(1)	(1)	1	-	-	-
Total taxation before exceptional items and remeasurements	93	3	-	-	96	86	11	-	-	97
Effective income tax rate before exceptional items and remeasurements	44%	30%	-	-	43%	39%	32%	-	-	38%
Profit before taxation	217	10	-	-	227	206	34	-	-	240
Multiplied by UK corporation tax rate of 30% (2007: 30%)	65	3	-	-	68	62	10	-	-	72
Effects of:										
Adjustments in respect of previous years	30	-	-	-	30	20	-	-	-	20
Expenses not deductible for tax purposes	2	-	-	-	2	2	-	-	-	2
Non-taxable income	(1)	-	-	-	(1)	(1)	-	-	-	(1)
Impact of employee share schemes	-	-	-	-	-	2	-	-	-	2
Remeasurement of deferred tax – change in UK tax rate	(30)	(1)	-	-	(31)	-	-	-	-	-
Other	(2)	-	-	-	(2)	(1)	1	-	-	-
Total taxation	64	2	-	-	66	84	11	-	-	95
Effective income tax rate	29%	20%	-	-	29%	41%	32%	-	-	40%

6. Taxation continued

Factors that may affect future tax charge

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 as at the balance sheet date and are therefore not included in these regulatory accounting statements. However, changes to the industrial buildings allowance regime are expected to have a £13m tax charge impact.

7. Dividends

The following table shows the amounts of the dividends paid to equity shareholders by National Grid Gas plc and allocated to the business included in these regulatory accounting statements:

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Ordinary dividends										
First interim dividend for 2008	93	5	-	-	98	-	-	-	-	-
Second interim dividend for 2008	62	3	-	-	65	-	-	-	-	-
Interim dividend for 2007	-	-	-	-	-	150	29	-	-	179
Final dividend for 2006	-	-	-	-	-	416	9	-	-	425
	155	8	-	-	163	566	38	-	-	604

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

8. Intangible assets

	NTS 2008 £m	NTS 2007 £m
Non-current		
Cost at 1 April	51	45
Additions	9	6
Cost at 31 March	60	51
Amortisation at 1 April	(26)	(18)
Amortisation charge for the year	(8)	(8)
Amortisation at 31 March	(34)	(26)
Net book value at 31 March	26	25

Non-current intangible assets comprise software.

Current intangible assets are presented together with inventories in note 12.

9. Property, plant and equipment

Land and buildings

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Cost at 1 April	31	1	-	-	32	30	1	-	-	31
Additions	2	-	-	-	2	1	-	-	-	1
Cost at 31 March	33	1	-	-	34	31	1	-	-	32
Depreciation at 1 April	(10)	(1)	-	-	(11)	(8)	-	-	-	(8)
Charge for the year	(2)	-	-	-	(2)	(2)	(1)	-	-	(3)
Depreciation at 31 March	(12)	(1)	-	-	(13)	(10)	(1)	-	-	(11)
Net book value at 31 March	21	-	-	-	21	21	-	-	-	21
Which comprises:										
Freehold	18	-	-	-	18	17	-	-	-	17
Short leasehold	3	-	-	-	3	4	-	-	-	4
	21	-	-	-	21	21	-	-	-	21

Plant and machinery

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Cost at 1 April	3,043	170	-	-	3,213	2,930	152	-	-	3,082
Additions	7	10	-	-	17	77	18	-	-	95
Disposals	(7)	-	-	-	(7)	-	-	-	-	-
Reclassifications and transfers	993	-	-	-	993	36	-	-	-	36
Cost at 31 March	4,036	180	-	-	4,216	3,043	170	-	-	3,213
Depreciation at 1 April	(1,104)	(115)	-	-	(1,219)	(1,036)	(109)	-	-	(1,145)
Charge for the year	(94)	(6)	-	-	(100)	(66)	(6)	-	-	(72)
Disposals	2	-	-	-	2	-	-	-	-	-
Reclassifications and transfers	(1)	-	-	-	(1)	(2)	-	-	-	(2)
Depreciation at 31 March	(1,197)	(121)	-	-	(1,318)	(1,104)	(115)	-	-	(1,219)
Net book value at 31 March	2,839	59	-	-	2,898	1,939	55	-	-	1,994

9. Property, plant and equipment continued

Assets in the course of construction

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Cost at 1 April	733	17	-	-	750	267	14	-	-	281
Additions	769	1	-	-	770	521	3	-	-	524
Reclassifications and transfers	(991)	-	-	-	(991)	(55)	-	-	-	(55)
Cost at 31 March	511	18	-	-	529	733	17	-	-	750
Net book value at 31 March	511	18	-	-	529	733	17	-	-	750

Motor vehicles and office equipment

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Cost at 1 April	171	2	-	-	173	171	2	-	-	173
Additions	3	-	-	-	3	2	-	-	-	2
Disposals	(1)	-	-	-	(1)	-	-	-	-	-
Reclassifications and transfers	(3)	-	-	-	(3)	(2)	-	-	-	(2)
Cost at 31 March	170	2	-	-	172	171	2	-	-	173
Depreciation at 1 April	(130)	(2)	-	-	(132)	(132)	(2)	-	-	(134)
Charge for the year	(13)	-	-	-	(13)	(15)	-	-	-	(15)
Disposals	1	-	-	-	1	-	-	-	-	-
Reclassifications and transfers	2	-	-	-	2	17	-	-	-	17
Depreciation at 31 March	(140)	(2)	-	-	(142)	(130)	(2)	-	-	(132)
Net book value at 31 March	30	-	-	-	30	41	-	-	-	41

9. Property, plant and equipment continued

Total property, plant and equipment

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Cost at 1 April	3,978	190	-	-	4,168	3,398	169	-	-	3,567
Additions	781	11	-	-	792	601	21	-	-	622
Disposals	(8)	-	-	-	(8)	-	-	-	-	-
Transfers	(1)	-	-	-	(1)	(21)	-	-	-	(21)
Cost at 31 March	4,750	201	-	-	4,951	3,978	190	-	-	4,168
Depreciation at 1 April	(1,244)	(118)	-	-	(1,362)	(1,176)	(111)	-	-	(1,287)
Charge for the year	(109)	(6)	-	-	(115)	(83)	(7)	-	-	(90)
Disposals	3	-	-	-	3	-	-	-	-	-
Transfers	1	-	-	-	1	15	-	-	-	15
Depreciation at 31 March	(1,349)	(124)	-	-	(1,473)	(1,244)	(118)	-	-	(1,362)
Net book value at 31 March	3,401	77	-	-	3,478	2,734	72	-	-	2,806

The cost of property, plant and equipment at 31 March 2008 included £93m (2007: £49m) 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: £4m) and £145m (2007: £141m) respectively.

10. Other non-current assets

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Loans and receivables										
Amounts owed by parent	1,554	34	-	-	1,588	1,554	34	-	-	1,588
Other receivables	-	-	-	-	-	1	-	-	-	1
	1,554	34	-	-	1,588	1,555	34	-	-	1,589

The amount owed by the parent is non-contractual and accordingly its fair value equals its book value. The fair value of other non-current receivables approximates to their book value.

11. Derivative financial instruments

For further information and a detailed description of derivative financial instruments and hedge type designations, refer to note 26. The following tables analyse the allocated fair value of derivative financial instruments by designated hedge type and maturity:

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Assets										
Fair value hedges										
Interest rate swaps	3	-	-	-	3	1	-	-	-	1
Cross-currency interest rate swaps	40	1	-	-	41	15	-	-	-	15
	43	1	-	-	44	16	-	-	-	16
Cash flow hedges										
Interest rate swaps	12	-	-	-	12	1	-	-	-	1
Cross-currency interest rate swaps	27	1	-	-	28	9	-	-	-	9
Foreign exchange forward contracts	6	-	-	-	6	-	-	-	-	-
	45	1	-	-	46	10	-	-	-	10
Derivatives not in a formal hedging relationship										
Interest rate swaps	4	-	-	-	4	3	-	-	-	3
Cross-currency interest rate swaps	2	-	-	-	2	-	-	-	-	-
	6	-	-	-	6	3	-	-	-	3
Total	94	2	-	-	96	29	-	-	-	29
Maturing:										
In one year or less	37	1	-	-	38	3	-	-	-	3
Current	37	1	-	-	38	3	-	-	-	3
Between 1 and 2 years	16	-	-	-	16	8	-	-	-	8
Between 2 and 3 years	-	-	-	-	-	4	-	-	-	4
Between 3 and 4 years	-	-	-	-	-	-	-	-	-	-
Between 4 and 5 years	-	-	-	-	-	-	-	-	-	-
In more than 5 years	41	1	-	-	42	14	-	-	-	14
Non-current	57	1	-	-	58	26	-	-	-	26
Total	94	2	-	-	96	29	-	-	-	29

11. Derivative financial instruments continued

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Liabilities										
Fair value hedges										
Interest rate swaps	1	-	-	-	1	4	-	-	-	4
Cross-currency interest rate swaps	16	-	-	-	16	23	1	-	-	24
	17	-	-	-	17	28	1	-	-	28
Cash flow hedges										
Interest rate swaps	14	1	-	-	15	1	-	-	-	1
Cross-currency interest rate swaps	3	-	-	-	3	2	-	-	-	2
Foreign exchange forward contracts	2	-	-	-	2	-	-	-	-	-
	19	1	-	-	20	3	-	-	-	3
Derivatives not in a formal hedging relationship										
Interest rate swaps	9	-	-	-	9	4	-	-	-	4
Cross-currency interest rate swaps	-	-	-	-	-	1	-	-	-	1
	9	-	-	-	9	5	-	-	-	5
Total	45	1	-	-	46	35	1	-	-	36
Maturing:										
In one year or less	11	-	-	-	11	5	-	-	-	5
Current	11	-	-	-	11	5	-	-	-	5
Between 1 and 2 years	-	-	-	-	-	1	-	-	-	1
Between 2 and 3 years	-	-	-	-	-	2	-	-	-	2
Between 3 and 4 years	-	-	-	-	-	-	-	-	-	-
Between 4 and 5 years	2	-	-	-	2	-	-	-	-	-
In more than 5 years	32	1	-	-	33	27	1	-	-	28
Non-current	34	1	-	-	35	30	1	-	-	31
Total	45	1	-	-	46	35	1	-	-	36

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

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Interest rate swaps	1,160	17	-	-	1,177	854	-	-	-	854
Cross-currency interest rate swaps	454	7	-	-	461	553	5	-	-	558
Foreign exchange forward contracts	73	1	-	-	74	11	-	-	-	11
	1,687	25	-	-	1,712	1,418	5	-	-	1,423

12. Inventories and current intangible assets

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Raw materials and consumables	10	1	-	-	11	12	1	-	-	13
Other intangible assets	-	-	-	-	-	2	-	-	-	2
	10	1	-	-	11	14	1	-	-	15

Other intangible assets consist of emission allowances.

13. Trade and other receivables

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Trade receivables	13	-	-	-	13	11	6	-	-	17
Amounts owed by fellow subsidiaries	49	-	-	-	49	42	4	-	-	46
Other receivables	5	-	-	-	5	12	-	-	-	12
Prepayments and accrued income	57	5	-	1	63	49	3	-	1	53
	124	5	-	1	130	114	13	-	1	128

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.

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

As at 31 March 2008, trade receivables of £Nil (2007: £2m) 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	-	1
3 to 6 months past due	-	1
	-	2

Further information about wholesale and retail credit risk is provided in note 27.

14. Financial investments

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Current										
Available for sale investments – Investments in short-term UK money funds	203	3	-	-	206	104	1	-	-	105
Loans and receivables – amounts due from fellow subsidiaries	8	-	-	-	8	26	-	-	-	26
Loans and receivables – restricted cash balances	4	-	-	-	4	2	-	-	-	2
	215	3	-	-	218	132	1	-	-	133

Available-for-sale investments are recorded at their fair value. The fair value of loans and receivables approximates to their book value.

The maximum exposure to credit risk at the reporting date is the fair value of the financial instruments. For further information on treasury related credit risk refer to note 27. None of the financial instruments are past due or impaired.

Restricted cash balances represent cash posted by National Grid Gas plc and its subsidiaries under collateral agreements.

15. Cash and cash equivalents

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Short-term deposits	2	-	-	-	2	60	1	-	-	61
Cash and cash equivalents	2	-	-	-	2	60	1	-	-	61
Bank overdrafts	(2)	-	-	-	(2)	(2)	-	-	-	(2)
Net cash and cash equivalents	-	-	-	-	-	58	1	-	-	59

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

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.

16. Borrowings

The following table analyses allocated total borrowings, including bank overdrafts:

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Current										
Bank loans	17	-	-	-	17	9	-	-	-	9
Bonds	287	4	-	-	291	119	1	-	-	120
Borrowings from fellow subsidiaries	226	4	-	-	230	528	7	-	-	535
Bank overdrafts	2	-	-	-	2	2	-	-	-	2
	532	8	-	-	540	658	8	-	-	666
Non-current										
Bank loans	243	3	-	-	246	132	2	-	-	134
Bonds	2,002	30	1	-	2,033	1,168	15	-	-	1,183
Other loans	46	1	-	-	47	36	-	-	-	36
	2,291	34	1	-	2,326	1,336	17	-	-	1,353
Total borrowings	2,823	42	1	-	2,866	1,994	25	-	-	2,019

Allocated total borrowings are repayable as follows:

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Repayable:										
In 1 year or less	532	8	-	-	540	658	8	-	-	666
Between 1 and 2 years	294	5	-	-	299	159	2	-	-	161
Between 2 and 3 years	-	-	-	-	-	172	2	-	-	174
Between 4 and 5 years	89	1	-	-	90	-	-	-	-	-
In more than 5 years other than by instalments	1,908	28	1	-	1,937	1,005	13	-	-	1,018
	2,823	42	1	-	2,866	1,994	25	-	-	2,019

The allocated fair value of borrowings at 31 March 2008 was £2,705m (2007: £2,004m). 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 allocated notional amount of allocated borrowings outstanding as at 31 March 2008 was £2,975m (2007: £2,150m).

Collateral is placed with or received from any counterparty where National Grid Gas has entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £16m (2007: £9m) in respect of cash received under collateral agreements. Cash placed under collateral agreements is shown in note 14.

As at 31 March 2008, National Grid Gas plc had committed credit facilities of £810m (2007: £840m) of which £810m was undrawn (2007: £840m undrawn). These undrawn facilities expire in more than two 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.

17. Trade and other payables

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Trade payables	191	9	-	4	204	177	12	1	4	194
Amounts owed to fellow subsidiaries	114	3	-	1	118	131	13	-	1	145
Social security and other taxes (i)	(17)	-	-	-	(17)	(7)	-	-	-	(7)
Other payables	4	-	-	-	4	1	-	-	-	1
Deferred income	13	-	-	-	13	20	-	-	-	20
	305	12	-	5	322	322	25	1	5	353

(i) Although a debit balance, social security and other taxes attributed to the NTS business is reported within trade and other payables as the overall balance for National Grid Gas is a liability.

Due to their short maturities, the fair value of trade and other payables approximates to their book value.

18. Other non-current liabilities

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Trade payables	-	-	-	-	-	5	-	-	-	5
Other payables	1	-	-	-	1	1	-	-	-	1
Deferred income	145	-	-	-	145	142	-	-	-	142
	146	-	-	-	146	148	-	-	-	148

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

19. Deferred tax assets and liabilities

Deferred tax assets and liabilities by source

	Accelerated tax depreciation £m	Employee share options £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2006	-	4	-	10	14
Deferred tax liabilities at 31 March 2006	(408)	-	(3)	(24)	(435)
At 1 April 2006	(408)	4	(3)	(14)	(421)
(Charged)/credited to income statement	(20)	(1)	-	(1)	(22)
(Charged)/credited to equity	-	1	(2)	-	(1)
Transfers	-	-	-	8	8
At 31 March 2007	(428)	4	(5)	(7)	(436)
Deferred tax assets at 31 March 2007	-	4	-	5	9
Deferred tax liabilities at 31 March 2007	(428)	-	(5)	(12)	(445)
At 1 April 2007	(428)	4	(5)	(7)	(436)
(Charged)/credited to income statement	(2)	-	1	-	(1)
Charged to equity	-	(1)	-	-	(1)
At 31 March 2008	(430)	3	(4)	(7)	(438)
Deferred tax assets at 31 March 2008	-	3	-	5	8
Deferred tax liabilities at 31 March 2008	(430)	-	(4)	(12)	(446)
	(430)	3	(4)	(7)	(438)

19. Deferred tax assets and liabilities continued

Deferred tax assets and liabilities by business

	NTS £m	LNG storage £m	De-minimis activities £m	Other activities £m	Total £m
Deferred tax assets at 31 March 2006	14	-	-	-	14
Deferred tax liabilities at 31 March 2006	(426)	(9)	-	-	(435)
At 1 April 2006	(412)	(9)	-	-	(421)
Charged to income statement	(20)	(2)	-	-	(22)
Charged to equity	(1)	-	-	-	(1)
Transfers	8	-	-	-	8
At 31 March 2007	(425)	(11)	-	-	(436)
Deferred tax assets at 31 March 2007	9	-	-	-	9
Deferred tax liabilities at 31 March 2007	(434)	(11)	-	-	(445)
At 1 April 2007	(425)	(11)	-	-	(436)
Charged to income statement	(1)	-	-	-	(1)
Charged to equity	(1)	-	-	-	(1)
At 31 March 2008	(427)	(11)	-	-	(438)
Deferred tax assets at 31 March 2008	8	-	-	-	8
Deferred tax liabilities at 31 March 2008	(435)	(11)	-	-	(446)
	(427)	(11)	-	-	(438)

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).

Deferred tax assets in respect of capital losses of £18m (2007: £nil) have not been recognised as their future recovery is uncertain or not currently anticipated. The capital losses are available to carry forward indefinitely. The capital losses can be offset against specific types of future capital gains.

20. Provisions

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Emissions										
At 1 April	1	-	-	-	1	23	-	-	-	23
Additions	5	-	-	-	5	13	-	-	-	13
Released to income statement	(1)	-	-	-	(1)	(23)	-	-	-	(23)
Utilised	-	-	-	-	-	(12)	-	-	-	(12)
At 31 March	5	-	-	-	5	1	-	-	-	1
Restructuring										
At 1 April	4	-	-	-	4	1	-	-	-	1
Additions	1	-	-	-	1	4	-	-	-	4
Utilised	(4)	-	-	-	(4)	(1)	-	-	-	(1)
At 31 March	1	-	-	-	1	4	-	-	-	4
Total										
At 1 April	5	-	-	-	5	24	-	-	-	24
Additions	6	-	-	-	6	17	-	-	-	17
Released to income statement	(1)	-	-	-	(1)	(23)	-	-	-	(23)
Utilised	(4)	-	-	-	(4)	(13)	-	-	-	(13)
At 31 March	6	-	-	-	6	5	-	-	-	5

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

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Current	6	-	-	-	6	4	-	-	-	4
Non-current	-	-	-	-	-	1	-	-	-	1
Current	6	-	-	-	6	5	-	-	-	5

Emissions provision

The provision for emission costs is expected to be settled using emission allowances granted or purchased.

Restructuring provision

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

21. Reconciliation of movements in total equity

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

	NTS £m	LNG storage £m	De-minimis activities £m	Other activities £m	Total £m
At 31 March 2006	2,148	73	-	(2)	2,219
Total recognised income and expense for the year	125	23	-	-	148
Equity dividends	(566)	(38)	-	-	(604)
Share-based payments	2	-	-	-	2
Tax on share-based payments	1	-	-	-	1
Transfers (i)	5	-	(1)	(2)	2
At 31 March 2007	1,715	58	(1)	(4)	1,768
Total recognised income and expense for the year	158	8	-	-	166
Equity dividends	(155)	(8)	-	-	(163)
Share-based payments	1	-	-	-	1
Transfers (i)	(57)	(3)	-	-	(60)
At 31 March 2008	1,662	55	(1)	(4)	1,712

(i) Transfers comprise the effects of changes in the allocation of assets and liabilities between the regulatory businesses over the financial year.

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

22. Cash flow statement

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

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Movement in cash and cash equivalents	(58)	(1)	-	-	(59)	(8)	-	-	-	(8)
Increase/(decrease) in financial investments	81	2	-	-	83	119	1	-	-	120
(Increase)/decrease in borrowings and derivatives	(735)	(15)	(1)	-	(751)	(955)	(17)	1	3	(968)
Net interest paid	81	1	-	-	82	93	1	-	-	94
Change in net debt resulting from cash flows	(631)	(13)	(1)	-	(645)	(751)	(15)	1	3	(762)
Changes in fair value of financial assets and liabilities	14	-	-	-	14	6	-	-	-	6
Net interest charge	(130)	(2)	-	-	(132)	(84)	(1)	-	-	(85)
Funding transfers (i)	(2)	1	-	-	(1)	8	(1)	(1)	(2)	4
Movement in net debt in the year	(749)	(14)	(1)	-	(764)	(821)	(17)	-	1	(837)
Net debt at the start of year	(1,808)	(24)	-	-	(1,832)	(987)	(7)	-	(1)	(995)
Net debt at end of year	(2,557)	(38)	(1)	-	(2,596)	(1,808)	(24)	-	-	(1,832)
Comprising:										
Net cash and cash equivalents (ii)	-	-	-	-	-	58	1	-	-	59
Financial investments	215	3	-	-	218	132	1	-	-	133
Borrowings, excluding bank overdrafts	(2,821)	(42)	(1)	-	(2,864)	(1,992)	(25)	-	-	(2,017)
Derivatives	49	1	-	-	50	(6)	(1)	-	-	(7)
	(2,557)	(38)	(1)	-	(2,596)	(1,808)	(24)	-	-	(1,832)

(i) Reallocation of funding between National Grid Gas's regulatory businesses.

(ii) Includes bank overdrafts.

b) Analysis of changes in net debt

The following table provides an analysis of changes in aggregate net debt for the businesses included in these regulatory accounting statements:

	At 1 April 2006 £m	Cash flow £m	Fair value gains and losses £m	Interest charges £m	Funding transfers (i) £m	At 31 March 2007 £m	Cash flow £m	Fair value gains and losses £m	Interest charges £m	Funding transfers (i) £m	At 31 March 2008 £m
Cash and cash equivalents	67	(6)	-	-	-	61	(59)	-	-	-	2
Bank overdrafts	-	(2)	-	-	-	(2)	-	-	-	-	(2)
Net cash and cash equivalents	67	(8)	-	-	-	59	(59)	-	-	-	-
Financial investments	13	117	-	3	-	133	79	-	6	-	218
Borrowings, excluding bank overdrafts	(1,107)	(827)	1	(88)	4	(2,017)	(667)	(47)	(132)	(1)	(2,864)
Derivatives	32	(44)	5	-	-	(7)	2	61	(6)	-	50
Net debt at end of year	(995)	(762)	6	(85)	4	(1,832)	(645)	14	(132)	(1)	(2,596)

(i) Reallocation of funding between National Grid Gas's regulatory businesses.

Notes to the regulatory accounting statements – additional information

23. Commitments and contingencies

a) Future capital expenditure

	NTS 2008	LNG storage 2008	De-minimis activities 2008	Other activities 2008	Total 2008	NTS 2007	LNG storage 2007	De-minimis activities 2007	Other activities 2007	Total 2007
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Contracted for but not provided	106	2	-	-	108	477	4	-	-	481

b) Lease commitments

Allocated total commitments in respect of operating leases are as follows:

	NTS 2008	LNG storage 2008	De-minimis activities 2008	Other activities 2008	Total 2008	NTS 2007	LNG storage 2007	De-minimis activities 2007	Other activities 2007	Total 2007
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Payments due										
In 1 year or less	2	-	-	-	2	2	-	-	-	2
Between 1 and 2 years	2	-	-	-	2	1	-	-	-	1
Between 2 and 3 years	1	-	-	-	1	1	-	-	-	1
Between 3 and 4 years	1	-	-	-	1	1	-	-	-	1
Between 4 and 5 years	1	-	-	-	1	1	-	-	-	1
In more than 5 years	5	1	-	-	6	4	1	-	-	5
	12	1	-	-	13	10	1	-	-	11

c) Other commitments and contingencies

The total value of other commitments, contingencies and guarantees of National Grid Gas plc at 31 March 2008 amounted to £84m (2007: £213m), including performance guarantees amounting to £5m (2007: £6m), relating to certain property obligations of a National Grid group undertaking, and BG Group related commitments and contingencies amounting to £nil (2007: £7m).

d) Parent company loan guarantees on behalf of subsidiary undertakings

National Grid Gas plc has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from its financial subsidiary undertakings to third parties. At 31 March 2008, the sterling equivalent amounted to £1,159m (2007: £1,147m).

24. Related party transactions

The following tables provide an estimated analysis of the incidence of National Grid Gas's transactions with related parties in these regulatory accounting statements. These related party transactions were in the normal course of business. Unless otherwise indicated, the related parties were other undertakings in the National Grid group. Additional information on related party transactions is provided in note 32.

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Income										
Goods and services supplied	-	-	-	1	1	-	-	1	1	2
Expenditure										
Services received	8	-	-	-	8	13	1	-	1	15
Corporate services received	10	-	-	-	10	5	-	-	-	5
Charges in respect of pension costs	(37)	-	-	-	(37)	2	-	-	-	2
Charges in respect share-based payments	1	-	-	-	1	-	-	-	-	-
Interest paid on borrowings from parent	12	-	-	-	12	21	-	-	-	21
Interest paid on borrowings from other fellow subsidiaries	5	-	-	-	5	3	-	-	-	3
	(1)	-	-	-	(1)	44	1	-	1	46
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax										
Amounts receivable	49	-	-	-	49	42	4	-	-	46
Amounts payable	114	3	-	1	118	131	13	-	1	145
Advances to parent due within one year										
Advances	8	-	-	-	8	-	-	-	-	-
At 31 March	8	-	-	-	8	-	-	-	-	-
Advances to other fellow subsidiaries due within one year										
At 1 April	26	-	-	-	26	-	-	-	-	-
Advances	-	-	-	-	-	26	-	-	-	26
Repayments	(26)	-	-	-	(26)	-	-	-	-	-
At 31 March	-	-	-	-	-	26	-	-	-	26
Advances to parent due after more than one year										
At 1 April and 31 March	1,554	34	-	-	1,588	1,554	34	-	-	1,588
Borrowings from parent due within one year										
At 1 April	457	6	-	-	463	1	-	-	-	1
Advances	-	-	-	-	-	1,296	17	-	-	1,313
Repayments	(380)	(5)	-	-	(385)	(840)	(11)	-	-	(851)
At 31 March	77	1	-	-	78	457	6	-	-	463

24. Related party transactions continued

	NTS 2008 £m	LNG storage 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m	NTS 2007 £m	LNG storage 2007 £m	De-minimis activities 2007 £m	Other activities 2007 £m	Total 2007 £m
Borrowings from fellow subsidiaries due within one year										
At 1 April	71	1	-	-	72	3	-	-	-	3
Advances	119	2	-	-	121	68	1	-	-	69
Repayments	(41)	-	-	-	(41)	-	-	-	-	-
At 31 March	149	3	-	-	152	71	1	-	-	72

Amounts receivable from or payable to related parties in respect of income and expenditure are ordinarily settled one month in arrears. Taxation related balances are settled within the tax cycle. The amount receivable from the parent and due after more than one year is not subject to any specific settlement terms and does not bear interest. Other advances to or borrowings from the parent and other 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 impairment of amounts due from related parties.

Details of guarantees provided in respect of related parties are provided in note 23(c).

Details of key management compensation are provided in note 2(c).

25. Actuarial information on pensions

The National Grid UK Pension Scheme is funded with assets held in a separate trustee administered fund. The scheme is subject to independent actuarial valuation 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 employees and the proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme. The scheme provides final salary defined benefits for employees who joined prior to 31 March 2002 and defined contribution benefits for employees joining from 1 April 2002.

The latest full actuarial valuation was carried out by Watson Wyatt LLP at 31 March 2006. The aggregate market value of the scheme's assets was £12,743m and the value of the assets represented 97% of the actuarial value of benefits due to members, calculated on the basis of pensionable earnings and service at 31 March 2006 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £371m on the valuation date.

The results of the actuarial valuation carried out at 31 March 2006 showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 32% of pensionable earnings (29% employers and 3% employees). The ongoing contribution rate does not include an allowance for administration expenses. These contributions are reviewed annually. From 1 April 2007, the rate used for the recovery of administration costs was 3.7% of salary. Employers are currently, therefore, paying a contribution rate of 32.7%. The contribution rate will be reviewed as part of the actuarial valuation which is currently in progress.

In line with the agreement made after the 2003 valuation, no funding of the deficit identified in the 2006 actuarial valuation will need to be provided to the scheme until the outcome of the actuarial valuation as at 31 March 2007 is known. At this point, National Grid will pay the gross amount of any deficit up to a maximum amount of £520m (£373m net of tax) into the scheme. Until the 31 March 2007 actuarial valuation has been completed, National Grid has arranged for banks to provide the trustees with letters of credit. The main conditions under which these letters of credit could be drawn relate to events which would imperil the interests of the scheme, such as National Grid Gas plc becoming insolvent or National Grid failing to make agreed payments into the scheme.

The actuarial valuation as at 31 March 2007 is currently in progress, but has not yet been completed. In anticipation of the finalisation of the valuation, National Grid Gas made deficit payments to the scheme totalling £114m (£83m net of tax) prior to 31 March 2008 (which were reimbursed by Lattice Group plc) and a further £305m (£220m net of tax) was paid to the scheme to 31 May 2008. National Grid and the Trustees are currently in the process of agreeing a recovery plan in respect of the deficit expected to be included in the valuation.

25. Actuarial information on pensions continued

Assets allocations and actuarial assumptions

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

	2008 %	2007 %
Equities	33.8	33.2
Corporate bonds	26.7	19.8
Gilts	29.9	34.9
Property	6.8	8.7
Other	2.8	3.4
Total	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 scheme. The expected real returns on specific assets 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 34% equities, 58% bonds and 8% property and other.

The principal actuarial assumptions used were:

	2008 %	2007 %
Discount rate (i)	6.6	5.4
Expected return on plan assets	6.1	5.8
Rate of increase in salaries (ii)	4.6	4.2
Rate of increase in pensions in payment and deferred pensions	3.8	3.3
Rate of increase in Retail Price Index	3.7	3.4

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

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

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

	2008 Years	2007 Years
Today:		
Males	20.7	20.0
Females	23.0	22.3
In 20 years:		
Males	23.0	21.2
Females	25.3	23.4

25. Actuarial information on pensions continued

Sensitivities analysed – all other assumptions held constant:

	Change in pension obligations		Change in annual pension costs	
	2008 £m	2007 £m	2008 £m	2007 £m
0.1% increase (2007: 0.1% decrease) in discount rate	169	200	2	2
0.5% increase in the long-term rate of increase in salaries	67	78	2	4
Increase of one year to life expectations at age 60	360	403	1	2

26. 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, commodities and equity or other indices. Derivatives enable their users to alter exposure to market or credit risks. National Grid Gas uses derivatives 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 National Grid Gas's assets and liabilities. Hedging policies using derivative financial instruments are further explained in note 26. 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 to manage this exposure, and, where they qualify, designated as cash flow hedges. 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

National Grid Gas's policy is not to use derivatives for trading purposes, however, due to the complex nature of hedge accounting under IAS 39, some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within interest expense and other finance costs.

27. Financial risk

National Grid Gas's activities expose it to a variety of financial risks: market risk (including currency risk; fair value interest rate risk; 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 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 National Grid Gas's treasury policy, described on pages 18 to 20.

The information provided below in respect of financial risk factors includes financial amounts which are simple apportionments of such amounts in respect of National Grid Gas plc, as reported in its annual report and accounts. Accordingly, disclosures are only provided in total for the regulatory businesses reported within these regulatory accounting statements.

(a) Market risk

(i) Foreign exchange risk

National Grid Gas raises finance in various currencies and is exposed to foreign exchange risk arising from related currency exposures. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

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

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

	2008					2007				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Cash and cash equivalents	2	-	-	-	2	61	-	-	-	61
Financial investments	218	-	-	-	218	133	-	-	-	133
Borrowings	(2,348)	(141)	(212)	(165)	(2,866)	(1,643)	(88)	(171)	(117)	(2,019)
Pre-derivative position	(2,128)	(141)	(212)	(165)	(2,646)	(1,449)	(88)	(171)	(117)	(1,825)
Derivative effect	(464)	143	206	165	50	(385)	99	162	117	(7)
Net debt position	(2,592)	2	(6)	-	(2,596)	(1,834)	11	(9)	-	(1,832)

27. Financial risk continued

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from National Grid Gas's borrowings. Borrowings issued at variable rates expose National Grid Gas to cash flow interest rate risk. Borrowings issued at fixed rates expose National Grid Gas to fair value interest rate risk. The interest rate risk management policy, as further explained on page 19, is to minimise the finance costs (being interest costs and changes in the market value of debt).

Some of National Grid Gas's borrowings issued are index-linked, that is their cost is linked to changes in the UK Retail Prices Index (RPI). We believe that these borrowings provide a good hedge for revenues and regulatory asset values that are also RPI-linked.

Interest rate risk arising from our financial investments is primarily variable being mainly composed of short dated money funds.

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	(265)	(107)
In more than one year but not more than two years	(224)	(148)
In more than two years but not more than three years	-	(174)
In more than three years but not more than four years	-	-
In more than four years but not more than five years	(6)	-
In more than five years	(787)	(390)
	(1,282)	(819)
Floating interest rate borrowings (including RPI)	(1,584)	(1,198)
Total borrowings	(2,866)	(2,017)

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

	2008					2007				
	Fixed rate £m	Floating rate £m	RPI (i) £m	Other (ii) £m	Total £m	Fixed rate £m	Floating rate £m	RPI (i) £m	Other (ii) £m	Total £m
Cash and cash equivalents	-	2	-	-	2	-	61	-	-	61
Financial investments	-	218	-	-	218	-	107	-	26	133
Borrowings	(1,282)	(426)	(1,158)	-	(2,866)	(819)	(647)	(553)	-	(2,019)
Pre-derivative position	(1,282)	(206)	(1,158)	-	(2,646)	(819)	(479)	(553)	26	(1,825)
Derivative effect	459	(412)	-	3	50	343	(350)	-	-	(7)
Net debt position	(823)	(618)	(1,158)	3	(2,596)	(476)	(829)	(553)	26	(1,832)

(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.

27. 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. National Grid Gas's limits are managed by National Grid plc, as explained in Treasury policies on page 19.

As at 31 March 2008 and 2007, National Grid Gas had 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. It is not expected that there will be any significant losses from non-performance by these counterparties.

The counterparty exposure under allocated derivative financial contracts as shown in note 11 was £96m (2007: £29m); after netting agreements it was £76m (2007: £22m). This exposure is further reduced by collateral received as shown in note 14.

Wholesale and retail credit risk

The transmission business's principal commercial exposure is governed by the credit rules within the Uniform Network Code. These lay down the level of credit relative to the regulatory asset value for each credit rating. Management does not expect any significant losses of receivables that have not been provided for as shown in note 13.

(c) Liquidity analysis

National Grid Gas manages its liquidity requirements by the use of both short- and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom position 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					At 31 March 2007				
	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due 3 years and beyond	Total	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due 3 years and beyond	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-derivative financial liabilities										
Borrowings	(498)	(299)	-	(2,175)	(2,972)	(638)	(164)	(176)	(1,174)	(2,152)
Interest payments on borrowings (i)	(97)	(80)	(72)	(1,389)	(1,638)	(58)	(48)	(39)	(746)	(891)
Other non-interest bearing liabilities	(300)	(1)	-	-	(301)	(259)	(3)	-	-	(262)
Derivative financial liabilities										
Derivative contracts – receipts	38	27	8	1,015	1,088	18	12	4	39	73
Derivative contracts – payments	(19)	(10)	(10)	(1,293)	(1,332)	(18)	(9)	(4)	(56)	(87)
	(876)	(363)	(74)	(3,842)	(5,155)	(955)	(212)	(215)	(1,937)	(3,319)

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

27. Financial risk continued

(d) Sensitivity analysis at 31 March 2008

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 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 and available-for-sale investments, as debt and deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- 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 +/- 0.5%	4	-	3	-
UK interest rates +/- 0.5%	2	5	4	5

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

(e) Capital and risk management

National Grid Gas's objective when managing capital is to safeguard its ability to continue as a going concern and to remain within regulatory constraints. The principal measure of its balance sheet efficiency is its adjusted gearing ratio. The adjusted gearing ratio at 31 March 2008 for the businesses included in these regulatory accounting statements was 53% compared with 45% at 31 March 2007.

28. Share options and reward plans

National Grid operates three principal forms of share option and award plans in which the employees and Directors of National Grid Gas participate. These are an employee Sharesave scheme, a Performance Share Plan (PSP) and the Deferred Share Plan. Further information in respect of these share option and reward plans can be found on page 77 to 79 of the National Grid Gas plc Annual Report and Accounts 2007/08 which may be obtained from the Company Secretary, 1-3 Strand, London WC2N 5EH.

29. Ultimate parent company

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

30. Subsidiaries

The principal subsidiaries of National Grid Gas plc at 31 March 2008 and included in these regulatory accounting statements, either in whole or in part, are listed below.

	Country of operation and incorporation	Activity	Holding
British Transco Capital Inc.	USA	Financing	100%
British Transco Finance Inc.	USA	Financing	100%
British Transco Finance (No 1) Limited	UK	Financing	100%
British Transco Finance (No 2) Limited	UK	Financing	100%
British Transco Finance (No 3) Limited	UK	Financing	100%
British Transco Finance (No 5) Limited	UK	Financing	100%
British Transco International Finance B.V.	The Netherlands	Financing	100%
National Grid Gas Finance (No 1) plc	UK	Financing	100%

A full list of all subsidiary and associated undertakings is available from the Company Secretary of National Grid Gas plc.

Notes to the regulatory accounting statements – unpublished information

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

31. De-minimis business and other activities

Note 31 comprises an analysis of revenues and costs of de-minimis business and other activities in accordance with paragraphs 1(e) and 1(f) of Standard Special Condition A30. Under paragraph 10 of Standard Special Condition A30, National Grid Gas is not required to publish this information.

31. De-minimis business and other activities continued

Note 31 comprises an analysis of revenues and costs of de-minimis business and other activities in accordance with paragraphs 1(e) and 1(f) of Standard Special Condition A30. Under paragraph 10 of Standard Special Condition A30, National Grid Gas is not required to publish this information.

32. Charges and apportionments

Note 32 comprises an analysis of amounts included within the income statements and balance sheets in respect of revenues, costs, assets, liabilities, reserves and provisions which have been charged from or to any non-National Grid Gas business of National Grid plc, or which have been determined by apportionment, in accordance with paragraph 4(b)(viii) of Standard Special Condition A30. Under paragraph 10 of Standard Special Condition A30, National Grid Gas is not required to publish this information.

32. Charges and apportionments continued

Note 32 comprises an analysis of amounts included within the income statements and balance sheets in respect of revenues, costs, assets, liabilities, reserves and provisions which have been charged from or to any non-National Grid Gas business of National Grid plc, or which have been determined by apportionment, in accordance with paragraph 4(b)(viii) of Standard Special Condition A30. Under paragraph 10 of Standard Special Condition A30, National Grid Gas is not required to publish this information.

32. Charges and apportionments continued

Note 32 comprises an analysis of amounts included within the income statements and balance sheets in respect of revenues, costs, assets, liabilities, reserves and provisions which have been charged from or to any non-National Grid Gas business of National Grid plc, or which have been determined by apportionment, in accordance with paragraph 4(b)(viii) of Standard Special Condition A30. Under paragraph 10 of Standard Special Condition A30, National Grid Gas is not required to publish this information.

32. Charges and apportionments continued

Note 32 comprises an analysis of amounts included within the income statements and balance sheets in respect of revenues, costs, assets, liabilities, reserves and provisions which have been charged from or to any non-National Grid Gas business of National Grid plc, or which have been determined by apportionment, in accordance with paragraph 4(b)(viii) of Standard Special Condition A30. Under paragraph 10 of Standard Special Condition A30, National Grid Gas is not required to publish this information.

Definitions

bcm

Billion cubic meters

condition, the

Standard Special Condition A30 of either of National Grid Gas plc's Gas Transporter Licences

DN

Distribution Network

GAAP

Generally accepted accounting principles

HSE

Health and Safety Executive

IAS

International Accounting Standard

IFRIC

International Financial Reporting Standards Interpretations Committee

IFRS

International Financial Reporting Standard

licence, the

Either of National Grid Gas plc's Gas Transporter Licences issued under the Utilities Act 2000

LNG

Liquefied natural gas

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

mcm

Million cubic metres

National Grid

National Grid plc the ultimate parent company of National Grid Gas plc and its controlling party

non-National Grid Gas business

Any business of National Grid that is not being undertaken by National Grid Gas or a subsidiary of National Grid Gas

NTS

The gas National Transmission System

Ofgem

The Office of Gas and Electricity Markets

tonnes CO₂ equivalent

Measure of greenhouse gas emissions in relation to the impact of carbon dioxide

TW

Terawatt, 10¹² watts

TWh

Terawatt hours

TWh

Terawatt hours

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Registered in England and Wales No. 2006000