National Grid Gas plc
DN Regulatory Accounting Statements 2008/2009

nationalgrid

Contents

Note on use of terms and abbreviations
Within these accounts, National Grid Gas plc is referred to by the abbreviation 'NGG', and National Grid plc, its ultimate parent Company, by the abbreviation 'National Grid'. References to NGG, 'the Company', 'we', 'our' and 'us' refer to National Grid Gas plc itself, or to National Grid Gas plc and its subsidiaries collectively, as the context requires.

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 DN regulatory accounting statements are for National Grid Gas's gas distribution and metering businesses. National Grid Gas also prepares and publishes regulatory accounting statements for its NTS and LNG storage 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 DN regulatory accounting statements.

Scope of the DN regulatory accounting statements

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

- the four Distribution Networks (DNs);
- the metering business;
- the meter reading business; and
- de-minimis and other activities associated with these businesses

These regulatory businesses are collectively the gas distribution and metering businesses.

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

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 2009, 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 36.

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 gas distribution and metering businesses reported in these regulatory accounting statements during the year ended 31 March 2009, 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, 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.

Contents to Operating and Financial Review

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

Regulatory business	Description of principal activities
Distribution Network (DN) businesses	National Grid Gas owns four of the eight regional gas distribution networks (DNs) in the UK, comprising almost half of Great Britain's gas distribution system. National Grid Gas's DNs consist of approximately 82,000 miles of distribution pipelines and transport gas on behalf of approximately 34 active gas shippers, from the gas national transmission system to around 11 million consumers. National Grid Gas also manages the national emergency number (0800 111 999) for all of the gas distribution networks and for other gas transporters in the UK.
Metering business	National Grid Gas's metering business provides gas meters, and meter installation and maintenance services to gas suppliers in the regulated gas market. It provides services to domestic, industrial and commercial gas meters, situated throughout Great Britain.
Meter reading business	National Grid Gas's meter reading business provides meter reading services for gas suppliers and for the DNs.
De-minimis activities	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. 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	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. 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

Organisation and structure

NGG is a subsidiary of National Grid plc (National Grid).

The continuing operations of National Grid are organised and managed by global lines of business, which include Transmission and Gas Distribution. The day-to-day management of National Grid's operations, and the execution of strategy as approved by the Board of National Grid, is carried out by the National Grid Executive Committee which is composed of the Executive Directors of National Grid and its Company Secretary and General Counsel.

The Gas Distribution businesses of NGG form part of the global Gas Distribution business of National Grid.

The overall management and governance of NGG is the responsibility of its Board of Directors. The Board of Directors has established committees and sub-committees of the Board that assist it in its activities. These include the Distribution Executive Committee.

The day-to-day management of NGG's Gas Distribution business is carried on by the Distribution Executive Committee, chaired by Mark Fairbairn who is a Director of NGG, and also sits on the Board and Executive Committee of National Grid and is the National Grid Executive Director responsible for the global Gas Distribution business.

More information on corporate governance within NGG is provided on page 28.

More information on the business activities, organisation, structure, management and governance of National Grid can be found in the National Grid Annual Report and Accounts 2008/09 and on the website at www.nationalgrid.com.

External market and regulatory environment

Markets in which NGG operates

The principal market in which NGG 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 the gas from gas extractors or importers as appropriate, as well as arranging for the gas to be delivered through physical delivery networks. These networks, including the ones operated by NGG, 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

Domestic and commercial consumers contract directly with gas suppliers who obtain the gas from shippers. Gas is transported through the national transmission system to regional gas distribution networks which deliver the gas to consumers on behalf of suppliers. Certain end customers, primarily large industrial users, receive gas direct from the national transmission system.

NGG 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, and these charges are then incorporated into the prices charged to end consumers.

The other principal gas infrastructure owners in the UK are the owners of the other four distribution networks, Scotia Gas Networks, which owns the networks in Scotland and southern England, Northern Gas Networks, which owns the network in the north of England, and Wales & West Utilities which owns the network in Wales and the west of England.

Other markets in which NGG operates

NGG also operates in gas related markets in the UK which are directly connected to the regulated businesses described above. NGG's legacy regulated metering business currently owns approximately 80% of the domestic gas meters in the UK. NGG also participates in the competitive market for the provision of LNG storage services in Great Britain.

Regulation

Because of its position in, and importance to, the economy in which it operates, NGG's gas distribution and metering businesses are subject to UK and European Union laws and regulations.

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

NGG's gas distribution and metering businesses are regulated 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.

NGG holds a single gas distribution transporter licence, which authorises it to operate the four gas distribution networks which it owns. Detailed arrangements for transporting gas are provided through the Uniform Network Code which defines the obligations, responsibilities and roles of industry participants and is approved by Ofgem.

The four regional gas distribution networks each have a separate price control, which determines the maximum prices which can be charged to gas shippers for gas delivery services. These maximum prices are based on Ofgem's allowances for operating, capital and replacement expenditure, together with depreciation of and a return on Ofgem's allowances for regulatory asset value.

The current price control period came into force on 1 April 2008 and covers the period up to 31 March 2013. This provides for an allowed average revenue increase of 2% per annum above the Retail Prices Index. Key elements of the price control are a 4.3% post-tax real rate of return (equivalent to 4.94% vanilla return) on regulatory asset value. Ofgem's final proposals (at 2005/06 prices) allow a £1.6 billion five year operating expenditure allowance and a £2.5 billion baseline five year capital expenditure allowance split £1.8 billion for replacement expenditure and £0.7 billion for capital expenditure.

The allowed formula revenue was decoupled from delivery volumes from 1 April 2007. This eliminated the sensitivity to warm weather and lower underlying volumes. In addition, from 1 October 2008 only a minimal proportion of income is recovered through the volume element of charges.

The price control formulas specify a maximum allowed revenue assigned to each network. Each formula consists of a fixed core revenue, cost pass-through items and an opportunity to earn additional revenue through new incentive schemes including a mains and services replacement adjustment mechanism, shrinkage and environmental emissions incentives, an exit capacity scheme and innovative environmental and community incentives.

Replacement expenditure maintains the safety and reliability of the network, by replacing older gas pipes with modern polyethylene equivalents. Ofgem treats 50% of projected replacement expenditure as recoverable during the price control period and 50% as recoverable over future years. Each network is subject to its own mains replacement incentive mechanism and retains 36% of any outperformance against Ofgem's annual cost targets as additional return or, alternatively, bears 36% of any overspend if it underperforms.

In specific instances Ofgem has agreed the price control can be re-opened in response to changes in legislation that may increase the cost of carrying out work in the public highway.

Transportation charges are set broadly to recover allowed revenue, but in any year, collected revenue can be more or less than allowed. Any difference is carried forward and our charges are adjusted accordingly in future periods.

Ofgem has established standards of service that are required to be met. These include standards of service incorporated within the gas transporter licence, for example, answering 90% of all calls to the national gas emergency number, enquiries line and meter number enquiry service within 30 seconds of the call being connected, and attending 97% of reports of a gas escape or other gas emergency within the required timescale. Also included are guaranteed standards of service for other transportation services, such as restoration of supply after an unplanned interruption and complaint handling. Compensation is payable for any failures to meet guaranteed standards of service.

In addition, as a public company with securities listed on the London Stock Exchange and on the New York Stock Exchange, NGG is subject to regulation by the UK Financial Services Authority and by the US Securities and Exchange Commission and the exchanges themselves.

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 or in ownership during 2008/09.

Energy market developments

Despite significant declines in wholesale energy prices since mid 2008, high consumer energy prices have been experienced in UK markets during the current year. This has led to significant increases in bills to consumers for their energy supplies. The combination of higher energy prices and the current economic climate has lead to a reduction in demand for gas.

The UK energy market continues to undergo developments driven by the projected increased reliance on imported gas, on new sources of electricity generation, including renewables, and increased focus on security of supply. The energy sector faces significant challenges relating to the declining UK continental shelf gas reserves in the North Sea, meeting the UK Government's targets on renewable generation, and significant levels of retirement of the current power generation fleet.

As a consequence of the decline in gas production from the North Sea, latest forecasts are that the UK will import around 50% of its gas requirements by the end of the decade.

These changes are expected to impact NGG's gas distribution networks and in particular will require significant investment to link new generation plants and gas import facilities with domestic, business and industrial consumers.

NGG continues to develop a strategic plan for our networks up to 2050, recognising the unique role they play in meeting the UK's climate change objectives.

Regulatory developments

During the year ended 31 March 2009, there were a number of legislative changes in the UK including the introduction of new consumer arrangements. These arrangements incorporate an energy ombudsman scheme to deal with consumer complaints and a new Energy Act facilitating a roll out of smart meters in the UK by 2020.

In addition, this year Ofgem announced a review of the current RPI-X based regulatory framework. This is a two year assessment of the current regulatory regime and its ability to address the challenges facing energy networks in the future. The outcome of this review is unlikely to impact our current regulatory settlements, but could influence future price controls from 2012.

In December 2008 the European Union approved a number of environmental proposals. Legally binding national targets have been established that dictate the proportion of energy production to be provided from renewable sources by 2020. For the UK the target is 15%. In order to achieve this it is believed the proportion of electricity generated by renewable sources will need to rise to around 35%. At present it is unclear specifically how these targets will impact NGG; however, they will significantly influence the regulatory framework and price control reviews in the future.

The European Commission's third package of legislative proposals for European gas and electricity markets has been submitted for final adoption by the EU Council of Ministers, following approval by the European Parliament in April 2009. The new legislation consists of two directives on rules for the internal gas and electricity markets, two regulations on conditions for access to those markets, and one regulation establishing an Agency for the Cooperation of Energy Regulators. The original legislation, published in September 2007, contained measures to force energy companies to unbundle their transmission businesses from supply and generation activities. The revised draft proposals include alternatives to full unbundling. Adoption is expected in summer 2009.

Other agreements

Alliance contracts with various contractors have been entered into by the Gas Distribution business. These contracts establish a framework for contractors to carry out capital investment projects. Under the terms of the agreements supply chain partners share in the risks and rewards, and are jointly responsible with NGG for work delivery.

Legal and related matters

An update on the ongoing metering competition investigation that was reported in last year's Annual Report and Accounts is provided on page 24.

In October 2008 NGG informed, and launched a joint investigation with, Ofgem into the misreporting of gas distribution mains replacement activity; further details of this are also provided on page 24.

External relationships

NGG aims to enhance relationships with all external stakeholders including investors, customers, regulators, governments, suppliers and the communities in which it operates.

Investor relations

As a subsidiary company of National Grid, NGG participates in communications to both National Grid's equity shareholders and to holders of debt in NGG, supporting National Grid's programme of active communication.

Customers, regulators and governments

It is important that customers are treated with respect, and that communication and interaction is as clear and straightforward as possible. NGG's focus on customer service and operational excellence is also a critical component of the relationship with regulators and governments, underpinning the building of trust with both. This involves being responsive to the needs of regulators for high quality information, complying with rules and regulations, operating in an ethical way and, most importantly, delivering on promises.

NGG continues to work very closely with Ofgem on the renewal of gas networks, and in expanding those networks to meet new and changing demand, and seeks to maintain a professional approach with Ofgem in areas where there is disagreement.

Suppliers

NGG's objective is to use the scale and breadth of its activities to get the best value for money from suppliers. NGG continues to work in partnership with suppliers, developing constructive relationships and working together effectively. NGG's focus in these areas has increased, in response to the greater uncertainties from credit market volatility and the global economic downturn. Collectively, all of the areas that have been developed or are being worked on make NGG an attractive company to do business with. They also enhance NGG's ability to drive value from the supply chain and provide an excellent opportunity for suppliers who are aligned to NGG's approach and ambition.

Community involvement

NGG continues to participate in National Grid's community involvement programmes, details of which can be found in the National Grid Annual Report and Accounts 2008/09.

Working closely with Ofgem, NGG has developed the framework for connecting fuel poor communities to the gas distribution network under the Affordable Warmth Solutions Community Interest Company. This will result in the connection of a number of communities to the gas distribution network in the future.

Business drivers

Business drivers

NGG's principal activities include the operation of complex gas infrastructure networks. There are many factors that influence the financial returns obtained. The business is highly developed with numerous drivers. The following are considered to be the principal business drivers:

Price controls
The prices NGG charges for use of the gas distribution networks are determined in accordance with regulator approved price controls. The negotiation of these arrangements has a significant impact on revenues. Their duration is significant in providing stability, allowing NGG to plan ahead and invest with confidence that financial returns will be obtained. The price controls contain incentive and/or penalty arrangements that can affect NGG financially based on performance targets.

Multi-year contracts
Revenues from metering services are largely determined by contractual arrangements, which are long-term and with 'blue chip' customers.

Safety, efficiency and reliability
NGG's ability to operate safely and reliably is of paramount importance to the company, its employees, contractors, customers, regulators and the communities served. NGG's financial performance is affected by its performance in these areas. Operating efficiently allows NGG to minimise prices to customers and improve financial performance.

Customer service
The quality of the service delivered to customers, and the experiences that they have in dealing with NGG, is important as it feeds through to the attitudes of regulators and is also linked to financial performance.

Capital investment
Capital investment is a significant driver for organic growth. In NGG's regulated distribution networks, the prices charged include an allowed return for capital investment determined in accordance with the price controls. These provide incentives to enhance the quality and reach of the networks through capital improvements.

Inflation and deflation
During periods of inflation, without action to improve efficiency, operating costs increase each year as a result of wage increases and inflation in external costs. In general, revenues also increase each year, although not necessarily at the same rate, depending on regulatory or contractual arrangements. Correspondingly, during periods of deflation revenues can decrease, the timing and extent of which may not be offset by equivalent reductions in operating costs. Consequently, the ability to control costs and improve efficiency is important in order to maintain and increase operating profits.
Our price controls and a proportion of borrowings are linked to retail price inflation.

Relationships and responsibility
NGG's reputation is vitally important. Delivering sustainable value depends on the trust and confidence of stakeholders and this can only be earned by conducting business in a responsible manner.

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

Commodity and pass-through costs
NGG is allowed to recover certain costs through charges to customers. The timing of recovery of these costs can vary between financial periods leading to an under or over-recovery within any particular financial period. NGG is affected by commodity prices to the extent that they affect its own energy requirements, most significantly gas purchases for the operation of the gas distribution networks.

Interest rates
The costs of financing NGG's operations are affected by changes in prevailing interest rates, as some of NGG's debt is at floating rates. Some of NGG's exposure to interest rates is hedged with fixed-rate debt and derivative financial instruments to maintain a proportion of debt at fixed interest rates.

Vision, strategy and objectives

As described under 'Organisation and structure' on page 3, National Grid's businesses are managed on the basis of global lines of business. As a subsidiary company of National Grid, therefore, NGG participates in the National Grid vision and strategy. The following section describes National Grid's vision and strategy to the extent that it relates to NGG. Further details and discussion of the strategy and objectives of National Grid can be found in the National Grid Annual Report and Accounts 2008/09.

Vision

The vision is the long term aspiration for National Grid – what we want to be in the future.

We, at National Grid, will be the foremost international electricity and gas company, delivering unparalleled safety, reliability and efficiency, vital to the well-being of our customers and communities.

We are committed to being an innovative leader in energy management and to safeguarding our global environment for future generations.

Strategy and objectives

Our strategy and objectives are a medium term step in the journey towards the vision – what we are doing over the next few years. We will build on our core regulated business base and financial discipline to deliver sustainable growth and superior financial performance.

Driving improvements in our safety, customer and operational performance
Delivering strong, sustainable regulatory and long-term contracts with good returns
Modernising and extending NGG's distribution networks
Becoming more efficient through transforming our operating model and increasingly aligning our processes
Building trust, transparency and an inclusive and engaged workforce
Developing our talent, leadership skills and capabilities
Positively shaping the energy and climate change agenda with our external stakeholders

Responsibility

Our strategy and objectives are underpinned by our commitment to corporate responsibility. We will operate to the highest standards of corporate governance and conduct our business in a lawful and ethical manner.

Line of sight

The vision, strategy and objectives flow down into every employee's annual performance objectives – what we are doing now and how we ensure we achieve our strategy and vision.

Our strategy and objectives provide the basis for the annual priorities for each line of business and global function.

These annual priorities form the basis of the objectives for the Executive Directors and flow down the organisation into the individual objectives for every manager and employee. Therefore the actions required to deliver the strategy are allocated and aligned with employee responsibilities.

The aim is that every employee is able to trace their objectives through to the strategy and vision.

Performance indicators

We use a variety of performance measures to monitor progress against our objectives. Some of these indicators are considered to be key performance indicators and are set out below. Details of our performance indicators are provided in the Performance summary section on page 9.

Objective	KPI
Delivering superior financial performance	Adjusted operating profit
Driving improvements in safety, customer and operational performance	Employee lost time injury frequency rate
Delivering strong sustainable regulatory and long-term contracts with good returns	Operational return
Modernising and extending NGG's distribution networks	Network reliability measures
Building trust, transparency and an inclusive and engaged workforce	Employee engagement index

Performance summary and key performance indicators

Objective	KPI/performance measure	Description and performance	Target
Delivering superior financial performance	**Adjusted operating profit**	**Operating profit excluding exceptional items and remeasurements** **2008/09: £778 million** **2007/08: £682 million**	**Year on year profit increase**
	Cash generated by continuing operations	Cash generated by continuing operations 2008/09: £877 million 2007/08: £1,088 million	
	Regulatory gearing	Net debt divided by RAV (KPI calculated for National Grid Gas plc) 2009: 62% 2008: 56%	
Driving improvements in safety, customer and operational performance	**Employee lost time injury frequency rate**	**Injuries resulting in employees taking time off work per 100,000 hours worked** **2008/09: 0.23** **2007/08: 0.17**	**Zero**
	Injuries to the public	2008/09: 25 2007/08: 26	Zero
	Employee sickness absence rate	(KPI calculated for National Grid Gas plc) 2008/09: 2.52% 2007/08: 2.18%	Zero work-related absences
Delivering strong sustainable regulatory contracts with good returns	**Operational return**	**Operational return** **2008/09: 5.7%** **2007/08: 5.1%**	**Achieve or exceed regulatory allowed return over 5 year price control period of 4.94%**
Modernising and extending our distribution networks	**Network reliability**	**Gas Distribution network reliability score** **2008/09: 99.999%** **2007/08: 99.999%**	**99.999%**
	Total capital investment	2008/09: £691 million 2007/08: £592 million	
	Gas Distribution mains replacement	km of iron mains decommissioned and replaced 2008/09: 1,900 km 2007/08: 1,850 km	2008/09 1,852 km 2007/08 1,835 km
Building transparency, trust and an inclusive and engaged workforce	**Employee engagement index**	**Engagement score calculated from responses to employee survey** **2008/09: 70%** **2007/08: 64%**	**Year-on-year increase**
Positively shaping the energy and climate change agenda	Significant direct environmental incidents	2008/09: 0 2007/08: 1 (comprises 1 own-fault incident and no contractor related incidents)	Zero
	Greenhouse gas emissions	Year-on-year reduction % Reported one year in arrears (KPI calculated for National Grid Gas plc) 2007/08: 3% 2006/07: 9%	Year-on-year reduction

Where the KPI is calculated for National Grid Gas plc but not at the level of the separate businesses, the value given is that for the company as a whole.

Performance against objectives

In accordance with the requirements of NGG's DN gas transporter licence, the performance of the businesses included within these DN 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 the financial results on pages 16 to 24.

The achievement of objectives is measured through the use of qualitative assessments and through the monitoring of quantitative indicators, called key performance indicators (KPIs). In line with operating objectives, both financial and non-financial KPIs are used. Where relevant, KPIs are used as the primary measures of whether objectives are being achieved. Because of the scale and size of NGG's operations, many other detailed performance measures are used in addition to KPIs. Qualitative assessments are used to judge progress against objectives in areas where numerical measures are less relevant.

During 2008/09, an assessment of NGG's performance measures has been undertaken, which has resulted in a rationalisation of performance indicators, more directly aligning them with objectives.

A new KPI has been introduced this year for employee engagement. This is measured using an employee engagement score derived from the National Grid annual employee survey administered by Sirota, an independent consultancy firm.

Delivering superior financial performance

NGG aims to increase adjusted operating profit each year.
The key performance measure used is adjusted operating profit.

Adjusted operating profit for 2008/09 was £778 million compared to £682 million in 2007/08, an increase of £96 million. Adjusted operating profit excludes exceptional items and remeasurements.

A more detailed analysis of financial performance is provided on page 16.

Driving improvements in safety, customer and operational performance

NGG aims for operational excellence by performing to the highest standards of safety and by improving customer service.

Safety

Safety is paramount. NGG'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 distribution networks; and to improve the health of its employees so they are fit for work every day.
A range of indicators are used to measure performance against safety objectives, including: members of the public injured as a direct result of operations; employee lost time injury frequency rate; kilometres of distribution gas mains replaced in the UK, and employee sickness absence rate. The key performance indicator is employee lost time injury frequency rate.

Employee safety

NGG reports the lost time injury frequency rate (LTIFR), expressed as lost time injuries per 100,000 hours worked, as a key measure that can be compared with other companies. This rate takes into account the number of employees and the workload. As well as reporting the LTIFR, the number of lost time injuries is also reported.

During 2008/09, 25 Gas Distribution and Metering employees sustained injuries that resulted in them taking time off work, compared with 16 in 2007/08 and a target of zero.

The lost time injury frequency rate was 0.23 in 2008/09 compared with 0.17 in 2007/08.

The principal causes of lost time injuries to employees are road traffic collisions, impact injuries, musculoskeletal injuries and slips trips and falls. Behavioural change initiatives have been targeted in these areas to try to improve performance.

Employee health

Improving the health and well-being of employees continues to be a major focus for National Grid, which for several years has had a comprehensive Occupational Health Service to deal with work related health issues. National Grid is now extending its approach to look at the health and well-being of employees in a more holistic way. As well as the obvious benefits to individuals, there are significant business and societal benefits to having a fit and healthy workforce. In January a new Health and Wellbeing Strategy was launched to provide a series of innovative initiatives that engage staff and encourage the restoration and maintenance of an individual's health, function and fitness. An early focus has been cardiovascular risk with screening being offered to all employees over 45.

The sickness absence rate for NGG as a whole in 2008/09 was 2.52% compared to 2.18% in 2007/08.

Public safety

During 2008/09, 25 members of the public were injured as a result of Gas Distribution and Metering operations compared with 26 during 2007/08 and a target of zero.

Contractor safety

NGG is committed to the safety of its workforce, not only direct employees. There were 13 contractor lost time injuries in 2008/09 compared to 19 in 2007/08 and a target of zero.

Gas safety

NGG again exceeded all regulatory agreed targets on safety related standards.

During 2008/09, more than 1,900 kilometres of iron gas mains were decommissioned under the long-term mains replacement programme, exceeding the target agreed with the Health and Safety Executive (HSE) for the third consecutive year. The HSE target this year was 1,852 kilometres. Over 1,850 kilometres were decommissioned in 2007/08.

As detailed on page 24, it has been identified that some of our mains replacement activity may have been misreported. NGG has notified both Ofgem and the HSE of this and a full investigation is currently being conducted.

NGG is investing around £25 million in a wider roll out of active control systems, which change the pressure in the gas mains automatically as customer demand conditions require. This investment reduces average system pressure on the gas mains, thereby reducing natural gas escapes and is a direct consequence of the new environmental emissions incentive laid out by Ofgem in this current price control period. The combined effect of the above mains replacement activity and pressure management investments ultimately reduces the number of gas escapes that impact climate change.

Customer service

NGG aims to impress customers with the quality of the services provided, with responsiveness when things go wrong and with dedication to continued improvement. Business-specific service quality measures are used to measure performance in this area.

NGG will achieve this by enhancing or replacing the systems used, providing its employees with the training, empowerment and support they need to deliver, and by improving the quality of internal and customer communications.

In addition to meeting all service standards defined by Ofgem, NGG aims to deliver high quality customer experience, with satisfaction levels measurable through industry surveys.

In the UK, quality of service standards apply to three principal areas of activity: new connections; the telephone service; and attendance at gas emergencies. All standards have been met in 2008/09. In the individual cases where compensation is due, there are processes to ensure that customers receive the statutory compensation which they are entitled to. Customer satisfaction with the levels of service provided in respect of the main types of work (emergency response and repair, planned work and connections work) is measured and reported on a quarterly basis.

Results of these surveys are directly comparable with the other independent distribution network operators and can be found at www.nationalgrid.com/uk/Gas and www.ofgem.gov.uk. In summary, out of a maximum score of 10, NGG achieved the following year-to-date network average scores: 7.86 for emergency response and repair; 7.29 for planned work; and 6.74 for connections work. All scores are calculated within the Ofgem template and represent the mean scores of individual quarters. There is a programme of activities to improve these scores in future surveys.

Gas Metering has met 17 out of 18 standards of service in 2008/09.

Delivering strong, sustainable regulatory contracts with good regulatory returns

We will work with Ofgem and the UK government to develop the changes that are required to address climate change and security of supply in a way that is affordable for consumers and ensures timely delivery. Significant levels of investment over the next few years means that it is vital that we optimise our regulatory returns and ensure we are appropriately compensated for our investments.

Operational return

NGG's aim is to deliver good financial returns compared to the regulatory allowances within the relevant price controls.
Performance is measured through an operational return metric comparable to the vanilla return defined in the price controls.

The operational return was as follows:

Years ended 31 March	2009	2008
Gas Distribution operational return	5.7%	5.1%

The Gas Distribution return exceeded the regulatory allowance of 4.94% over the 5 year price control.

Modernising and extending our networks

Significant capital investment is needed over the next few years to ensure that challenges around security of supply and maintaining and improving the reliability of NGG's networks are met.

In addition, NGG has committed to developing new processes to enable investment in new physical network capacity, which provides customers with easier access to the network.

Reliability

NGG's principal operations are critical to the functioning of the UK economy. The reliability of its networks is one of the highest priorities after safety. NGG's objective is to meet regulatory targets and to have zero loss of supply incidents.
Business specific reliability performance indicators are used to measure reliability performance.

NGG's approach to maintaining and improving reliability involves investing in infrastructure and systems to provide the operational tools and techniques necessary to manage its assets and operations to high standards; 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 the principal objectives, ensuring that NGG is proactive about planning to ensure reliability and reacts quickly to factors that could compromise reliability.

Network reliability information is summarised below.

Years ended 31 March	2009	2008
Gas Distribution network reliability target 99.999%	99.999%	99.999%

In the Gas Distribution networks, actual gas consumption in 2008/09 was 317 TWh compared with 315 TWh. NGG continues to focus on improving reliability, in particular in the area of gas escapes, meeting targets in this area.

NGG's asset management policies promote continual improvement in how the physical assets (plant, pipes, meters and regulators) are managed throughout their life cycle from conception through construction, operation, maintenance and decommissioning.

Capital investment

Capital investment is one of the principal drivers of future growth, as the majority of capital investment made enables NGG to earn an increased financial return.

The principal measure used to monitor organic investment is capital expenditure, which includes investment in property, plant and equipment as well as in internally generated intangible assets such as software.

NGG's capital investment plans reflect changing energy infrastructure requirements. The capital investment programme takes place within defined regulatory frameworks that permit NGG to earn a return on allowed investments.

Total capital expenditure in Gas Distribution and Metering during 2008/09 was £691 million compared to £592 million in 2007/08.

Capital investment including reinforcement, extension and replacement of the UK gas distribution network was £598 million in 2008/09 compared with £510 million in 2007/08. Of these amounts, £425 million in 2008/09 related to replacement expenditure that is capitalised (2007/08: £353 million) and £173 million to other capital investment including new connections, new pipelines and minor capital expenditure (2007/08: £157 million). Expenditure on software applications included within the above amounts was £22 million (2007/08: £17 million).

Replacement expenditure increased by £72 million (20%) compared with 2007/08 reflecting an increase in workload and a higher proportion of complex large diameter mains. Performance under the mains replacement incentive scheme is expected to be broadly neutral in 2008/09.

In collaboration with NGG's alliance partnerships, more than 1,900 kilometres of iron gas mains have been replaced this year and approximately 8,800 kilometres since 2004/05, the vast majority of which relates to the long-term mains replacement programme agreed with the HSE.

The increase in other capital expenditure in 2008/09 compared with 2007/08 is driven by the commencement of the construction of a major new pipeline in west London, which is due for completion in 2009/10, together with information technology expenditure to replace obsolete equipment in system control and operational activities.

Within Gas Metering, capital expenditure invested in new and replacement meters in 2008/09 amounted to £88 million compared with £73 million in 2007/08.

Becoming more efficient by transforming the operating model and increasingly aligning processes

NGG's operating model is focused on the delivery of services to customers, developing the sharing of best practice and positioning NGG to deliver improvements in operating and financial performance.

The focus during the current year and in the short term is on maximising efficiencies in the operating model within each line of business. Through targeted reductions in the number of processes and through standardisation and simplification NGG aims to maximise efficiencies and reduce cost.

National Grid continues to develop its procurement operating model which is now structured on a strategic spend category basis. This structure drives greater focus in delivering value from the supply chain. The management team has been strengthened as National Grid seeks to improve the performance of this part of the business.

During the year NGG has implemented new technology tools that better enable its capacity to plan, monitor, report spend and undertake e-commerce events. NGG has also introduced a system that provides robust financial monitoring services, focusing on critical suppliers.

Within Gas Distribution, NGG will start the progressive replacement of ageing front office IT suite of systems in 2009/10. The lessons learnt from the pilots, and the advances in technology since the original front office was installed, will help drive further improvements in the efficiency and customer performance of the gas business.

Efficiency

By improving efficiency NGG can constrain the cost of operations borne by customers and improve returns. NGG reviews its operations continually to identify opportunities to improve the operational productivity of assets and employees and to identify areas in which costs can be reduced or cost increases restricted. NGG's aim is to maintain the proper level of investment in its infrastructure to enable related operating cost reductions, and to focus on incremental efficiencies.

Building trust, transparency and an inclusive and engaged workforce

In order to maximise the potential of NGG's workforce and achieve its objectives it is important to develop their belief and engagement in National Grid's vision.

Engagement and performance

To succeed it is necessary to engage employees to strive for continuous improvement. For that purpose NGG's aim is to implement a world-class performance management process.
The key performance indicator is the employee engagement index based on the independent annual employee survey

NGG's approach involves adopting National Grid integrated common performance processes and a single set of performance criteria with pay linked to leadership qualities as well as operational and financial performance, providing for clearer differentiation between levels of performance.

Employee engagement

In February 2009, National Grid conducted its second annual employee engagement survey. A total of 24,727 employees, representing 91.8% of the total workforce, took part, a 5.5% increase in the response rate compared to 2008. During 2008, intensive action planning was undertaken at National Grid, line of business and individual level to address the key themes of improving communications, providing greater clarity on vision and direction and providing stronger links between performance and reward.

The 2009 survey reported a 10% increase in employee engagement within National Grid as a whole. Improvements were reported across all survey dimensions, with significant improvements in the areas of vision, direction and communications which were key action items from the 2008 survey.

Within NGG, the engagement scores for the principal lines of business, Transmission and Gas Distribution, are monitored. In 2008/09, Gas Distribution employee engagement was 70% (2007/08: 64%).

Performance management

National Grid continues the task of building a high performance culture. Training for the majority of middle and first line managers on 'Performance for Growth', National Grid's global performance management system is now completed. The process continues to focus on raising the performance bar and supporting high quality conversations. 'Support and challenge' groups have been established which continue to review best practice, share knowledge and enable managers to have a peer support network.

These performance programmes are driving stronger personal accountability, and the leadership within National Grid is now actively involved in creating a culture where everyone across the business understands that business results are of primary importance and that they can directly influence this.

Inclusion and diversity
In order to develop, recruit and retain talented people, NGG aims to achieve a more inclusive and diverse workforce, reflecting the composition of the communities in which it operates, and to be seen as an employer of choice across diverse communities.

Performance measures used to monitor the objective of promoting inclusion and diversity include the percentage of female employees and the percentage of ethnic minority employees.

Following a thorough review of policies throughout National Grid, the commitment to inclusion and diversity has been reaffirmed by highlighting its importance to employee engagement and productivity, the recruitment and retention of talent, and external reputation within the inclusion business case.

During the year National Grid launched its global Inclusion Charter. The charter explains what employees can expect from National Grid as well as what National Grid expects from employees and builds on work in progress throughout the business.

In addition, an inclusion and diversity transition group has been established to develop the necessary communications, governance and human resource processes to support these efforts. Training has continued to offer greater awareness of inclusive behaviours and a new inclusive leadership learning programme has recently been launched.

At 31 March 2009, 22.5% of NGG's employees were female and 6.3% were from ethnic minority groups, compared to 24.5% and 5.8% at 31 March 2008.

Across all of National Grid's operations in the UK, as at 31 March 2009 22.1% of employees were female and 7.5% from ethnic minority groups, compared to 22.5% and 6.5% at 31 March 2008. Of all new hires in National Grid's UK operations in 2008/09, 36.7% were female and 13.1% were from ethnic minority groups.

NGG aims to maximise the contribution of employees by motivating them to strive for continued improvement, developing their skills and talents and promoting a culture that recognises and respects inclusion and diversity.

Developing talent, leadership skills and capabilities

Identifying, recruiting and developing talented people is critical to NGG's future success.

NGG aims to support all employees so that they can operate to the best of their abilities by creating an environment that allows them to realise their full potential.

National Grid has strengthened its talent management processes in 2008/09, creating talent management plans for senior management and for business critical roles. Regular cross-business talent planning sessions are now being conducted using consistent processes to support senior management in developing employees within each business area and to address succession issues.

National Grid's focus on developing the talent of current and future business leaders has moved forward with the launch of the developing future leaders programme for senior managers. National Grid has also launched a foundation of leadership programme for first line leaders and supervisors and a future leaders programme with a focus on enhancing business acumen and the demonstration of leadership qualities.

NGG continues to invest in the recruitment and development of skilled employees for the future, jointly with National Grid's other UK businesses, recruiting 184 advanced apprentices, 58 foundation engineers and 30 graduates across the UK. These programmes are designed to facilitate the entrance, training and progression of talented people into National Grid, with special emphasis on key engineering roles.

Positively shaping the energy and climate change agenda with external stakeholders

National Grid's aim is to embrace, address and lead on the current and future issues affecting the energy market. It is committed to safeguarding the global environment for future generations, taking positive action to reduce its contribution to climate change and other impacts on the environment. National Grid strives to be an environmental leader and will work with regulators to develop the regulatory framework required to address the changes in future energy supplies.

This year has seen significant changes to UK government policy with the introduction of the Climate Change and Energy Acts, which will implement a wide range of measures including setting carbon budgets on a national scale and enshrining climate change targets in law.

Positively shaping the agenda
National Grid aims to take the lead on the energy and climate change issues facing society, not simply reacting to the initiatives of other relevant bodies but instead, being proactive in leading the agenda to help safeguard the environment.

National Grid's performance measure in this area is the qualitative monitoring of its contribution to various projects, committees, task forces and other initiatives aimed at addressing these issues.

Climate change
National Grid continues with its climate change initiatives and energy efficiency programmes, focusing on initiatives that are cost effective and regulated.

The National Grid key performance indicator to monitor performance in this area is the percentage reduction in greenhouse gas emissions against baseline.

As reported last year, National Grid has adopted a long-term target of reducing Scope 1 and 2 greenhouse gas emissions by 80% against baseline by 2050. An intermediate objective has now been set of a 45% reduction in emissions by 2020. These targets remain at the centre of efforts to identify and implement measures to meet National Grid's commitment to safeguard the global environment for future generations. In 2009/10, the inclusion of Scope 3 emissions into these targets will be evaluated.

This year, efforts have been focused on educating the workforce on the targets and the means by which they will be achieved. An inventory of greenhouse gas emissions has been conducted across National Grid to ensure that there is up-to-date information on the magnitude of the reductions necessary, and the areas of operations where reductions can take place. Internal working teams have been established, tasked with developing opportunities to achieve the 80% target.

This climate change initiative is being embedded in all areas and operations of National Grid through the establishment of teams working in such areas as introducing low emission vehicles, developing low carbon design features for asset replacement programmes and incorporating a 'cost of carbon' methodology in investment decision making processes.

During 2009/10, carbon budgets will be implemented within National Grid. For each financial year, each business within National Grid will be set a maximum level of greenhouse gas emissions which can be emitted. Subsequent years will see a reduction in these budgets that is needed to achieve the 2020 and 2050 targets.

Performance on greenhouse gas emissions against target are reported for National Grid as a whole in the National Grid plc Annual Report and Accounts 2008/09. NGG currently reports year on year reductions. The 2008/09 data is not currently available. It is expected to become available in July 2009 at which point the data for National Grid as a whole will be presented on the National Grid website. Data for NGG will be presented in next years' Annual Report and Accounts, and in future periods, the year-on-year performance will continue to lag by one year.

Protecting the environment
National Grid is committed to helping to protect the environment for future generations and continuously improving environmental performance.

All of NGG's employees work to environmental management systems certified to the international standard ISO 14001.

The performance indicators that are monitored in this area include the number of significant direct environmental incidents.

In 2008/09 there were no significant environmental incidents arising directly from Gas Distribution operations. In 2007/08, there were no significant environmental incidents. There were no prosecutions by enforcing bodies resulting from these incidents.

NGG has an inherited portfolio of historically contaminated land including former manufactured gas plants and former and current gas holders. Sites can sometimes have a complex mix of contamination dating back over 100 years.

National Grid Property Limited, a fellow subsidiary company of National Grid, manages land contamination issues on NGG's behalf.

Responsibility
NGG believes that operating responsibly is essential to the way it conducts its operations, invests in its business, develops its people and manages its relationships. It underpins everything done by NGG and is a prerequisite to its contribution to delivering National Grid's vision.

NGG 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 the core values of respecting others and valuing diversity, demonstrating integrity and openness in all relationships, taking ownership for driving performance and operating as one team.

The Framework defines the principles by which NGG manages its business and its day-to-day dealings with customers, employees, shareholders, suppliers and local communities. It is underpinned by National Grid wide policies and position statements that are available on the National Grid website.

More information on National Grid's approach to corporate responsibility and business ethics is included in the Corporate Governance section of the National Grid plc Annual Report and Accounts 2008/09.

Risks and opportunities

Risks and opportunities
NGG 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 its shareholders have been identified in National Grid's strategy and NGG's objectives.

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

Financial performance
Financial performance and operating cash flows are the basis for funding NGG's future capital investment programmes, for servicing its borrowings and for paying dividends.

Responsibility
Strong corporate governance is essential to operating responsibly and the achievement of all NGG's objectives. NGG's reputation as a responsible business depends on all its behaviours being lawful and ethical, on complying with its policies and licences and on living up to its core values.
If NGG does not live up to these high standards it could be exposed to adverse financial or other consequences.

Driving improvements in safety, customer and operational performance
The operating profits and cash flows generated by NGG are dependent on its operating performance – operating safely, reliably, and providing a quality service to customers.

Delivering strong, sustainable regulatory contracts with good returns
NGG's relationships with 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 NGG addresses the concerns of, and interacts with, all its stakeholders.

Modernising and extending NGG's distribution networks
NGG's future organic growth is dependent on the delivery of its capital investment plans. In order to deliver sustainable growth with a superior financial performance NGG will need to finance its investment plans. Instability in the financial markets may restrict NGG's ability to raise finance.

Becoming more efficient through transforming the operating model and increasingly aligning processes
Transforming the way NGG operates through the simplification and standardisation of its systems and process will drive efficiency and reduce costs. Conversely, if NGG does not achieve this transformation, or associated benefits in efficiency, reductions of costs will not be achieved.

Building trust, transparency and an inclusive and engaged workforce
NGG's workforce is a vital part of its business and is critical to its future success. Failure to maintain a trusting, engaged, and motivated workforce, who can see how their actions directly contribute to achieving NGG's strategy and objectives, will restrict NGG's ability to meet those objectives.

Developing talent, leadership skills and capabilities
The skills and talents of NGG'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 NGG's ability to deliver in the future.

Positively shaping the energy and climate change agenda
Safeguarding the global environment for future generations is dependent on integrating sustainability and climate change considerations into NGG's business decisions, influencing legislators and regulators to reshape energy markets to meet the climate change challenge, and helping and supporting employees, customers and suppliers in changing their behaviour to be more environmentally aware.

How NGG intends to achieve these objectives and the progress made during the year is set out on pages 10 to 15.

Risk management
The approach of NGG to risk management is described in the risk management section under Corporate Governance on page 29. In addition, information on how certain financial risks have been addressed is included in the financial position and financial management section of this Operating and Financial Review on pages 21 to 24.

Risk factors
The following significant risks and uncertainties in achieving NGG's objectives have been identified: changes in laws or regulation; breaches of environmental or health and safety law or regulations; network failure or inability to carry out critical non-network operations; achievement of business performance objectives, including regulatory targets and delivering anticipated cost and efficiency savings; reputation damage from disruptions to supply, even if outside NGG's control; fluctuations in interest rates and their impact on borrowings and derivatives; restrictions in borrowings, changes in credit ratings, volatility and disruption of global financial markets and reduced liquidity and access to funding opportunities periods of deflation; future funding requirements of pension schemes; changes in accounting standards or in tax rates; and consumers and suppliers or other counterparties failing to perform their obligations

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

These risk factors are described in more detail in the Principal risks and uncertainties section under Corporate Governance on page 29.

Financial performance

NGG 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 NGG 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 NGG uses to monitor financial performance are adjusted operating profit and operating cash flows. Adjusted operating profit is operating profit before exceptional items and remeasurements.

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

Measurement of financial performance and use of adjusted profit measures
In considering the financial performance of its regulatory businesses and activities, NGG 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 NGG'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 NGG 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	NGG's aim is to meet or exceed the base investment financial returns in its DN price controls.
	NGG 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 2008. This metric expresses profit on a price control basis as a percentage of estimated DN regulatory value.

The DNs achieved an aggregate 5.7% operational return in 2008/09, ahead of the regulatory allowance of 4.94% over the 5 year price control. This compares with an operational return of 5.1% in 2007/08 calculated on the same basis.

Operating financial performance

	Years ended 31 March	
	2009	2008
	£m	£m
Revenue	**1,762**	1,684
Other operating income	**2**	8
Operating costs excluding exceptional items	**(986)**	(1,010)
Adjusted operating profit	**778**	682
Exceptional items	**(58)**	(20)
Total operating profit	**720**	662

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 and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	1,692	(1,030)	662
Add back 2007/08 exceptional items	-	20	20
2007/08 adjusted results	1,692	(1,010)	682
North West DN	16	4	20
East of England DN	27	(2)	25
West Midlands DN	(3)	1	(2)
North London DN	29	4	33
Metering	11	18	29
Meter reading	(14)	10	(4)
De-minimis activities	(2)	3	1
Other activities	6	(12)	(6)
Inter-business	2	(2)	-
2008/09 adjusted results	1,764	(986)	778
2008/09 exceptional items	-	(58)	(58)
2008/09 results	1,764	(1,044)	720

The principal factors causing the movements between 2007/08 and 2008/09 are summarised below:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	1,692	(1,030)	662
Add back 2007/08 exceptional items	-	20	20
2007/08 adjusted results	1,692	(1,010)	682
DN Allowed revenues	90	-	90
Timing of DN recoveries	(19)	-	(19)
Depreciation and amortisation	-	18	18
DN pass-through costs	-	(9)	(9)
Other revenues and costs	1	15	16
2008/09 adjusted results	1,764	(986)	778
2008/09 exceptional items	-	(58)	(58)
2008/09 results	1,764	(1,044)	720

Revenue and other operating income for gas distribution and metering increased by £72 million in 2008/09 compared with 2007/08. This was mainly due to DN allowed revenues offset by the timing of recoveries of allowed revenues.

Allowed revenue is no longer linked to delivery volumes: this decoupling now eliminates the sensitivity to warm weather and lower underlying volumes. Furthermore, a smaller proportion of DN income is recovered through the volume delivery component of transportation charges.

Cooler temperatures than the prior year increased consumption by 2 TWh to 317 TWh.

The net year-on-year timing impact against allowed revenues was £19 million in 2008/09. There was a net benefit of £7 million in 2008/09 comprising the recovery of £17 million relating to the previous year, offset by a £10 million under-recovery for 2008/09, compared with a net benefit of £26 million in 2007/08 comprising a £17 million under-recovery for 2007/08, offset by £43 million recovered relating to 2006/07.

Operating costs, excluding exceptional items, were £24 million lower in 2008/09 compared with 2007/08. In line with 2007/08, there was a further £4 million increase in business rates, following the changes in rateable values introduced from 1 April 2005. This was offset by a £18 million reduction in depreciation following a review of the useful economic lives of property, plant and equipment within the Gas plant – mains, services and regulating equipment category.

Exceptional charges of £58 million in 2008/09 related primarily to pension deficit charges arising from recovery plan contributions made to the National Grid UK Pension Scheme, environmental provision liabilities, together with pension costs associated with restructuring programmes and transformation costs. This compares with a £20 million cost in 2007/08 relating to restructuring programmes.

As a consequence of the above, adjusted operating profit excluding exceptional items was £96 million higher in 2008/09 than 2007/08, an increase of 14%. Including exceptional items, operating profit was £58 million higher in 2008/09 than 2007/08, an increase of 9%.

Profit for the year

Net finance costs and taxation largely comprise amounts relating to NGG as a whole which have been allocated as described in the basis of preparation of regulatory accounting statements on page 36.

Adjusted profit for the year

	Years ended 31 March	
	2009 **£m**	2008 £m
Adjusted operating profit	**778**	682
Net finance costs excluding exceptional items and remeasurements	**(249)**	(251)
Adjusted profit before taxation	**529**	431
Taxation excluding taxation on exceptional items and remeasurements	**(301)**	(182)
Adjusted profit	**228**	249

Profit for the year

	Years ended 31 March	
	2009 **£m**	2008 £m
Total operating profit	**720**	662
Net finance costs	**(253)**	(235)
Profit before taxation	**467**	427
Taxation	**(296)**	(95)
Profit	**171**	332

Net finance costs

Net interest excluding exceptional finance costs and remeasurements, as allocated to the gas distribution and metering businesses, reduced by £2 million from 2007/08 to 2008/09.

Exceptional finance costs and remeasurements

There were no exceptional finance costs in 2008/09 (2007/08: £nil).

Financial remeasurements relate to allocated net losses on derivative financial instruments of £4 million, compared with allocated net gains of £16 million in 2007/08.

Taxation

A net charge of £296 million was allocated to the gas distribution and metering businesses in 2008/09, comprising a £301 million charge on adjusted profit before tax and a £5 million credit on exceptional items and remeasurements. This compares with an allocated net charge of £95 million in 2007/08, comprising a £182 million charge on adjusted profit before tax and a £87 million credit on exceptional items and remeasurements. The 2007/08 net charge included an allocated exceptional credit of £86 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 57% and 63% respectively (2007/08: 42% and 22%), compared with a standard UK corporation tax rate of 28% for 2008/09 and 30% for 2007/08.

The effective tax rates before exceptional items reflect prior year tax charges equivalent to an effective tax rate of 16% in 2008/09 and 19% in 2007/08. 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 distribution and metering business profit for the year reduced from £332 million in 2007/08 to £171 million in 2008/09 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	
	2009	2008
	£m	£m
Adjusted operating profit	**778**	682
Exceptional items	**(58)**	(20)
Total operating profit	**720**	662

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

Reconciliation of adjusted profit before taxation to profit before taxation

	Years ended 31 March	
	2009	2008
	£m	£m
Adjusted profit before taxation	**529**	431
Exceptional items	**(58)**	(20)
Derivative financial remeasurements	**(4)**	16
Total profit before taxation	**467**	427

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	
	2009	2008
	£m	£m
Adjusted profit for the year	**228**	249
Exceptional items	**(53)**	71
Derivative financial remeasurements	**(4)**	12
Profit for the year	**171**	332

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 distribution and metering businesses was £877 million in 2008/09 compared with £1,088 million in 2007/08. This included cash outflows relating to exceptional items of £45 million and £19 million respectively. After reflecting cash flows relating to tax paid, net cash inflow from operating activities was £816 million, compared with £967 million in 2007/08.

In 2008/09, there was a net corporate tax payment of £61 million allocated to gas distribution and metering compared with an allocated repayment of £121 million in 2007/08.

Cash inflows from investing activities

Cash outflows from investing activities for gas distribution and metering rose from £674 million in 2007/08 to £956 million in 2008/09. Cash outflows to purchase property, plant and equipment and intangible fixed assets, net of disposal proceeds, increased marginally to £631 million in 2008/09 from £630 million in 2007/08. Allocated cash outflows to acquire financial investments increased from £53 million in 2007/08 to £337 million in 2008/09.

Cash flows from financing activities

Cash flows from financing activities largely comprise cash flows of NGG as a whole which have been allocated as described in the basis of preparation of regulatory accounting statements on page 36.

Net cash flows related to financing activities increased from a £403 million outflow in 2007/08 to a £135 million inflow in 2008/09. This reflected net allocated inflows from loans and derivatives of £620 million (2007/08: £100 million) and net allocated payments to providers of finance, in the form of net interest and dividends, of £485 million (2007/08: £503 million).

Allocated net interest cash outflows, excluding exceptional debt redemption costs, increased from £157 million in 2007/08 to £173 million in 2008/09. There were no allocated exceptional debt redemption payments in 2008/09 or 2007/08. .

Financial discipline	In order to deliver sustainable growth NGG 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 NGG uses to monitor financial discipline is the gearing ratio. This is the ratio of net debt expressed as a percentage of estimated regulatory asset values , as presented on page 21.

Dividends

Dividends in respect of the financial year

The following table shows the ordinary dividends paid or payable by NGG in respect of the last two financial years and which have been allocated to the gas distribution and metering businesses as described in the basis of preparation of regulatory accounting statements on page 36. These dividends do not include any associated UK tax credit in respect of such dividends.

	2009 £m	2008 £m
Interim	**300**	337
Total	**300**	337

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 NGG 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 NGG.

Financial Position

Balance sheet

The balance sheet of the gas distribution and metering businesses at 31 March 2009 can be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment and non-current intangible assets	6,701	-	6,701
Other non-current assets and liabilities	4,023	(1,020)	3,003
Current assets and liabilities	295	(612)	(317)
Deferred tax	-	(1,305)	(1,305)
Total before net debt	11,019	(2,937)	8,082
Net debt	1,200	(5,542)	(4,342)
Total as at 31 March 2009	**12,219**	**(8,479)**	**3,740**
Total as at 31 March 2008	11,023	(6,738)	4,285

The reduction in net assets from £4,285 million at 31 March 2008 to £3,740 million at 31 March 2009 resulted from the gains in the year of £193 million, changes in allocation of funding between NGG's regulatory businesses of £440 million, attributed dividends paid of £300 million, and other changes in equity of £2 million.

Net debt

Allocated net debt increased by £764 million from £3,578 million at 31 March 2008 to £4,342 million at 31 March 2009, as cash flows from operations of £877 million was exceeded by capital expenditure of £642 million, attributed dividends paid of £300 million, the net interest charge of £245 million, funding reallocation between regulatory businesses of £439 million and other cash outflows of £42 million, less net increases in the value of derivatives of £27 million.

At 31 March 2009, allocated net debt comprised borrowings of £5,468 million and bank overdrafts of £6 million, less derivative financial instruments with a net carrying value of £495 million, and financial investments of £637 million (31 March 2008: borrowings of £3,946 million, bank overdrafts of £4 million and derivative financial instruments with a net carrying value of £69 million, less cash and cash equivalents of £3 million and financial investments of £300 million).

The maturity of borrowings is shown in note 18 to the regulatory accounting statements.

Capital Structure

NGG monitors the regulatory asset value (RAV) gearing within Gas Distribution businesses. This is calculated as net debt expressed as a percentage of estimated RAV, and indicates the level of debt employed to fund the regulated businesses. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for these businesses, at around 60%.

This is considered to be a more appropriate measure than the standard gearing ratio using the accounting value of net assets as it better reflects the economic value of NGG's assets.

To calculate RAV gearing for the regulated Gas Distribution businesses an element of the debt that is associated with the Gas Metering business is excluded. RAV gearing as at 31 March 2009 was 62% compared to 56% as at 31 March 2008.

Liquidity and treasury management

Treasury policy

Funding and treasury risk management for NGG is carried out by the Treasury function of National Grid under policies and guidelines approved by the Finance Committees of the Boards of National Grid plc and National Grid Gas plc. The Finance Committees have authority delegated from the relevant Boards and are responsible for regular review and monitoring of treasury activity and for approval of specific transactions, the authority for which may be delegated.

The primary objective of the Treasury function is to manage the funding and liquidity requirements of National Grid. A secondary objective is to manage the associated financial risks (in the form of interest rate risk and foreign exchange risk) to within acceptable boundaries. Further details of the management of funding and liquidity and the main risks arising from financing activities are set out below, as are the policies for managing these risks including the use of financial derivatives, which are agreed and reviewed by the Boards and the Finance Committees.

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.

Commodity derivatives entered into in respect of gas commodities are used in support of the business's operational requirements and their use is explained on page 23.

Current condition of the financial markets

During 2008/09 there has been a deterioration in the world economic situation. In particular, there has been a crisis in the banking system, the failure or near failure of individual banks and increased restrictions on lending across capital and money markets. This has been accompanied by a significant widening in credit spreads. However, with its low risk business model and cash flows that are largely stable over a period of years, NGG has been able to continue to access the markets and during 2008/09 has issued £1,515 million of external long-term debt. NGG remains confident of its ability to access the public debt markets going forward.

Cash flow and cash flow forecasting

Cash flows from NGG's operations are largely stable annually and over a period of years, although they do depend on the timing of customer payments. NGG's DN operations are subject to multi-year price control agreements with the regulator, Ofgem.

NGG's capital investment programme is financed through a combination of internal cash flows and borrowings. Both short and long-term cash flow forecasts are produced regularly to assist in identifying short-term liquidity and long-term funding requirements and a project is being undertaken to enhance the cash flow forecasting processes. Cash flow forecasts, supplemented by a financial headroom position, are supplied to the Finance Committee to assess funding adequacy for at least a 12 month period.

Regulatory restrictions

As part of NGG'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 requires NGG to maintain adequate financial resources and restricts its ability to make dividend payments, lend cash or levy charges between NGG and fellow subsidiary companies of National Grid.

Funding and liquidity management

NGG maintains medium term note and commercial paper programmes to facilitate long and short-term debt issuance into capital and money markets.

At 31 March 2009, NGG 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 (€6.1 billion issued).

In addition it has both committed and uncommitted bank borrowing facilities that are available for general corporate purposes. At 31 March 2008, NGG had £755 million of long-term committed facilities (undrawn).

NGG invests surplus funds on the money markets, usually in the form of short-term fixed deposits and placements with money market funds that are invested in highly liquid instruments of high credit quality. Investment of surplus funds is subject to NGG's counterparty risk management policy, and NGG continue to believe that its cash management and counterparty risk management policies provide appropriate liquidity and credit risk management in light of the current crisis in the financial markets. Details relating to cash, short-term investments and other financial assets at 31 March 2009 are shown in notes 16 and 17 to the regulatory accounting statements.

Management believes that maturing amounts in respect of contractual obligations as shown in Commitments and contingencies in note 25 to the regulatory financial statements can be met from existing cash and investments, operating cash flows and other financings that NGG reasonably expects to be able to secure in the future, together with the use of committed facilities if required.

Credit ratings

It is a condition of the regulatory ring-fence around NGG that it uses reasonable endeavours to maintain an investment grade credit rating. As of 31 March 2009, the long-term senior unsecured debt and short-term debt credit ratings respectively provided by Moody's, Standard & Poor's and Fitch were as follows:

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

Moody's changed their outlook of the ratings from negative to stable on 20 July 2009. This means that the ratings now have a stable outlook with all three rating agencies.

Use of financial derivatives

As part of NGG's business operations, including its treasury activities, it is exposed to risks arising from fluctuations in interest rates and exchange rates. NGG uses financial instruments, including financial derivatives, to manage exposures of this type. NGG's policy is not to use financial derivatives for trading purposes. Derivative positions are managed in a non speculative manner, such that all transactions in financial derivatives are matched to an underlying current or anticipated business requirement. More details on derivative financial instruments are provided in notes 13 and 28 to these regulatory accounting statements.

Refinancing risk management

Refinancing risk within National Grid is controlled mainly by limiting the amount of debt maturities (both principal and interest) arising on borrowings in any financial year.

Note 16 to these regulatory accounting statements sets out the contractual maturities of NGG's borrowings over the next five years, with total contracted borrowings maturing over 43 years. NGG expects to be able to refinance this debt through the capital and money markets as has been done during 2008/09.

Interest rate risk management

NGG's 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 followed by National Grid 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 an extreme movement in interest rates, neither the interest cost nor the total financing cost is expected to exceed pre-set limits with a high degree of certainty.

Within these constraints, the interest rate risk of National Grid is actively managed, with over 50% of our debt exposed to floating or index-linked interest rates in the longer term. In 2009/10 the financing costs of National Grid are expected to benefit from lower interest rates, some of which have already been locked in using short-term interest rate derivatives, and inflation.

Some of NGG's bonds in issue are index-linked, that is their cost is linked to changes in the UK Retail Prices Index (RPI). Management believes that these bonds provide a good hedge for revenues and regulatory asset values that are also RPI-linked under NGG's price control formulas.

The performance of the Treasury function in interest rate risk management is measured by comparing the actual total financing costs of the National Grid debt with those of a passivelymanaged benchmark portfolio with a constant ratio of fixed rate to floating rate debt, to identify the impact of actively managing National Grid's interest rate risk. This is monitored regularly by the Finance Committee of National Grid.

More information on the interest rate profile of NGG's debt is included in note 29(a) to these regulatory accounting statements.

Foreign exchange risk management

NGG has a policy of hedging certain contractually committed foreign exchange transactions over a prescribed minimum size. This covers a minimum of 75% of such transactions expected to occur up to six months in advance and a minimum of 50% of transactions six to twelve months in the future. In addition, where foreign currency cash flow forecasts are uncertain and a judgement has to be made, the policy is to hedge a proportion of such cash flows based on the likelihood of them occurring, with the aim of hedging substantially all the cash flows without overhedging. Cover generally takes the form of forward sale or purchase of foreign currencies and must always relate to underlying operational cash flows.

In addition, NGG 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 cross-currency swaps, so that post derivatives the currency profile is almost entirely sterling.

The currency compositions of financial liabilities and assets are shown in note 29(a) to these regulatory accounting statements.

Counterparty risk management

Counterparty risk arises within the National Grid Treasury function from the investment of surplus funds and from the use of derivative instruments, and outside the Treasury function from commercial contracts entered into by the businesses, including commodity contracts. The National Grid Finance Committee has agreed a policy for managing such risk. This policy sets limits as to the exposure that National Grid can have with any one counterparty, based on that counterparty's credit rating from independent rating agencies. National Grid's exposure to individual counterparties is monitored on a frequent basis and counterparty limits are regularly updated for changes in credit ratings. The Treasury function is responsible for managing the policy. Where contracts are entered into outside the Treasury function, part of the relevant counterparty limit can be allocated to the business area involved. This ensures that National Grid's overall exposure is managed within the appropriate limit.

Further information is provided in note 29(b) to these regulatory accounting statements.

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

Valuation and sensitivity analysis

NGG calculates the fair value of debt and financial derivatives by discounting all future cash flows by the market yield curve at the balance sheet date and in the case of financial derivatives taking into account the credit quality of both parties. 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.

For debt and derivative instruments held, NGG 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.

As described in note 29(d) to these regulatory accounting statements, movements in financial indices would have the following estimated impact on the financial statements as a consequence of changes in the value of financial instruments.

Years ended 31 March	2009		2008	
	Income statement £m	Equity £m	Income statement £m	Equity £m
UK Retail Prices Index ± 0.50%	6	-	6	-
UK interest rates ± 0.50%	3	9	3	7

Commodity contracts

Gas purchased for NGG's own use in its DN business relates to the operation of its gas distribution networks. In addition NGG buys back capacity rights already sold in accordance with the gas transporter licences and Uniform Network Code obligations as part of its management of the gas distribution networks.

Commitments and contingencies

Commitments and contingencies outstanding at 31 March 2009 and 2008 are summarised in the table below:

	2009 **£m**	2008 £m
Future capital expenditure contracted but not provided for	**368**	353
Total operating lease commitments	**61**	69
Other commitments and contingencies (NGG)	**150**	84

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

NGG 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 2009

NGG's gas distribution and metering businesses were not party to litigation that NGG considers to be material as at 31 March 2009.

Metering competition investigation

In February 2008 the Gas and Electricity Markets Authority (GEMA) issued a decision to fine National Grid £41.6 million for a breach of the UK Competition Act 1998 in respect of term contracts with gas suppliers entered into by the Gas Metering business in 2004. National Grid subsequently appealed this decision to the Competition Appeal Tribunal (the Tribunal). On 29 April 2009, the Tribunal overturned the decision in part and reduced the fine to £30 million but also upheld the original decision in part. On 29 May 2009 an application was lodged at the Tribunal for leave to appeal on points of law and on the amount of the penalty. This was refused and a further application for leave to appeal was lodged with the Court of Appeal on 14 July 2009.

Gas distribution mains replacement investigation

In October 2008, National Grid informed Ofgem that the mains replacement activity carried out within the UK's West Midlands Alliance partnership may have been misreported. National Grid and Ofgem have jointly appointed Ernst & Young to carry out a full investigation to determine the extent of the issue. At present it is too early to determine the likely outcome of the investigation and any potential consequences.

Related party transactions

NGG provides services to and receive services from related parties, principally fellow subsidiary companies of National Grid. In the year ended 31 March 2009, the gas distribution and metering businesses charged £18 million and received charges of £114 million from related parties (other than Directors and key managers), compared with £24 million and £117 million respectively in 2007/08.

Further information relating to related party transactions is contained within note 26 to the consolidated financial statements. Details of key management compensation and amounts paid to Directors are included within notes 4(c) and 4(d) to these regulatory accounting statements respectively.

Retirement arrangements

The substantial majority of NGG's employees are members of the National Grid UK Pension Scheme, which is operated by Lattice Group plc, an intermediate holding company of NGG. NGG 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 NGG, 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 National Grid UK Pension Scheme was as at 31 March 2007. This concluded that the pre-tax funding deficit was £442 million in the defined benefit section on the basis of the funding assumptions. Employer cash contributions for the ongoing cost of this plan are currently being made at a rate of 32.6% of pensionable payroll.

Contributions

In addition to ongoing employer contributions NGG made additional deficit contributions to the scheme of £228 million during 2008/09 and £58 million in April 2009 to clear in full the deficit revealed by the 2007 valuation.

The next valuation of the scheme is due as at 31 March 2010.

Accounting policies

Basis of accounting

The regulatory accounting statements present the results for the years ended 31 March 2009 and 2008 and the financial position as at 31 March 2009 and 2008 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, NGG 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, NGG has presented its regulatory accounting statements in accordance with IFRS. NGG 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
NGG's opening IFRS balance sheets were established as at 1 April 2004. NGG 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 NGG 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
NGG recognised all active grants retrospectively.

Cumulative translation differences
NGG chose to present cumulative translation differences arising since 1 April 2004 only.

Significant choices that NGG continues to make on an ongoing basis include the following:

Presentation formats
NGG 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, NGG 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
NGG 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
NGG 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
NGG normally opts to apply hedge accounting in most circumstances where this is permitted.

New IFRS accounting standards and interpretations adopted in 2008/09

In preparing these regulatory accounting statements, NGG has complied with International Financial Reporting Standards, International Accounting Standards and interpretations applicable for 2008/09. The following amendments to standards and interpretations were adopted during 2008/09, none of which resulted in a material change to results, assets or liabilities in 2008/09 or in those of previous periods.

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 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.

Amendment to IAS 39 Financial Instruments: Recognition and measurement and IFRS 7 financial instruments: Disclosures on reclassification of financial assets.

Permits reclassification of financial assets in certain circumstances.

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 NGG 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, NGG 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.

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

Attribution of revenues, costs, assets, liabilities and equity to regulatory businesses

Many of the amounts reported in these regulatory accounting statements 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 £798 million included in the income statements (2008: £533 million), assets of £5,946 million (2008: £4,896 million) and liabilities of £7,464 million (2008: £5,778 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 £285 million in 2008/09 and £303 million in 2007/08.

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 2009 were £12,219 million, including £6,651 million of property, plant and equipment, £50 million of intangible assets and £4,023 million owed by NGG'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 £114 million at 31 March 2009 compared with £103 million at 31 March 2008.

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

NGG 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.

Movements in the fair values of derivative financial instruments may be accounted for using hedge accounting where we meet the relevant eligibility, documentation and effectiveness testing requirements. If a hedge does not meet the strict criteria for hedge accounting, or where there is ineffectiveness or partial ineffectiveness, then the movements will be recorded in the income statement immediately instead of being recognised in the statement of recognised income and expense or by being offset by adjustments to the carrying value of debt.

Pensions

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 NGG is charged for the costs of providing pensions.

A change in these arrangements may lead to NGG 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.

Exceptional items and remeasurements

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

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, material changes in environmental provisions, 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 NGG has no control.

Provisions

Provisions are made for liabilities that are uncertain in estimate. These include provisions for the cost of environmental restoration and remediation, restructuring and employer and public liability claims.

Calculations of these provisions are based on estimated cash flows relating to these costs, discounted at an appropriate rate where the impact of discounting is material. The total costs and timing of cash flows relating to environmental liabilities are based on management estimates supported by the use of external consultants.

At 31 March 2009, recorded provisions totalled £114 million (2008: £93 million), including £56 million (2008: £44 million) in respect of environmental liabilities.

Tax estimates

NGG's tax charge is based on the profit for the year and tax rates in effect,

Current tax assets and liabilities arising from transfer pricing adjustments, which are expected to be fully recovered through group relief, are initially estimated and recognised in the current year where material. Further adjustments are recognised when tax returns are submitted to the tax authorities. In the prior year, current tax asset and liabilities arising from transfer pricing adjustments, which were expected to be fully recovered through group relief, were recognised when tax returns were submitted to the tax authorities.

The determination of appropriate provisions for taxation requires NGG 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.

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 our annual depreciation charge on property, plant and equipment by £8 million before tax, 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 2009 would result in an increase or decrease in recorded net assets and profit for the year of approximately £8 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 £50 million.

Hedge accounting

If the gains and losses arising on derivative financial instruments during the year ended 31 March 2009 had not achieved hedge accounting then the profit for the year would have been £137 million higher than that reported net of tax and net assets would have been £112 million higher.

Provisions

A 10% change in the estimates of future cash flows estimated in respect of provisions for liabilities would result in an increase or decrease in net assets of approximately £11 million.

Accounting developments

Forthcoming changes in IFRS

New accounting standards and interpretations which have been issued but not yet adopted by National Grid Gas are discussed in these regulatory financial statements on pages 42 and 43.

Corporate governance

As a subsidiary company of National Grid plc, NGG operates within National Grid's corporate governance framework. NGG does not have listed shares and therefore is not subject to the Combined Code on Corporate Governance.

National Grid's corporate governance policies are described in the National Grid plc Annual Report and Accounts 2008/09 under Corporate Governance on page 90.

The Board of National Grid plc considers that it complied in full with the Combined Code during 2008/09.

Board of NGG

The Board of NGG is responsible for the overall management and governance of NGG and for ensuring that NGG complies with all relevant laws and regulations, including compliance with the Gas Transportation Licence.

The Board of NGG meets 6 times a year on a bi-monthly basis. There are no non-executive or independent directors. The Board does not have a separately appointed Chairman. Meetings are usually chaired by a member of the Board, Mark Fairbairn when present, otherwise as appropriate.

The Board of NGG does not have a Nomination, Remuneration or Audit committee. These functions are dealt with by NGG in conjunction with the relevant committee of the National Grid plc Board.

	Attendance*
Mark Fairbairn (Chair)	6 of 6
Malcolm Cooper	4 of 6
Andy Chapman - resigned 7 July 2008	1 of 1
Stuart Humphreys - appointed 7 July 2008	5 of 5
Paul Whittaker	5 of 6
Adam Wiltshire	6 of 6
Nick Winser	4 of 6
Helen Mahy (Company Secretary and general counsel)	6 of 6

*Attendance at meetings of the NGG Board during 2008/09, expressed as number of meetings attended out of number eligible to attend.

The ultimate shareholder of NGG is National Grid plc. Two of the Directors of NGG, Nick Winser, and Mark Fairbairn are also Executive Directors of National Grid plc. Through participation of these Directors at the Board of both companies, the Board of NGG develops an understanding of the views of its shareholder.

The Board of NGG has established a number of committees and sub-committees which assist it in its activities. These include the Distribution Executive Committee and the Finance Committee.

Internal control

The Board of National Grid plc is responsible for internal control in National Grid including its subsidiary companies. Details of the internal control process are set out on page 96 of the National Grid plc Annual Report and Accounts 2008/09.

Compliance management

Compliance management is undertaken on a National Grid wide basis. Details of the compliance management process are set out on page 97 of the National Grid plc Annual Report and Accounts 2008/09.

Treasury activities

Treasury activities for NGG are carried out by the Treasury function of National Grid under policies and guidelines approved by the Finance Committees of the Boards of National Grid plc and of NGG.

More information on treasury policy is provided on page 21

Distribution Executive Committee

The Distribution 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 distribution businesses.

Name		Attendance*
Mark Fairbairn (Chair)	Executive Director of National Grid	10 of 10
Jeremy Bending	Director, Network Strategy	10 of 10
Jon Butterworth	Director, Operations	10 of 10
Mike Calviou	Director of Distribution Support	9 of 10
Ian Leedham	Senior Counsel Commercial	8 of 9
Helen Mahy	General Counsel and Company Secretary	1 of 1
Adam Mallalieu	Director of UK Safety, Health, Environment and Security	10 of 10
Peter Massey	Director of Transformation	5 of 5
Rowan Sharples	Director of UK Construction (resigned October 2008)	7 of 7
Paul Whittaker	UK Director of Regulation	10 of 10
Adam Wiltshire	Director of Finance	10 of 10
Denise Wilson	Director of Distribution Customer Support	1 of 1

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

The Distribution 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 NGG's NTS gas transporter licence requires that NGG maintains managerial and operational systems such that:

- the DN businesses do not gain unfair commercial advantage by reason of the way NGG 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. Under Special Condition E22 of NGG's gas transporter licence in respect of its DN business, NGG is required to use its best endeavours to comply with the terms of the compliance statement.

National Grid Gas has taken the following actions to comply with the requirements of Special Condition C20, and hence with Special Condition E22:

- 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 NGG 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

Identifying, evaluating and managing risks is integral to the way NGG runs its business. National Grid continues to have a well established enterprise wide 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. An output from this process is information that provides assurance to management and thus helps safeguard our assets and reputation. NGG participates in this enterprise wide process.

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, NGG'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 NGG. 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.

More information on National Grid's risk management process can be found in the National Grid plc Annual Report and Accounts 2008/09.

Risk factors

The risk management process has identified the following risk factors that could have a material adverse effect on NGG's business, financial condition, results of operations and reputation. Not all of these factors are in its control. In addition, other factors besides those listed below may have an adverse effect on NGG.

Changes in law or regulation could have an adverse effect on our results of operations.
NGG is subject to regulation by governments and other authorities. Consequently, changes in law or regulation could adversely affect the business. 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 other decisions relating to the implications of energy change, the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities could have an adverse impact on NGG's results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future. For further information, see the Operating and Financial Review and, in particular, the 'External market and regulatory environment' and 'Current and future development' sections.

Breaches of, or changes in, environmental or health and safety laws or regulations could expose us to increased costs, claims for financial compensation and adverse regulatory consequences, as well as damaging our reputation.
Aspects of NGG's activities are potentially dangerous, including the transmission and distribution of gas. Gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so. NGG is subject to laws and regulations relating to pollution, the protection of the environment, and how we use and dispose of hazardous substances and waste materials. These expose NGG to costs and liabilities relating to our operations and our properties whether current, including those inherited from predecessor bodies, or formerly owned by NGG.

NGG is also subject to laws and regulations governing health and safety matters protecting the public and our employees. NGG is increasingly subject to regulation in relation to climate change. NGG commits significant expenditure toward complying with these laws and regulations and to meeting our obligations under negotiated settlements. If additional requirements are imposed or our ability to recover these costs changes, this could have a material impact on NGG's 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 NGG's results of operations and our reputation. For further information about environmental and health and safety matters relating to our businesses, see the 'Our Responsibility' section of the National Grid website at www.nationalgrid.com.

Network failure, the inability to carry out critical non-network operations and damage to infrastructure may have significant adverse impacts on both our financial position and reputation.
NGG 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 NGG to fail to meet agreed standards of service or be in breach of a licence or approval, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation. In addition to these risks, NGG may be affected by other potential events that are largely outside its control such as the impact of weather or unlawful acts of third parties. Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure will adversely affect operational and potentially business performance and our reputation. Terrorist attack, sabotage or other intentional acts may also damage our assets or otherwise significantly affect corporate activities and as a consequence have an adverse impact on the results of operations.

NGG's results of operations depend on a number of factors relating to business performance including performance against regulatory targets and the delivery of anticipated cost and efficiency savings.
Earnings maintenance and growth from regulated businesses will be affected by NGG's ability to meet or exceed efficiency and integration targets and service quality standards set by, or agreed with, its regulators. In addition, from time to time, we publish cost and efficiency savings targets for its businesses. To meet these targets and standards, NGG must continue to improve operational performance, service reliability and customer service. If NGG does not meet these targets and standards, it may not achieve the expected benefits, its business may be adversely affected and its performance, results of operations and its reputation may be harmed.

Changes to the regulatory treatment of commodity costs may have an adverse effect on the results of operations.
Changes in commodity prices could potentially impact NGG's energy delivery businesses. Current regulatory arrangements provide the ability to pass through virtually all of the increased costs related to commodity prices to consumers. However, if regulators were to restrict this ability, it could have an adverse effect on NGG's operating results.

NGG's reputation may be harmed if consumers of energy suffer a disruption to their supply.
NGG's gas transmission and distribution businesses are responsible for transporting available gas. NGG 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, NGG's role is to manage the relevant network safely which, in extreme circumstances, may require it to disconnect consumers, which may damage our reputation.

NGG's financial position may be adversely affected by a number of factors including restrictions in borrowing and debt arrangements, changes to credit ratings and adverse changes and volatility in the global credit markets.
NGG is subject to certain covenants and restrictions in relation to our listed debt securities and our bank lending facilities. It is also subject to restrictions on financing that have been imposed by regulators. These restrictions may hinder it in servicing the financial requirements of its businesses. Some of NGG'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.

NGG's business is partly financed through debt and the maturity and repayment profile of debt used to finance investments often does not correlate to cash flows from our assets. Accordingly, the Company relies on access to short-term commercial paper and money markets and longer-term bank and capital markets as sources of finance. The global financial markets are currently experiencing extreme volatility and disruption. A shortage of liquidity, lack of funding, pressure on capital and extreme price volatility across a wide range of asset classes are putting financial institutions under considerable pressure and, in certain cases, placing downward pressure on stock prices and credit availability for companies. NGG is not able to access capital at competitive rates, its ability to finance its operations and implement its strategy will be adversely affected.

NGG's results of operations could be affected by deflation
NGG's income under our price controls is linked to the retail price index. Therefore if the UK economy suffers from a prolonged period of deflation, our revenues may decrease, which may not be offset by reductions in operating costs.

Future funding requirements of pension schemes could adversely affect the results of NGG's operations.

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

New or revised accounting standards, rules and interpretations could have an adverse effect on NGG's. Changes in law and accounting standards could increase NGG's effective rate of tax.

The accounting treatment under International Financial Reporting Standards (IFRS), as adopted by the European Union, of, among other things, replacement expenditure, rate regulated entities, pension and post-retirement benefits, derivative financial instruments and commodity contracts, significantly affect the way NGG reports its financial position and results of operations. New or revised standards and interpretations may be issued which could have a significant impact on the financial results and financial position that NGG reports. The effective rate of tax of NGG may be influenced by a number of factors including changes in law and accounting standards, the results of which could increase that rate.

Customers and counterparties to transactions may fail to perform their obligations, or arrangements we have may be terminated, which could harm NGG's results of operations.

NGG's operations are exposed to the risk that customers and counterparties to transactions that owe money or commodities will not perform their obligations, which could cause us to incur additional costs.

Directors' Report

The information in this Directors' Report does not comprise a Directors' Report within the meaning of the Companies Acts, UK Listing Authority's Listing, Disclosure and Transparency Rules. 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 plc 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 2008
Paul Whittaker	Appointed June 2007
Adam Wiltshire	Appointed June 2006
Nick Winser	Appointed July 2003

The following also served as a Director during the period: 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 distribution and metering businesses, and their principal risks and uncertainties, is contained in the Operating and Financial Review on pages 2 to 27 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 Limited. The ultimate parent company of National Grid Gas plc is National Grid plc.

Dividends

During the year, an interim dividend of £300 million was paid (2008: two interim dividends totalling £500m). The Directors have not proposed a final dividend.

Donations

During 2008/09, some £2.7 million (2008: £3.0 million) was invested in support of community initiatives and relationships in the UK, including direct charitable donations of £0.5 million (2008: £0.4 million). No donations were made in the UK and EU for the purposes of the Political Parties, Elections and Referendums Act 2000.

Research and Development

Expenditure on research and development was £3.9 million during the year (2008: £2.1 million).

Financial instruments

Details on the use of financial instruments and financial risk management are included on pages 21 to 24 in the Operating and Financial Review.

Post balance sheet events

On 29 April 2009, the Competition Appeal Tribunal announced its decision not to uphold in full Ofgem's 2008 decision in relation to metering contracts. Further information is provided in the Operating and Financial Review on page 24.

Disability

Through National Grid's inclusion and diversity programme, NGG 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

NGG, 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.

NGG 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 NGG's policy to include in contracts or other agreements, terms of payment with suppliers. Once agreed, the NGG aims to abide by these terms of payment.

The average creditor payment period at 31 March 2009 was 16 days (2008: 22 days).

Audit information

Having made the requisite enquiries, so far as the Directors in office at the date of signing of this Report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

On behalf of the Board

S Humphreys Director, 29 July 2009

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 DN 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 NGG 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.

On behalf of the Board

S Humphreys Director, 29 July 2009

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 2009 on pages 36 to 99 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 Distribution Networks dated April 2009. 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 36 to 41.

Note 33 includes disclosure of the revenues and costs of de-minimis activities and other activities and note 34 includes disclosure of amounts charged to or from other businesses of National Grid plc or amounts determined by apportionment. The Condition requires these disclosures to be made to the Authority, but allows the Company to remove these disclosures from the information made available to the public as per paragraph 10 of the Condition.

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

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

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

The directors of the Company are responsible for preparing the regulatory accounting statements and for compliance with the Condition, as described on page 33.

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 the accounting policies and, in respect of each of its DN businesses, the metering business, the meter reading business, de-minimis activities 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 2009, 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 36 to 41, the state of affairs for the Company’s DN businesses, metering business, meter reading business, de-minimis activities and other activities at 31 March 2009 and the profit and cash flows of its DN businesses, metering business, meter reading 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

29 July 2009

1. The maintenance and integrity of the Company web site is the responsibility of the Directors and the maintenance and integrity of the Authority’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 2009 and in accordance with the Companies Act 1985 applicable to companies reporting under IFRS and Article 4 of the European Union IAS regulation. The 2008 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 activities in respect of the DNs carried out on a centralised basis, 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 NGG by National Grid are apportioned between the regulatory businesses using the same metrics as National Grid uses to determine the allocated charge to NGG. 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 Limited 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 have been 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. Other movements include a reallocation between regulatory businesses so that the final amounts allocated are prorated based on the maximum debt potential in each estimated regulatory business. The maximum debt potential for the combined DNs was determined using regulatory assets values at the balance sheet date.
- 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 NGG 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.

Outer Met Area

A geographical area on the boundary of the East of England DN and the London DN, the Outer Met Area, forms part of the London DN for managerial, operational and cost accounting purposes. For regulatory and income accounting purposes, the Outer Met Area is treated as part of the East of England DN. The relevant operating costs, assets and liabilities are reported in these regulatory accounting statements as part of the East of England DN.

The amounts of additions to the gas distribution network for the Outer Met Area are assessed by management based upon project information. Other amounts for the Outer Met Area, comprising transportation business operating costs, the overall balance of property, plant and equipment, other assets and related liabilities are deemed to be 9% of those amounts of London DN.

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

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, as well as the cost of any associated asset retirement obligations.

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

Depreciation periods	Years
Freehold and leasehold buildings	up to 50
Plant and machinery:	
– mains, services and regulating equipment	30 to 100
– meters and metering equipments	5 to 18
Motor vehicles and office equipment	3 to 10

Following a review of the useful economic lives of property, plant and equipment, the depreciation periods of certain assets within the Gas plant – mains, services and regulating equipment have been amended. This has resulted in a decrease in the depreciation charge and a corresponding increase in operating profit for the year ended 31 March 2009 of £43m.

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.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities arising from transfer pricing adjustments, which are expected to be fully recovered through group relief, are initially estimated and recognised in the current year where material. Further adjustments are recognised when tax returns are submitted to the tax authorities. In the prior year, current tax asset and liabilities arising from transfer pricing adjustments, which were expected to be fully recovered through group relief, were recognised when tax returns were submitted to the tax authorities.

Deferred tax

Deferred tax is provided using the balance sheet liability method and is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than a business combination) of assets and liabilities in a transaction that affects neither the accounting profits nor the taxable profits.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that is has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right exists to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and it is intended to settle current tax asset and liabilities on a net basis.

H. Inventories

Inventories, 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. Environmental costs

Provision is made for environmental costs, based on future estimated expenditures, discounted to present values. Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures are recognised in the income statement. The unwinding of the discount is included within the income statement as a financing charge.

J. Revenues

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

The sales value for the distribution 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.

The sales value for the provision of gas metering services is largely derived from monthly contractual charges for the provision of individual meters under long-term contractual arrangements.

K. 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.

L. 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.

M. 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.

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

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.

N. 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.

O. 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.

P. 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, impairment of assets, and site decommissioning 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.

Q. Other operating income

Other operating income primarily relates to profits or losses arising on the disposal of properties arranged by National Grid's property management business, which is considered to be part of normal recurring operating activities. Other operating income also comprises income from the sale of emission allowances and pension deficit recovery.

R. 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.

S. 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.

T. Dividends

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

U. Areas of judgement and key sources of estimation uncertainty

The preparation of 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 5.
- 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 K.
- Hedge accounting and derivative financial instruments – accounting policy N.

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 13, 16 and 18.
- Revenue recognition and assessment of unbilled revenue – accounting policy J.
- Environmental liabilities – note 22.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2008/09

During the year ended 31 March 2009, 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 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 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.
Amendment to IAS 39 Financial Instruments: Recognition and measurement and IFRS 7 financial instruments: Disclosures on reclassification of financial assets.	Permits reclassification of financial assets in certain circumstances.

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 achieves convergence with the US accounting standard, SFAS 131 'Disclosures about segments of an enterprise and related information' with minor differences. IFRS 8 has been adopted by the Company with effect from 1 April 2009.
IAS 23 revised 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. IAS 23 revised has been adopted by the Company with effect from 1 April 2009.
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 has been adopted by the Company with effect from 1 April 2009.
IAS 1 revised 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. IAS 1 revised has been adopted by the Company with effect from 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. IFRS 3R will be adopted by the Company on 1 April 2010, subject to endorsement by the European Union.
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. IAS 27R will be adopted by the Company on 1 April 2010, subject to endorsement by the European Union.
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. The amendment to IFRS 2 has been adopted by the Company with effect from 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 have been adopted by the company from 1 April 2009.
Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements of the cost of an investment in a subsidiary, Jointly Controlled Entity or Associate.	Permits investments to be recognised on first-time adoption of IFRS at cost or deemed cost (fair value of previous GAAP carrying amount) and removes the requirement to recognise dividends out of pre-acquisition profits as a reduction in the cost of investment. The amendments to IFRS 1 and IAS 27 have been adopted by the Company with effect from 1 April 2009.
Improvements to IFRS 2008	Contains amendments to various existing standards. The amendments are effective, in most cases, from 1 January 2009, or otherwise for annual periods beginning on or after 1 July 2009.

New IFRS accounting standards and interpretations not yet adopted (continued)

IFRIC 15 on agreements for the construction of real estate	Addresses the timing of revenue recognition for entities engaged in the construction of real estate for their customers. IFRIC 15 will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
IFRIC 16 on hedges of a net investment in a foreign operation.	Clarifies that a hedged risk may be designated at any level in a group and hedging instruments may be held by any company in a group (except the foreign entity being hedged), that net investment hedge accounting may not be adopted in respect of a presentational currency and that on disposal the amounts to be reclassified from equity to profit or loss are any cumulative gain or loss on the hedging instrument and the cumulative translation difference on the foreign operation disposed of. IFRIC 16 will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
Amendments to IAS 39 financial instruments: Recognition and measurement on eligible hedged items.	Prohibits designating inflation as a hedgeable component of an instrument, unless cash flows relating to the separate inflation component are contractual and also prohibits the designation of a purchased option in its entirety as the hedge of a one-sided risk in a forecast transaction. The amendment to IAS 39 will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.
Amendment to IAS 39 Financial Instruments: Recognition and measurement: Reclassification of Financial Assets: Effective Date and Transition.	Clarifies the effective date of the reclassification of financial assets. The amendment is effective under IFRS but has not yet been endorsed by the European Union and has therefore not been adopted by the Company. Adoption of the amendment would not have any impact on results or assets and liabilities.
Revised IFRS 1 on first-time adoption of IFRS	Changes the structure while retaining the substance, of the previously issued version of IFRS 1. The revised version of IFRS 1 will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.
IFRIC 17 on the distribution of non-cash assets to owners	Requires such a distribution to be measured at the fair value of the asset and any difference between the carrying amount of the asset and its fair value to be recognised in the profit or loss. IFRIC 17 will be adopted by the Company with effect from 1 April 2010.
IFRIC 18 on the transfer of asset from customers	Addresses arrangements whereby an entity receives items of property, plant or equipment or cash which the entity must use to connect customers to a network or provide access to a supply of goods or services, or both. IFRIC 18 will be adopted by the Company with effect from 1 July 2009, subject to endorsement by the European Union.
Amendment to IFRS 7 on improvising disclosures about financial instruments	Enhances disclosures about fair value and liquidity risk. The amendment will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
Amendments to IAS 39 and IFRIC 9 on embedded derivatives	Requires reassessments of whether an embedded derivative should be separated out if a financial asset is reclassified out of the fair value through profit or loss category. The amendment will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
Improvements to IFRS 2009	Contains amendments to various existing standards. The amendments will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.

Consolidated income statements

For the year ended 31 March	Notes	North West England DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Total revenue		**329**	**498**	**245**	**297**	**331**	**5**	**4**	**75**	**1,784**	312	470	243	269	320	19	6	69	1,708
Less inter-business revenue		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(22)**	**(22)**	-	-	-	-	-	(3)	-	(21)	(24)
Revenue		**329**	**498**	**245**	**297**	**331**	**5**	**4**	**53**	**1,762**	312	470	243	269	320	16	6	48	1,684
Other operating income	3	**-**	**-**	**-**	**2**	**-**	**-**	**-**	**-**	**2**	1	1	5	1	-	-	-	-	8
Operating costs	4	**(192)**	**(271)**	**(139)**	**(174)**	**(207)**	**(5)**	**(3)**	**(53)**	**(1,044)**	(183)	(259)	(134)	(169)	(225)	(12)	(6)	(42)	(1,030)
Operating profit																			
Before exceptional items		**155**	**244**	**116**	**138**	**124**	**-**	**1**	**-**	**778**	135	219	118	105	95	4	-	6	682
Exceptional items	5	**(18)**	**(17)**	**(10)**	**(13)**	**-**	**-**	**-**	**-**	**(58)**	(5)	(7)	(4)	(4)	-	-	-	-	(20)
Total operating profit		**137**	**227**	**106**	**125**	**124**	**-**	**1**	**-**	**720**	130	212	114	101	95	4	-	6	662
Interest income and similar income	7	**2**	**3**	**2**	**2**	**1**	**-**	**-**	**-**	**10**	2	3	2	2	1	-	-	-	10
Interest expense and other finance costs																			
Before exceptional items and remeasurements	7	**(55)**	**(82)**	**(40)**	**(45)**	**(36)**	**-**	**-**	**(1)**	**(259)**	(53)	(81)	(40)	(47)	(40)	-	-	-	(261)
Exceptional items and remeasurements	5, 7	**(1)**	**(1)**	**(1)**	**(1)**	**-**	**-**	**-**	**-**	**(4)**	3	5	2	3	3	-	-	-	16
Profit before taxation																			
Before exceptional items and remeasurements		**102**	**165**	**78**	**95**	**89**	**-**	**1**	**(1)**	**529**	84	141	80	60	56	4	-	6	431
Exceptional items and remeasurements		**(19)**	**(18)**	**(11)**	**(14)**	**-**	**-**	**-**	**-**	**(62)**	(2)	(2)	(2)	(1)	3	-	-	-	(4)
Total profit before taxation		**83**	**147**	**67**	**81**	**89**	**-**	**1**	**(1)**	**467**	82	139	78	59	59	4	-	6	427
Taxation																			
Before exceptional items and remeasurements	8	**(54)**	**(88)**	**(44)**	**(50)**	**(63)**	**-**	**-**	**(2)**	**(301)**	(31)	(63)	(31)	(24)	(31)	(1)	-	(1)	(182)
Exceptional items and remeasurements	5, 8	**2**	**1**	**1**	**1**	**-**	**-**	**-**	**-**	**5**	19	26	16	17	9	-	-	-	87
Total taxation		**(52)**	**(87)**	**(43)**	**(49)**	**(63)**	**-**	**-**	**(2)**	**(296)**	(12)	(37)	(15)	(7)	(22)	(1)	-	(1)	(95)
Profit for the year after taxation																			
Before exceptional items and remeasurements		**48**	**77**	**34**	**45**	**26**	**-**	**1**	**(3)**	**228**	53	78	49	36	25	3	-	5	249
Exceptional items and remeasurements		**(17)**	**(17)**	**(10)**	**(13)**	**-**	**-**	**-**	**-**	**(57)**	17	24	14	16	12	-	-	-	83
Profit for the year		**31**	**60**	**24**	**32**	**26**	**-**	**1**	**(3)**	**171**	70	102	63	52	37	3	-	5	332

The notes on pages 49 to 98 form part of these regulatory accounting statements.

Consolidated balance sheets

At 31 March	Notes	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m
Non-current assets										
Intangible assets	10	**10**	**16**	**8**	**9**	**5**	**-**	**-**	**2**	**50**
Property, plant and equipment	11	**1,435**	**2,011**	**1,146**	**1,378**	**674**	**-**	**-**	**7**	**6,651**
Other non-current assets	12	**730**	**1,183**	**595**	**657**	**858**	**-**	**-**	**-**	**4,023**
Derivative financial assets	13	**99**	**148**	**73**	**84**	**30**	**-**	**-**	**-**	**434**
Total non-current assets		**2,274**	**3,358**	**1,822**	**2,128**	**1,567**	**-**	**-**	**9**	**11,158**
Current assets										
Inventories	14	**5**	**6**	**3**	**6**	**-**	**-**	**-**	**-**	**20**
Trade and other receivables	15	**47**	**64**	**34**	**48**	**74**	**-**	**-**	**8**	**275**
Financial investments	16	**145**	**217**	**107**	**124**	**44**	**-**	**-**	**-**	**637**
Derivative financial assets	13	**29**	**44**	**22**	**25**	**9**	**-**	**-**	**-**	**129**
Cash and cash equivalents	17	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total current assets		**226**	**331**	**166**	**203**	**127**	**-**	**-**	**8**	**1,061**
Total assets		**2,500**	**3,689**	**1,988**	**2,331**	**1,694**	**-**	**-**	**17**	**12,219**
Current liabilities										
Borrowings	18	**(204)**	**(307)**	**(150)**	**(173)**	**(62)**	**-**	**-**	**-**	**(896)**
Derivative financial liabilities	13	**(10)**	**(14)**	**(7)**	**(8)**	**(3)**	**-**	**-**	**-**	**(42)**
Trade and other payables	19	**(89)**	**(149)**	**(75)**	**(111)**	**(120)**	**(1)**	**(2)**	**(8)**	**(555)**
Current tax liabilities		**(3)**	**(8)**	**(3)**	**(3)**	**(12)**	**-**	**-**	**-**	**(29)**
Provisions	22	**(6)**	**(6)**	**(3)**	**(6)**	**(7)**	**-**	**-**	**-**	**(28)**
Total current liabilities		**(312)**	**(484)**	**(238)**	**(301)**	**(204)**	**(1)**	**(2)**	**(8)**	**(1,550)**
Non-current liabilities										
Borrowings	18	**(1,042)**	**(1,569)**	**(766)**	**(886)**	**(315)**	**-**	**-**	**-**	**(4,578)**
Derivative financial liabilities	13	**(6)**	**(9)**	**(4)**	**(5)**	**(2)**	**-**	**-**	**-**	**(26)**
Other non-current liabilities	20	**(204)**	**(302)**	**(161)**	**(201)**	**(62)**	**-**	**-**	**(4)**	**(934)**
Deferred tax liabilities	21	**(288)**	**(388)**	**(231)**	**(267)**	**(127)**	**-**	**-**	**(4)**	**(1,305)**
Provisions	22	**(28)**	**(19)**	**(10)**	**(21)**	**(8)**	**-**	**-**	**-**	**(86)**
Total non-current liabilities		**(1,568)**	**(2,287)**	**(1,172)**	**(1,380)**	**(514)**	**-**	**-**	**(8)**	**(6,929)**
Total liabilities		**(1,880)**	**(2,771)**	**(1,410)**	**(1,681)**	**(718)**	**(1)**	**(2)**	**(16)**	**(8,479)**
Net assets/(liabilities)		**620**	**918**	**578**	**650**	**976**	**(1)**	**(2)**	**1**	**3,740**
Total equity	23	**620**	**918**	**578**	**650**	**976**	**(1)**	**(2)**	**1**	**3,740**

At 31 March	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Non-current assets									
Intangible assets	7	10	5	6	4	-	-	2	34
Property, plant and equipment	1,333	1,903	1,078	1,246	708	-	-	7	6,275
Other non-current assets	730	1,183	595	657	858	-	-	-	4,023
Derivative financial assets	17	26	13	13	12	-	-	-	81
Total non-current assets	2,087	3,122	1,691	1,922	1,582	-	-	9	10,413
Current assets									
Inventories	4	5	3	4	4	-	-	-	20
Trade and other receivables	42	59	32	37	51	2	1	11	235
Financial investments	63	95	47	51	43	-	-	1	300
Derivative financial assets	11	17	8	9	7	-	-	-	52
Cash and cash equivalents	1	1	-	1	-	-	-	-	3
Total current assets	121	177	90	102	105	2	1	12	610
Total assets	2,208	3,299	1,781	2,024	1,687	2	1	21	11,023
Current liabilities									
Borrowings	(157)	(235)	(116)	(127)	(106)	-	-	(3)	(744)
Derivative financial liabilities	(4)	(5)	(2)	(3)	(2)	-	-	-	(16)
Trade and other payables	(85)	(151)	(71)	(96)	(111)	(1)	(2)	(12)	(529)
Current tax liabilities	-	(4)	(1)	(1)	(8)	-	-	-	(14)
Provisions	(6)	(7)	(4)	(4)	(7)	-	-	-	(28)
Total current liabilities	(252)	(402)	(194)	(231)	(234)	(1)	(2)	(15)	(1,331)
Non-current liabilities									
Borrowings	(675)	(1,014)	(500)	(546)	(455)	(2)	-	(14)	(3,206)
Derivative financial liabilities	(10)	(15)	(8)	(8)	(7)	-	-	-	(48)
Other non-current liabilities	(198)	(293)	(158)	(189)	(59)	-	-	-	(897)
Deferred tax liabilities	(257)	(351)	(209)	(237)	(134)	-	-	(3)	(1,191)
Provisions	(22)	(15)	(6)	(17)	(5)	-	-	-	(65)
Total non-current liabilities	(1,162)	(1,688)	(881)	(997)	(660)	(2)	-	(17)	(5,407)
Total liabilities	(1,414)	(2,090)	(1,075)	(1,228)	(894)	(3)	(2)	(32)	(6,738)
Net assets/(liabilities)	794	1,209	706	796	793	(1)	(1)	(11)	4,285
Total equity	794	1,209	706	796	793	(1)	(1)	(11)	4,285

These regulatory accounting statements were approved by the Board of Directors of National Grid Gas plc on 29 July 2009 and signed on its behalf by:

Mark Fairbairn Director

Stuart Humphreys Director

Consolidated statement of recognised income and expense

For the year ended 31 March	Notes	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Net gains taken to equity in respect of cash flow hedges		**7**	**11**	**6**	**6**	**5**	**-**	**-**	**-**	**35**	2	3	1	2	1	-	-	-	9
Transferred to profit or loss on cash flow hedges		**(1)**	**(1)**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(3)**	-	1	-	-	-	-	-	-	1
Tax on items taken directly to or transferred from equity	8	**(2)**	**(3)**	**(2)**	**(2)**	**(1)**	**-**	**-**	**-**	**(10)**	-	(1)	-	-	-	-	-	-	(1)
Net income recognised directly in equity		**4**	**7**	**3**	**4**	**4**	**-**	**-**	**-**	**22**	2	3	1	2	1	-	-	-	9
Profit for the year		**31**	**60**	**24**	**32**	**26**	**-**	**1**	**(3)**	**171**	70	102	63	52	37	3	-	5	332
Total recognised income and expense for the year		**35**	**67**	**27**	**36**	**30**	**-**	**1**	**(3)**	**193**	72	105	64	54	38	3	-	5	341

Consolidated cash flow statements

For the year ended 31 March	Notes	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Cash flows from operating activities																			
Total operating profit		137	227	106	125	124	-	1	-	720	130	212	114	101	95	4	-	6	662
Adjustments for:																			
Exceptional items		18	17	10	13	-	-	-	-	58	5	7	4	4	-	-	-	-	20
Depreciation and amortisation		43	61	34	39	113	-	-	2	292	43	63	35	38	129	-	-	-	308
Profit on disposal of property, plant and equipment		-	-	-	(2)	-	-	-	-	(2)	-	-	-	-	-	-	-	-	-
Share-based payment charge		1	1	1	1	-	-	-	-	4	1	1	-	1	1	-	-	-	4
Changes in working capital		(24)	(50)	(20)	(9)	(54)	2	-	(1)	(156)	8	(1)	12	76	12	(2)	-	(5)	100
Changes in provisions		-	-	1	2	3	-	-	-	6	-	1	-	-	12	-	-	-	13
Cash flows relating to exceptional items		(12)	(15)	(8)	(10)	-	-	-	-	(45)	(5)	(7)	(3)	(4)	-	-	-	-	(19)
Cash generated from operations		163	241	124	159	186	2	1	1	877	182	276	162	216	249	2	-	1	1,088
Tax received / (paid)		(7)	(16)	(7)	(5)	(25)	-	-	(1)	(61)	(4)	(33)	(11)	(4)	(68)	(1)	-	-	(121)
Net cash inflow from operating activities		156	225	117	154	161	2	1	-	816	178	243	151	212	181	1	-	1	967
Cash flows from investing activities																			
Purchases of intangible assets		(5)	(9)	(4)	(4)	(1)	-	-	-	(23)	(4)	(6)	(3)	(4)	(3)	-	-	-	(20)
Purchases of property, plant and equipment		(132)	(155)	(90)	(153)	(88)	-	-	(1)	(619)	(141)	(165)	(100)	(118)	(87)	-	-	(6)	(617)
Disposals of property, plant and equipment		2	-	-	-	9	-	-	-	11	1	1	-	1	4	-	-	-	7
Interest received		3	4	1	3	1	-	-	-	12	2	3	1	2	1	-	-	-	9
Purchases of financial investments net of disposals		(82)	(123)	(60)	(72)	(1)	-	-	1	(337)	(14)	(19)	(9)	(6)	(4)	-	-	(1)	(53)
Net cash flow used in investing activities		(214)	(283)	(153)	(226)	(80)	-	-	-	(956)	(156)	(186)	(111)	(125)	(89)	-	-	(7)	(674)
Net cash flow from operating activities less cash flow used in investing activities		(58)	(58)	(36)	(72)	81	2	1	-	(140)	22	57	40	87	92	1	-	(6)	293

Consolidated cash flow statements

Cash flow statements continued

For the year ended 31 March	Notes	North West DN **2009** **£m**	East of England DN **2009** **£m**	West Midlands DN **2009** **£m**	North London DN **2009** **£m**	Metering **2009** **£m**	Meter Reading **2009** **£m**	De-minimis activities **2009** **£m**	Other activities **2009** **£m**	Total **2009** **£m**	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Cash flows from financing activities																			
Net increase/(decrease) in borrowings and derivatives (i)		**148**	**220**	**104**	**159**	**(10)**	**(1)**	**-**	**-**	**620**	61	64	31	(23)	(46)	2	-	11	100
Interest paid		**(39)**	**(59)**	**(29)**	**(32)**	**(26)**	**-**	**-**	**-**	**(185)**	(34)	(51)	(25)	(30)	(26)	-	-	-	(166)
Dividends paid to shareholders		**(52)**	**(105)**	**(40)**	**(56)**	**(45)**	**(1)**	**(1)**	**-**	**(300)**	(71)	(104)	(63)	(53)	(38)	(3)	-	(5)	(337)
Net cash flow (used in) / generated from financing activities		**57**	**56**	**35**	**71**	**(81)**	**(2)**	**(1)**	**-**	**135**	(44)	(91)	(57)	(106)	(110)	(1)	-	6	(403)
Net (decrease) / increase in cash and cash equivalents		**(1)**	**(2)**	**(1)**	**(1)**	**-**	**-**	**-**	**-**	**(5)**	(22)	(34)	(17)	(19)	(18)	-	-	-	(110)
Net cash and cash equivalents at start of the year (ii)		-	-	-	-	(1)	-	-	-	(1)	22	34	17	19	17	-	-	-	109
Net cash and cash equivalents at end of the year (ii)	17	**(1)**	**(2)**	**(1)**	**(1)**	**(1)**	**-**	**-**	**-**	**(6)**	-	-	-	-	(1)	-	-	-	(1)

(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 NTS regulatory accounting statements. Reconciliations between these regulatory accounting statements and the National Grid Gas plc Annual Report and Accounts 2008/09 are provided below. Copies of the National Grid Gas plc Annual Report and Accounts 2008/09 are available to download from www.nationalgrid.com/corporate/investor+relations/.

	These regulatory accounting statements **2009 £m**	NTS regulatory accounting statements **2009 £m**	Sold DNs **2009 £m**	Inter -business **2009 £m**	National Grid Gas annual report and accounts **2009 £m**	These regulatory accounting statements 2008 £m	NTS regulatory accounting statements 2008 £m	Sold DNs 2008 £m	Inter -business 2008 £m	National Grid Gas annual report and accounts 2008 £m
Income statements										
Revenue	**1,784**	**822**	-	**(32)**	**2,574**	1,708	772	-	(40)	2,440
Total operating profit	**720**	**47**	**-**	**-**	**767**	662	309	-	-	971
Net finance costs	**(253)**	**(154)**	**-**	**-**	**(407)**	(235)	(82)	-	-	(317)
Taxation	**(296)**	**(16)**	**-**	**-**	**(312)**	(95)	(66)	-	-	(161)
Profit for the year from discontinued operations	**-**	**-**	**-**	**-**	**-**	-	-	3	-	3
Profit for the year	**171**	**(123)**	**-**	**-**	**48**	332	161	3	-	496
Balance sheets										
Non-current assets	**11,158**	**5,577**	**-**	**-**	**16,735**	10,413	5,150	-	-	15,563
Current assets	**1,061**	**636**	**-**	**-**	**1,697**	610	399	-	-	1,009
Total assets	**12,219**	**6,213**	**-**	**-**	**18,432**	11,023	5,549	-	-	16,572
Current liabilities	**(1,550)**	**(828)**	**(9)**	**-**	**(2,387)**	(1,331)	(892)	(17)	-	(2,240)
Non-current liabilities	**(6,929)**	**(3,343)**	**(3)**	**-**	**(10,275)**	(5,407)	(2,945)	-	-	(8,352)
Total liabilities	**(8,479)**	**(4,171)**	**(12)**	**-**	**(12,662)**	(6,738)	(3,837)	(17)	-	(10,592)
Net assets/(liabilities)	**3,740**	**2,042**	**(12)**	**-**	**5,770**	4,285	1,712	(17)	-	5,980
Called up share capital					**45**					45
Share premium account					**204**					204
Retained earnings					**4,184**					4,434
Cash flow hedge reserve					**4**					(35)
Other reserves					**1,332**					1,332
Total shareholders' equity	**3,739**	**2,042**	**(12)**	**-**	**5,769**	4,285	1,712	(17)	-	5,980
Minority interest	**1**	**-**	**-**	**-**	**1**	-	-	-	-	-
Total equity	**3,740**	**2,042**	**(12)**	**-**	**5,770**	4,285	1,712	(17)	-	5,980
Cash flow statements										
Net cash inflow from operating activities	**816**	**123**	**(5)**	**-**	**934**	967	360	-	-	1,327
Net cash (used in)/from investing activities	**(956)**	**(491)**	**-**	**-**	**(1,447)**	(674)	(918)	(1)	-	(1,593)
Net cash from/(used) in financing activities	**135**	**364**	**5**	**-**	**504**	(403)	499	1	-	97
Net decrease in cash and cash equivalents	**(5)**	**(4)**	**-**	**-**	**(9)**	(110)	(59)	-	-	(169)
Net cash and cash equivalents at start of year	**(1)**	**-**	**-**	**-**	**(1)**	109	59	-	-	168
Net cash and cash equivalents at end of year	**(6)**	**(4)**	**-**	**-**	**(10)**	(1)	-	-	-	(1)

Notes to the regulatory accounting statements

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. Metering business

The following table provides an analysis of the values of metering services provided in the geographical area of each DN owned by National Grid Gas, pursuant to Standard Special Condition A10 of National Grid Gas's gas transporter licences.

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Other (i) 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Other (i) 2008 £m	Total 2008 £m
Revenue	**12**	**18**	**10**	**14**	**275**	**329**	11	15	10	14	270	320

(i) Other comprises metering services provided other than in accordance with Standard Special Condition A10 or within the geographical areas of DNs which are not reported within these regulatory accounting statements.

3. Other operating income

Other operating income includes income on disposal of properties as a result of property management activities.

4. Operating costs

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Before exceptional items																		
Depreciation of property, plant and equipment	**41**	**58**	**33**	**38**	**113**	**-**	**-**	**2**	**285**	42	61	34	37	129	-	-	-	303
Amortisation of intangible assets	**2**	**3**	**1**	**1**	**-**	**-**	**-**	**-**	**7**	1	2	1	1	-	-	-	-	5
Payroll costs	**44**	**58**	**31**	**41**	**14**	**-**	**1**	**22**	**211**	40	56	30	43	17	1	-	21	208
Other operating charges:																		
Purchases of gas	**8**	**10**	**6**	**5**	**-**	**-**	**-**	**-**	**29**	7	9	5	4	-	-	-	-	25
Rates	**33**	**66**	**26**	**32**	**-**	**-**	**-**	**-**	**157**	32	64	25	31	-	-	-	-	152
Other	**46**	**59**	**32**	**44**	**80**	**5**	**2**	**29**	**297**	56	60	35	49	79	11	6	21	317
	174	**254**	**129**	**161**	**207**	**5**	**3**	**53**	**986**	178	252	130	165	225	12	6	42	1,010
Exceptional items																		
Payroll costs	**3**	**3**	**1**	**2**	**-**	**-**	**-**	**-**	**9**	4	6	3	3	-	-	-	-	16
Other operating charges:																		
Other	**15**	**14**	**9**	**11**	**-**	**-**	**-**	**-**	**49**	1	1	1	1	-	-	-	-	4
	18	**17**	**10**	**13**	**-**	**-**	**-**	**-**	**58**	5	7	4	4	-	-	-	-	20
Total																		
Depreciation of property, plant and equipment	**41**	**58**	**33**	**38**	**113**	**-**	**-**	**2**	**285**	42	61	34	37	129	-	-	-	303
Amortisation of intangible assets	**2**	**3**	**1**	**1**	**-**	**-**	**-**	**-**	**7**	1	2	1	1	-	-	-	-	5
Payroll costs	**47**	**61**	**32**	**43**	**14**	**-**	**1**	**22**	**220**	44	62	33	46	17	1	-	21	224
Other operating charges:																		
Purchases of gas	**8**	**10**	**6**	**5**	**-**	**-**	**-**	**-**	**29**	7	9	5	4	-	-	-	-	25
Rates	**33**	**66**	**26**	**32**	**-**	**-**	**-**	**-**	**157**	32	64	25	31	-	-	-	-	152
Other	**61**	**73**	**41**	**55**	**80**	**5**	**2**	**29**	**346**	57	61	36	50	79	11	6	21	321
	192	**271**	**139**	**174**	**207**	**5**	**3**	**53**	**1,044**	183	259	134	169	225	12	6	42	1,030
Operating costs include:																		
Consumption of inventories	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	1	1	1	1	-	-	-	-	4
Research expenditure	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	-	1	-	-	-	-	-	-	1
Operating lease rentals:																		
Plant and machinery	**1**	**1**	**1**	**1**	**-**	**-**	**-**	**-**	**4**	1	1	1	1	-	-	-	-	4
Other	**2**	**3**	**1**	**2**	**1**	**-**	**-**	**-**	**9**	2	3	1	2	1	-	-	-	9

4. Operating costs continued

a) Payroll costs

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Wages and salaries	**47**	**63**	**32**	**40**	**10**	**-**	**1**	**18**	**211**	43	57	32	42	12	1	-	15	202
Social security costs	**4**	**5**	**3**	**4**	**1**	**-**	**-**	**1**	**18**	3	5	3	3	1	-	-	2	17
Pension costs	**10**	**13**	**7**	**9**	**2**	**-**	**-**	**3**	**44**	12	17	9	11	3	-	-	4	56
Share-based payments	**1**	**1**	**1**	**1**	**-**	**-**	**-**	**-**	**4**	1	2	1	1	-	-	-	-	5
Severance costs	**1**	**1**	**-**	**-**	**1**	**-**	**-**	**-**	**3**	2	3	1	1	1	-	-	-	8
	63	**83**	**43**	**54**	**14**	**-**	**1**	**22**	**280**	61	84	46	58	17	1	-	21	288
Less: amounts capitalised	**(16)**	**(22)**	**(11)**	**(11)**	**-**	**-**	**-**	**-**	**(60)**	(17)	(22)	(13)	(12)	-	-	-	-	(64)
	47	**61**	**32**	**43**	**14**	**-**	**1**	**22**	**220**	44	62	33	46	17	1	-	21	224

b) Average number of employees

	North West DN 2009	East of England DN 2009	West Midlands DN 2009	North London DN 2009	Metering 2009	Meter Reading 2009	De-minimis activities 2009	Other activities 2009	Total 2009	North West DN 2008	East of England DN 2008	West Midlands DN 2008	North London DN 2008	Metering 2008	Meter Reading 2008	De-minimis activities 2008	Other activities 2008	Total 2008
United Kingdom	**1,200**	**1,623**	**846**	**1,055**	**268**	**5**	**33**	**421**	**5,451**	1,156	1,544	865	1,089	310	21	16	400	5,401

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 2009 £m	Total 2008 £m
Salaries and short-term employee benefits	**1**	1
Post-employment benefits	**1**	1
Share based payments	**-**	-
	2	2

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

4. Operating costs continued

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 can be found in its annual report and accounts.

e) Auditors' remuneration

Auditors' remuneration for NGG and its subsidiaries amounted to £0.3m (2008: £0.5m) for audit of the parent company, and its consolidated financial statements and £0.2m (2008: £0.7m) 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). The comparatives have been restated to present items on a basis consistent with the current year classification.

5. Exceptional items and remeasurements

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Exceptional items – restructuring costs (i)	**(9)**	**(9)**	**(6)**	**(6)**	**-**	**-**	**-**	**-**	**(30)**	(5)	(7)	(4)	(4)	-	-	-	-	(20)
Exceptional items – environmental provisions (ii)	**(5)**	**(3)**	**(1)**	**(4)**	**-**	**-**	**-**	**-**	**(13)**	-	-	-	-	-	-	-	-	-
Pension deficit charges (iii)	**(4)**	**(5)**	**(3)**	**(3)**	**-**	**-**	**-**	**-**	**(15)**	-	-	-	-	-	-	-	-	-
Total exceptional items included within operating profit	**(18)**	**(17)**	**(10)**	**(13)**	**-**	**-**	**-**	**-**	**(58)**	(5)	(7)	(4)	(4)	-	-	-	-	(20)
Remeasurements – (losses)/gains on derivative financial instruments (iv)	**(1)**	**(1)**	**(1)**	**(1)**	**-**	**-**	**-**	**-**	**(4)**	3	5	2	3	3	-	-	-	16
Total exceptional items and remeasurements included within finance costs	**(1)**	**(1)**	**(1)**	**(1)**	**-**	**-**	**-**	**-**	**(4)**	3	5	2	3	3	-	-	-	16
Total exceptional items and remeasurements before taxation	**(19)**	**(18)**	**(11)**	**(14)**	**-**	**-**	**-**	**-**	**(62)**	(2)	(2)	(2)	(1)	3	-	-	-	(4)
Exceptional tax item – deferred tax credit arising from reduction in UK tax rate (v)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	19	25	15	17	10	-	-	-	86
Exceptional tax item – Deferred tax charge arising from changes in IBAs regime (vi)	**(2)**	**(4)**	**(2)**	**(2)**	**-**	**-**	**-**	**-**	**(10)**	-	-	-	-	-	-	-	-	-
Tax on exceptional items – restructuring costs (i)	**3**	**3**	**2**	**2**	**-**	**-**	**-**	**-**	**10**	1	2	1	1	-	-	-	-	5
Tax on pension deficit charges (ii)	**1**	**2**	**1**	**1**	**-**	**-**	**-**	**-**	**5**	-	-	-	-	-	-	-	-	-
Tax on remeasurements – derivative financial instrument (iv)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(1)	(1)	-	(1)	(1)	-	-	-	(4)
Tax on exceptional items and remeasurements	**2**	**1**	**1**	**1**	**-**	**-**	**-**	**-**	**5**	19	26	16	17	9	-	-	-	87
Total exceptional items and remeasurements after taxation	**(17)**	**(17)**	**(10)**	**(13)**	**-**	**-**	**-**	**-**	**(57)**	17	24	14	16	12	-	-	-	83

5. Exceptional items and remeasurements continued

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Total exceptional items after taxation	**(16)**	**(16)**	**(9)**	**(12)**	**-**	**-**	**-**	**-**	**(53)**	15	20	12	14	10	-	-	-	71
Total derivative financial instrument remeasurements after taxation	**(1)**	**(1)**	**(1)**	**(1)**	**-**	**-**	**-**	**-**	**(4)**	2	4	2	2	2	-	-	-	12
Total exceptional items and remeasurements	**(17)**	**(17)**	**(10)**	**(13)**	**-**	**-**	**-**	**-**	**(57)**	17	24	14	16	12	-	-	-	83

(i) Restructuring costs relate to planned cost reduction programmes. These included pension curtailment costs arising as a result of redundancies of £8m (2008: £9m), and other business reorganisation costs.

(ii) Environmental provision related charges include £5m due to movements in discount rates arising from reductions in market risk free rates due to the current economic conditions together with £8m arising from changes in landfill tax legislation in the UK.

(iii) Pension deficit charges arise from recovery plan contributions to the National Grid UK Pension Scheme.

(iv) 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.

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

(vi) The exceptional tax charge in the period arose from changes to the industrial building allowances (IBA) in the 2008 Finance Act. This resulted in an increase in deferred tax liabilities.

6. 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 27.

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.

	2009 £m	2008 £m
Amounts recognised in the consolidated balance sheet of National Grid plc		
Present value of fund obligations	**(10,771)**	(11,814)
Fair value of plan assets	**11,040**	12,660
	269	846
Present value of unfunded obligations	**(15)**	(17)
Asset in the balance sheet	**254**	829

6. Pensions continued

	2009 £m	2008 £m
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation (including unfunded obligations)	**11,831**	12,828
Current service cost	**47**	60
Interest cost	**762**	677
Actuarial gains	**(1,244)**	(1,134)
Curtailment gains on redundancies	**(3)**	(1)
Curtailment gain on sale of business	**-**	(12)
Special termination benefits	**11**	4
Curtailment cost – augmentations	**5**	11
Employee contributions	**7**	9
Benefits paid (including unfunded obligations)	**(630)**	(611)
Closing defined benefit obligation (including unfunded obligations)	**10,786**	11,831

	2009 £m	2008 £m
Changes in the fair value of plan assets		
Opening fair value of plan assets	**12,660**	12,865
Expected return on plan assets	**(1,356)**	760
Actuarial gains/(losses)	**-**	(550)
Employer contributions	**373**	200
Employee contributions	**7**	9
Benefits paid	**(630)**	(611)
Expenses paid	**(14)**	(13)
Closing fair value of plan assets	**11,040**	12,660
Expected contributions to defined benefit plans in the following year	**120**	311

7. Finance income and costs

	North West DN **2009** **£m**	East of England DN **2009** **£m**	West Midlands DN **2009** **£m**	North London DN **2009** **£m**	Metering **2009** **£m**	Meter Reading **2009** **£m**	De-minimis activities **2009** **£m**	Other activities **2009** **£m**	Total **2009** **£m**	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Interest income on financial instruments (i)	**2**	**3**	**2**	**2**	**1**	**-**	**-**	**-**	**10**	2	3	2	2	1	-	-	-	10
Interest income and similar income	**2**	**3**	**2**	**2**	**1**	**-**	**-**	**-**	**10**	2	3	2	2	1	-	-	-	10
Interest expense on financial liabilities held at amortised cost (ii)	**(54)**	**(82)**	**(40)**	**(44)**	**(37)**	**-**	**-**	**(1)**	**(258)**	(48)	(76)	(37)	(44)	(39)	-	-	-	(244)
Interest on derivatives	**1**	**1**	**1**	**1**	**1**	**-**	**-**	**-**	**5**	(2)	(3)	(2)	(2)	(1)	-	-	-	(10)
Other interest	**(1)**	**(1)**	**(1)**	**(1)**	**-**	**-**	**-**	**-**	**(4)**	(2)	(2)	(1)	(2)	-	-	-	-	(7)
Unwinding of discount on provisions	**(1)**	**(1)**	**-**	**(1)**	**-**	**-**	**-**	**-**	**(3)**	(1)	-	-	-	-	-	-	-	(1)
Less: interest capitalised (iii)	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	-	-	-	1	-	-	-	-	1
Interest expense	**(55)**	**(82)**	**(40)**	**(45)**	**(36)**	**-**	**-**	**(1)**	**(259)**	(53)	(81)	(40)	(47)	(40)	-	-	-	(261)
Net gains on derivative financial instruments included in remeasurements:																		
Ineffectiveness on designated fair value hedges (iv)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	1	1	-	1	1	-	-	-	4
Ineffectiveness on designated cash flow hedges	**(1)**	**(1)**	**(1)**	**(1)**	**-**	**-**	**-**	**-**	**(4)**	1	1	-	-	-	-	-	-	2
On derivatives not designated as hedges or ineligible for hedge accounting	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	1	3	2	2	2	-	-	-	10
Net (losses)/gains on derivative financial instruments included in remeasurements (v)	**(1)**	**(1)**	**(1)**	**(1)**	**-**	**-**	**-**	**-**	**(4)**	3	5	2	3	3	-	-	-	16
Interest expense and other finance costs	**(56)**	**(83)**	**(41)**	**(46)**	**(36)**	**-**	**-**	**(1)**	**(263)**	(50)	(76)	(38)	(44)	(37)	-	-	-	(245)
Net finance costs	**(54)**	**(80)**	**(39)**	**(44)**	**(35)**	**-**	**-**	**(1)**	**(253)**	(48)	(73)	(36)	(42)	(36)	-	-	-	(235)

7. Finance income and costs continued

Net finance costs comprise:

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Interest income and similar income	**2**	**3**	**2**	**2**	**1**	**-**	**-**	**-**	**10**	2	3	2	2	1	-	-	-	10
Interest expense and other finance costs:																		
Before exceptional items and remeasurements	**(55)**	**(82)**	**(40)**	**(45)**	**(36)**	**-**	**-**	**(1)**	**(259)**	(53)	(81)	(40)	(47)	(40)	-	-	-	(261)
Exceptional items and remeasurements	**(1)**	**(1)**	**(1)**	**(1)**	**-**	**-**	**-**	**-**	**(4)**	3	5	2	3	3	-	-	-	16
	(54)	**(80)**	**(39)**	**(44)**	**(35)**	**-**	**-**	**(1)**	**(253)**	(48)	(73)	(36)	(42)	(36)	-	-	-	(235)

(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 6.2% (2008: 6.4%).

(iv) Derivative net gains on fair value hedges includes a net gain on the hedging instruments of £155m (2008: £30m) offset by a net loss of £155m (2008: £26m) 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 £242m (2008: £52m). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

8. Taxation

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

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m
Before exceptional items and remeasurements									
United Kingdom									
Corporation tax at 28% (2008: 30%)	14	36	14	11	56	-	-	1	132
Adjustment in respect of prior years	14	22	12	13	15	-	-	-	76
	28	58	26	24	71	-	-	1	208
Deferred tax	25	30	18	27	(15)	1	-	-	86
Deferred tax adjustment in respect of prior years	1	-	-	(1)	7	(1)	-	1	7
	26	30	18	26	(8)	-	-	1	93
Overseas									
Corporate tax adjustment in respect of prior years	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	54	88	44	50	63	-	-	2	301
Exceptional items and remeasurements									
United Kingdom									
Corporation tax at 28% (2008: 30%)	(4)	(5)	(3)	(3)	-	-	-	-	(15)
	(4)	(5)	(3)	(3)	-	-	-	-	(15)
Deferred tax credit arising from reduction in UK tax rates	-	-	-	-	-	-	-	-	-
Deferred tax	2	4	2	2	-	-	-	-	10
	2	4	2	2	-	-	-	-	10
Overseas									
Corporate tax	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	(2)	(1)	(1)	(1)	-	-	-	-	(5)

	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Before exceptional items and remeasurements									
United Kingdom									
Corporation tax at 28% (2008: 30%)	(6)	10	3	(4)	32	1	-	-	36
Adjustment in respect of prior years	12	19	10	11	11	-	-	-	63
	6	29	13	7	43	1	-	-	99
Deferred tax	22	31	16	15	(19)	-	-	1	66
Deferred tax adjustment in respect of prior years	3	3	2	2	7	-	-	-	17
	25	34	18	17	(12)	-	-	1	83
Overseas									
Corporate tax adjustment in respect of prior years	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	31	63	31	24	31	1	-	1	182
Exceptional items and remeasurements									
United Kingdom									
Corporation tax at 28% (2008: 30%)	1	-	-	1	1	-	-	-	3
	1	-	-	1	1	-	-	-	3
Deferred tax credit arising from reduction in UK tax rates	(19)	(25)	(15)	(17)	(10)	-	-	-	(86)
Deferred tax	-	-	-	-	-	-	-	-	-
	(19)	(25)	(15)	(17)	(10)	-	-	-	(86)
Overseas									
Corporate tax	(1)	(1)	(1)	(1)	-	-	-	-	(4)
	(1)	(1)	(1)	(1)	-	-	-	-	(4)
	(19)	(26)	(16)	(17)	(9)	-	-	-	(87)

8. Taxation continued

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Total																		
United Kingdom																		
Corporation tax at 28% (2008: 30%)	10	31	11	8	56	-	-	1	117	(5)	10	3	(3)	33	1	-	-	39
Adjustment in respect of prior years	14	22	12	13	15	-	-	-	76	12	19	10	11	11	-	-	-	63
	24	53	23	21	71	-	-	1	193	7	29	13	8	44	1	-	-	102
Deferred tax	27	34	20	29	(15)	1	-	-	96	22	31	16	15	(19)	-	-	1	66
Deferred tax credit arising from reduction in UK tax rates	-	-	-	-	-	-	-	-	-	(19)	(25)	(15)	(17)	(10)	-	-	-	(86)
Deferred tax adjustment in respect of prior years	1	-	-	(1)	7	(1)	-	1	7	3	3	2	2	7	-	-	-	17
	28	34	20	28	(8)	-	-	1	103	6	9	3	-	(22)	-	-	1	(3)
Overseas																		
Corporate tax	-	-	-	-	-	-	-	-	-	(1)	(1)	(1)	(1)	-	-	-	-	(4)
Corporate tax adjustment in respect of prior years	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	(1)	(1)	(1)	(1)	-	-	-	-	(4)
Total tax charge	52	87	43	49	63	-	-	2	296	12	37	15	7	22	1	-	1	95

Taxation on items charged/(credited) to equity

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Deferred tax charge on revaluation of cash flow hedges	2	3	1	1	1	-	-	-	8	-	1	-	-	-	-	-	-	1
Tax charge recognised in consolidated statement of recognised income and expense	2	3	1	1	1	-	-	-	8	-	1	-	-	-	-	-	-	1
Deferred tax charge/(credit) on share-based payments	-	-	1	1	-	-	-	-	2	1	1	1	1	-	-	-	-	4
Corporate tax credit on share-based payments	-	-	-	-		-	-	-	-	-	(1)	(1)	(1)	-	-	-	-	(3)
	2	3	2	2	1	-	-	-	10	1	1	-	-	-	-	-	-	2

8. Taxation continued

The overall tax charge for the year is higher (2008: lower) than the standard rate of corporation tax in the UK of 28% (2008: 30%). The differences are explained below:

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Before exceptional items and remeasurements																		
Profit before taxation before exceptional items and remeasurements	**102**	**165**	**78**	**95**	**89**	**-**	**1**	**(1)**	**529**	84	141	80	60	56	4	-	6	431
Multiplied by UK corporation tax rate of 28% (2008: 30%)	**29**	**46**	**21**	**27**	**25**	**-**	**-**	**-**	**148**	25	43	24	18	17	1	-	2	130
Effects of:																		
Adjustments in respect of previous years	**15**	**22**	**12**	**12**	**22**	**(1)**	**-**	**1**	**83**	15	22	12	13	18	-	-	-	80
Expenses not deductible for tax purposes	**1**	**1**	**1**	**1**	**1**	**-**	**-**	**-**	**5**	1	1	-	1	1	-	-	-	4
Non-taxable income	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**	(1)	(1)	-	(1)	-	-	-	-	(3)
Impact of employee share schemes	**1**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	-	1	-	-	-	-	-	-	1
Change in transfer pricing basis (i)	**12**	**19**	**10**	**10**	**14**	**-**	**-**	**-**	**65**	-	-	-	-	-	-	-	-	-
Other	**(4)**	**(1)**	**1**	**-**	**1**	**1**	**-**	**1**	**(1)**	(9)	(3)	(5)	(7)	(5)	-	-	(1)	(30)
Total taxation before exceptional items and remeasurements	**54**	**88**	**44**	**50**	**63**	**-**	**-**	**2**	**301**	31	63	31	24	31	1	-	1	182
At the effective income tax rate(ii)	**53%**	**53%**	**56%**	**53%**	**71%**	**-**	**-**	**-**	**57%** .	37%	45%	39%	40%	55%	25%	-	17%	42%

8. Taxation continued

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Total																		
Profit before taxation	**83**	**147**	**67**	**81**	**89**	**-**	**1**	**(1)**	**467**	82	139	78	59	59	4	-	6	427
Multiplied by UK corporation tax rate of 28% (2008: 30%)	**24**	**41**	**18**	**23**	**25**	**-**	**-**	**-**	**131**	25	42	23	17	18	1	-	2	128
Effects of:																		
Adjustments in respect of previous years	**15**	**22**	**12**	**12**	**22**	**(1)**	**-**	**1**	**83**	15	22	12	13	18	-	-	-	80
Expenses not deductible for tax purposes	**1**	**1**	**1**	**1**	**1**	**-**	**-**	**-**	**5**	1	1	1	1	1	-	-	-	5
Non-taxable income	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**	(1)	(1)	-	(1)	-	-	-	-	(3)
Adjustment in respect of foreign tax rates	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	(1)	-	-	-	-	-	-	(1)
Impact of employee share schemes	**1**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	-	1	-	-	-	-	-	-	1
Remeasurement of deferred tax – change in UK tax rate	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(19)	(25)	(15)	(17)	(10)	-	-	-	(86)
Change in transfer pricing basis (i)	**12**	**19**	**10**	**10**	**14**	**-**	**-**	**-**	**65**	-	-	-	-	-				
Other	**(1)**	**3**	**3**	**3**	**(1)**	**1**	**-**	**1**	**11**	(9)	(2)	(6)	(6)	(5)	-	-	(1)	(29)
Total taxation	**52**	**87**	**43**	**49**	**63**	**-**	**-**	**2**	**296**	12	37	15	7	22	1	-	1	95
At the effective income tax rate(ii)	**63%**	**59%**	**64%**	**60%**	**71%**	**-**	**-**	**-**	**63%**	15%	27%	19%	12%	37%	25%	-	17%	22%

(i) See Accounting Policy note G on page 38.

(ii) The total allocated tax charge in the year for 'other activities' arises solely from an allocation of other tax items. As a result, an effective tax rate for other activities before and after exceptional items and remeasurements has not been presented.

Factors that may affect future tax charges

A number of changes to the UK Corporation Tax system were announced in the April 2009 Budget Statement which are expected to be enacted in the Finance Act 2009.

The changes include temporary changes to the capital allowances regime and the introduction of a system for taxing foreign profits, which is expected to bring in a dividend exemption and a worldwide debt cap.

The dividend exemption is likely to be available for both UK and foreign distributions, falling within an exempt classification, received on or after 1 July 2009. This is not expected to have a material effect on our future tax charge.

The worldwide debt cap is likely to restrict the amount of finance expense available for UK tax purposes, based on the consolidated finance expense, and is expected to apply for the accounting period ended 31 March 2011 onwards. We are in the process of evaluating the impact the worldwide debt cap will have on our future tax charge.

These changes have not been substantively enacted at the balance sheet date and therefore any effects on the tax charge have not been included in these financial statements.

9. 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:

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Ordinary dividends																		
Interim dividend for 2009	**52**	**105**	**40**	**56**	**45**	**1**	**1**	**-**	**300**	-	-	-	-	-	-	-	-	-
First interim dividend for 2008	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	43	62	38	32	22	2	-	3	202
Second interim dividend for 2008	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	28	42	25	21	16	1	-	2	135
	52	**105**	**40**	**56**	**45**	**1**	**1**	**-**	**300**	71	104	63	53	38	3	-	5	337

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.

10. Intangible assets

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Non-current																		
Cost at 1 April	14	21	10	12	5	1	-	2	65	10	15	7	8	2	1	-	2	45
Additions	5	9	4	4	1	-	-	-	23	4	6	3	4	3	-	-	-	20
Disposals	(2)	(3)	(1)	(1)	-	-	-	-	(7)									
Cost at 31 March	17	27	13	15	6	1	-	2	81	14	21	10	12	5	1	-	2	65
Amortisation at 1 April	(7)	(11)	(5)	(6)	(1)	(1)	-	-	(31)	(6)	(9)	(4)	(5)	(1)	(1)	-	-	(26)
Amortisation charge for the year	(2)	(3)	(1)	(1)	-	-	-	-	(7)	(1)	(2)	(1)	(1)	-	-	-	-	(5)
Disposals	2	3	1	1	-	-	-	-	7									
Amortisation at 31 March	(7)	(11)	(5)	(6)	(1)	(1)	-	-	(31)	(7)	(11)	(5)	(6)	(1)	(1)	-	-	(31)
Net book value at 31 March	**10**	**16**	**8**	**9**	**5**	**-**	**-**	**2**	**50**	7	10	5	6	4	-	-	2	34

Intangible assets principally comprise software.

11. Property, plant and equipment

Land and buildings

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Cost at 1 April	15	23	10	9	1	-	-	-	58	13	19	7	7	1	-	-	-	47
Additions	1	1	-	-	-	-	-	-	2	3	4	2	2	-	-	-	-	11
Disposals	-	-	-	-	-	-	-	-	-	(2)	-	-	-	-	-	-	-	(2)
Reclassifications and transfers	(2)	(3)	(1)	-	-	-	-	-	(6)	1	-	1	-	-	-	-	-	2
Cost at 31 March	14	21	9	9	1	-	-	-	54	15	23	10	9	1	-	-	-	58
Depreciation at 1 April	(4)	(6)	(3)	(2)	-	-	-	-	(15)	(4)	(5)	(2)	(2)	-	-	-	-	(13)
Charge for the year	(1)	(2)	(1)	(1)	-	-	-	-	(5)	(1)	(1)	(1)	-	-	-	-	-	(3)
Disposals	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	1
Reclassifications and transfers	-	1	1	-	-	-	-	-	2	-	-	-	-	-	-	-	-	-
Depreciation at 31 March	(5)	(7)	(3)	(3)	-	-	-	-	(18)	(4)	(6)	(3)	(2)	-	-	-	-	(15)
Net book value at 31 March	**9**	**14**	**6**	**6**	**1**	**-**	**-**	**-**	**36**	11	17	7	7	1	-	-	-	43
Which comprises:																		
Freehold	**6**	**10**	**4**	**3**	**1**	**-**	**-**	**-**	**24**	6	9	4	3	1	-	-	-	23
Short leasehold	**3**	**5**	**1**	**3**	**-**	**-**	**-**	**-**	**12**	5	8	3	4	-	-	-	-	20
	9	**15**	**5**	**6**	**1**	**-**	**-**	**-**	**36**	11	17	7	7	1	-	-	-	43

Plant and machinery

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Cost at 1 April	1,784	2,627	1,442	1,661	1,854	-	-	-	9,368	1,670	2,487	1,355	1,553	1800	-	-	-	8,865
Additions	130	157	91	159	89	-	-	-	626	121	137	84	97	71	-	-	-	510
Disposals	-	-	-	-	(13)	-	-	-	(13)	(1)	(2)	(2)	(1)	(6)	-	-	-	(12)
Reclassifications and transfers	2	5	1	4	-	-	-	-	12	(6)	5	5	12	(11)	-	-	-	5
Cost at 31 March	1,916	2,789	1,534	1,824	1,930	-	-	-	9,993	1,784	2,627	1,442	1,661	1,854	-	-	-	9,368
Depreciation at 1 April	(491)	(782)	(391)	(454)	(1,152)	-	-	-	(3,270)	(456)	(731)	(362)	(423)	(1,034)	-	-	-	(3,006)
Charge for the year	(31)	(43)	(26)	(30)	(113)	-	-	-	(243)	(33)	(49)	(28)	(32)	(127)	-	-	-	(269)
Disposals	-	-	-	-	4	-	-	-	4	1	2	2	1	2	-	-	-	8
Reclassifications and transfers	(1)	(5)	1	-	4	-	-	-	(1)	(3)	(4)	(3)	-	7	-	-	-	(3)
Depreciation at 31 March	(523)	(830)	(416)	(484)	(1,257)	-	-	-	(3,510)	(491)	(782)	(391)	(454)	(1,152)	-	-	-	(3,270)
Net book value at 31 March	**1,393**	**1,959**	**1,118**	**1,340**	**673**	**-**	**-**	**-**	**6,483**	1,293	1,845	1,051	1,207	702	-	-	-	6,098

11. Property, plant and equipment continued

Assets in the course of construction

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Cost at 1 April	2	3	2	12	2	-	-	-	21	3	4	2	9	-	-	-	-	18
Additions	1	2	1	1	-	-	-	-	5	3	5	3	7	2	-	-	-	20
Reclassifications and transfers	-	(2)	(1)	(1)	(2)	-	-	-	(6)	(4)	(6)	(3)	(4)	-	-	-	-	(17)
Cost at 31 March	3	3	2	12	-	-	-	-	20	2	3	2	12	2	-	-	-	21
Net book value at 31 March	**3**	**3**	**2**	**12**	**-**	**-**	**-**	**-**	**20**	2	3	2	12	2	-	-	-	21

Motor vehicles and office equipment

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Cost at 1 April	106	143	69	69	42	-	-	7	436	102	134	59	66	43	-	-	1	405
Additions	11	10	6	5	-	-	-	3	35	6	9	5	5	-	-	-	6	31
Disposals	(3)	-	-	-	-	-	-	-	(3)	(4)	(6)	2	(3)	-	-	-	-	(11)
Reclassifications and transfers	23	34	19	17	(42)	-	-	(1)	50	2	6	3	1	(1)	-	-	-	11
Cost at 31 March	137	187	94	91	-	-	-	9	518	106	143	69	69	42	-	-	7	436
Depreciation at 1 April	(79)	(105)	(51)	(49)	(39)	-	-	-	(323)	(76)	(99)	(44)	(49)	(37)	-	-	-	(305)
Charge for the year	(9)	(13)	(6)	(7)	-	-	-	(2)	(37)	(8)	(11)	(5)	(5)	(2)	-	-	-	(31)
Disposals	3	-	-	-	-	-	-	-	3	4	6	(2)	3	-	-	-	-	11
Reclassifications and transfers	(22)	(34)	(17)	(15)	39	-	-	-	(49)	1	(1)	-	2	-	-	-	-	2
Depreciation at 31 March	(107)	(152)	(74)	(71)	-	-	-	(2)	(406)	(79)	(105)	(51)	(49)	(39)	-	-	-	(323)
Net book value at 31 March	**30**	**35**	**20**	**20**	**-**	**-**	**-**	**7**	**112**	27	38	18	20	3	-	-	7	113

11. Property, plant and equipment continued

Total property, plant and equipment

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Cost at 1 April	1,907	2,796	1,523	1,751	1,899	-	-	7	9,883	1,788	2,644	1,423	1,635	1,844	-	-	1	9,335
Additions	143	170	98	165	89	-	-	3	668	133	155	94	111	73	-	-	6	572
Disposals	(3)	-	-	-	(13)	-	-	-	(16)	(7)	(8)	-	(4)	(6)	-	-	-	(25)
Reclassifications and transfers	23	34	18	20	(44)	-	-	(1)	50	(7)	5	6	9	(12)	-	-	-	1
Cost at 31 March	2,070	3,000	1,639	1,936	1,931	-	-	9	10,585	1,907	2,796	1,523	1,751	1,899	-	-	7	9,883
Depreciation at 1 April	(574)	(893)	(445)	(505)	(1,191)	-	-	-	(3,608)	(536)	(835)	(408)	(474)	(1,071)	-	-	-	(3,324)
Charge for the year	(41)	(58)	(33)	(38)	(113)	-	-	(2)	(285)	(42)	(61)	(34)	(37)	(129)	-	-	-	(303)
Disposals	3	-	-	-	4	-	-	-	7	6	8	-	4	2	-	-	-	20
Reclassifications and transfers	(23)	(38)	(15)	(15)	43	-	-	-	(48)	(2)	(5)	(3)	2	7	-	-	-	(1)
Depreciation at 31 March	(635)	(989)	(493)	(558)	(1,257)	-	-	(2)	(3,934)	(574)	(893)	(445)	(505)	(1,191)	-	-	-	(3,608)
Net book value at 31 March	**1,435**	**2,011**	**1,146**	**1,378**	**674**	**-**	**-**	**7**	**6,651**	1,333	1,903	1,708	1,246	708	-	-	7	6,275

The cost of property, plant and equipment at 31 March 2009 included £4m (2008: £3m) relating to interest capitalised.

Included within trade and other payables and other non-current liabilities at 31 March 2009 are contributions to the cost of property, plant and equipment amounting of £20m (2008: £24m) and £873m (2008: £840m) respectively.

12. Other non-current assets

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Loans and receivables																		
Amounts owed by parent	730	1,183	595	657	858	-	-	-	4,023	730	1,183	595	657	858	-	-	-	4,023
	730	1,183	595	657	858	-	-	-	4,023	730	1,183	595	657	858	-	-	-	4,023

The amount owed by the parent is non-contractual and accordingly its fair value equals its book value.

13. Derivative financial instruments

For further information and a detailed description of derivative financial instruments and hedge type designations, refer to note 29. The following tables analyse the allocated fair value of derivative financial instruments by designated hedge type and maturity:

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Assets																		
Fair value hedges																		
Interest rate swaps	14	21	10	12	5	-	-	-	62	1	1	1	1	1	-	-	-	5
Cross-currency interest rate swaps	70	106	52	59	21	-	-	-	308	12	19	9	9	8	-	-	-	57
	84	127	62	71	26	-	-	-	370	13	20	10	10	9	-	-	-	62
Cash flow hedges																		
Interest rate swaps	-	-	-	-	-	-	-	-	-	4	5	3	3	2	-	-	-	17
Cross-currency interest rate swaps	30	45	23	26	9	-	-	-	133	8	13	6	6	6	-	-	-	39
Foreign exchange forward contracts	-	-	-	-	-	-	-	-	-	1	3	1	2	1	-	-	-	8
	30	45	23	26	9	-	-	-	133	13	21	10	11	9	-	-	-	64
Derivatives not in a formal hedging relationship																		
Interest rate swaps	8	11	6	6	2	-	-	-	33	1	1	1	1	1	-	-	-	5
Cross-currency interest rate swaps	6	8	4	5	2	-	-	-	25	1	1	-	-	-	-	-	-	1
Foreign exchange forward contracts	-	1	-	1	-	-	-	-	2	-	-	-	-	-	-	-	-	-
	14	20	10	12	4	-	-	-	60	2	2	1	1	1	-	-	-	7
Total	128	192	95	109	39	-	-	-	563	28	43	21	22	19	-	-	-	133
Maturing:																		
In one year or less	29	44	22	25	9	-	-	-	129	11	17	8	9	7	-	-	-	52
Current	29	44	22	25	9	-	-	-	129	11	17	8	9	7	-	-	-	52
Between 1 and 2 years	-	-	-	-	-	-	-	-	-	5	8	4	4	3	-	-	-	24
Between 2 and 3 years	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Between 3 and 4 years	1	1	-	1	-	-	-	-	3	-	-	-	-	-	-	-	-	-
Between 4 and 5 years	22	35	17	20	7	-	-	-	101	-	-	-	-	-	-	-	-	-
In more than 5 years	76	112	56	63	23	-	-	-	330	12	18	9	9	9	-	-	-	57
Non-current	99	148	73	84	30	-	-	-	434	17	26	13	13	12	-	-	-	81
Total	128	192	95	109	39	-	-	-	563	28	43	21	22	19	-	-	-	133

13. Derivative financial instruments continued

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Liabilities																		
Fair value hedges																		
Interest rate swaps	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	1	1	-	-	-	-	-	-	2
Cross-currency interest rate swaps	**1**	**2**	**1**	**1**	**1**	**-**	**-**	**-**	**6**	4	7	4	4	3	-	-	-	22
	1	**2**	**1**	**1**	**1**	**-**	**-**	**-**	**6**	5	8	4	4	3	-	-	-	24
Cash flow hedges																		
Interest rate swaps	**5**	**7**	**3**	**4**	**1**	**-**	**-**	**-**	**20**	5	6	3	4	3	-	-	-	21
Cross-currency interest rate swaps	**1**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	1	1	1	1	1	-	-	-	5
Foreign exchange forward contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	2	1	-	-	-	-	-	3
	6	**8**	**3**	**4**	**1**	**-**	**-**	**-**	**22**	6	9	5	5	4	-	-	-	29
Derivatives not in a formal hedging relationship																		
Interest rate swaps	**8**	**12**	**6**	**7**	**3**	**-**	**-**	**-**	**36**	3	3	1	2	2	-	-	-	11
Forward rate agreements	**1**	**1**	**1**	**1**	**-**	**-**	**-**	**-**	**4**	-	-	-	-	-	-	-	-	-
	9	**13**	**7**	**8**	**3**	**-**	**-**	**-**	**40**	3	3	1	2	2	-	-	-	11
Total	**16**	**23**	**11**	**13**	**5**	**-**	**-**	**-**	**68**	14	20	10	11	9	-	-	-	64
Maturing:																		
In one year or less	**10**	**14**	**7**	**8**	**3**	**-**	**-**	**-**	**42**	4	5	2	3	2	-	-	-	16
Current	**10**	**14**	**7**	**8**	**3**	**-**	**-**	**-**	**42**	4	5	2	3	2	-	-	-	16
Between 1 and 2 years	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	1	-	-	-	-	-	-	1
Between 2 and 3 years	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	-	-	-	-
Between 3 and 4 years	**1**	**1**	**1**	**1**	**-**	**-**	**-**	**-**	**4**	-	-	-	-	-	-	-	-	-
Between 4 and 5 years	**3**	**4**	**2**	**2**	**1**	**-**	**-**	**-**	**12**	1	-	1	1	-	-	-	-	3
In more than 5 years	**2**	**4**	**1**	**2**	**1**	**-**	**-**	**-**	**10**	9	14	7	7	7	-	-	-	44
Non-current	**6**	**9**	**4**	**5**	**2**	**-**	**-**	**-**	**26**	10	15	8	8	7	-	-	-	48
Total	**16**	**23**	**11**	**13**	**5**	**-**	**-**	**-**	**68**	14	20	10	11	9	-	-	-	64

13. Derivative financial instruments continued

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

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading (i) 2009 £m	De-minimis activities 2009 £m	Other activities (i) 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Forward rate agreements	**481**	**724**	**351**	**409**	**146**	**-**	**-**	**-**	**2,111**									
Interest rate swaps	**420**	**634**	**307**	**357**	**127**	**-**	**-**	**-**	**1,845**	342	513	253	277	230	1	-	7	1,623
Cross-currency interest rate swaps	**245**	**370**	**180**	**208**	**75**	**-**	**-**	**-**	**1,078**	133	201	99	108	90	1	-	3	635
Foreign exchange forward contracts	**2**	**3**	**2**	**2**	**1**	**-**	**-**	**-**	**10**	22	32	15	18	15	-	-	-	102
	1,148	**1,731**	**840**	**976**	**349**	**-**	**-**	**-**	**5,044**	497	746	367	403	335	2	-	10	2,360

(i) The fair value of derivatives allocated to Meter Reading and Other activities at 31 March 2009 is £nil.

14. Inventories

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Raw materials and consumables	**5**	**6**	**3**	**6**	**-**	**-**	**-**	**-**	**20**	4	5	3	4	4	-	-	-	20

15. Trade and other receivables

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Trade receivables	**2**	**4**	**2**	**2**	**11**	**-**	**-**	**2**	**23**	4	6	3	3	7	2	-	2	27
Amounts owed by fellow subsidiaries	**23**	**28**	**16**	**26**	**22**	**-**	**-**	**4**	**119**	11	12	7	9	9	-	-	2	50
Other receivables	**1**	**1**	**-**	**1**	**-**	**-**	**-**	**-**	**3**	7	12	6	7	6	-	-	-	38
Prepayments and accrued income	**21**	**31**	**16**	**19**	**41**	**-**	**-**	**2**	**130**	20	29	16	18	29	-	1	7	120
	47	**64**	**34**	**48**	**74**	**-**	**-**	**8**	**275**	42	59	32	37	51	2	1	11	235

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

Provision for impairment of receivables

As the amounts in respect of impairment of receivables are small, they have not been reported by regulatory business.

	Total £m
At 1 April 2007	3
Release of provision	(1)
At 31 March 2008	2
Additions net of recoveries	1
At 31 March 2009	**3**

As at 31 March 2009, trade receivables of £6m (2008: £2m) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2009 £m	2008 £m
Up to 3 months past due	**3**	1
3 to 6 months past due	**1**	-
Over 6 months past due	**2**	1
	6	2

For further information about our wholesale and retail credit risk refer to note 29.

16. Financial investments

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Current																		
Available for sale investments – Investments in short-term UK money funds	**142**	**213**	**105**	**122**	**43**	**-**	**-**	**-**	**625**	60	90	44	48	41	-	-	1	284
Loans and receivables – amounts due from fellow subsidiaries	**3**	**4**	**2**	**2**	**1**	**-**	**-**	**-**	**12**	2	4	2	2	1	-	-	-	11
Loans and receivables – restricted cash balances	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	1	1	1	1	1	-	-	-	5
	145	**217**	**107**	**124**	**44**	**-**	**-**	**-**	**637**	63	95	47	51	43	-	-	1	300

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 29. 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.

17. Cash and cash equivalents

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Cash at bank and in-hand	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	1	-	-	-	-	-	-	1
Short-term deposits	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	1	-	-	1	-	-	-	-	2
Cash and cash equivalents	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	1	1	-	1	-	-	-	-	3
Bank overdrafts	**(1)**	**(2)**	**(1)**	**(1)**	**(1)**	**-**	**-**	**-**	**(6)**	(1)	(1)	-	(1)	(1)	-	-	-	(4)
Net cash and cash equivalents	**(1)**	**(2)**	**(1)**	**(1)**	**(1)**	**-**	**-**	**-**	**(6)**	-	-	-	-	(1)	-	-	-	(1)

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

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

18. Borrowings

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

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Current																		
Bank loans	39	59	30	33	12	-	-	-	173	5	8	4	4	3	-	-	-	24
Bonds	129	193	94	109	40	-	-	-	565	84	125	62	68	56	-	-	2	397
Other loans	-	1	-	-	-	-	-	-	1	1	1	-	-	-	-	-	-	2
Borrowings from fellow subsidiaries	35	52	25	30	9	-	-	-	151	66	100	50	54	46	-	-	1	317
Bank overdrafts	1	2	1	1	1	-	-	-	6	1	1	-	1	1	-	-	-	4
	204	307	150	173	62	-	-	-	896	157	235	116	127	106	-	-	3	744
Non-current																		
Bank loans	87	130	64	73	26	-	-	-	380	71	107	53	57	48	-	-	2	338
Bonds	895	1,348	658	760	270	-	-	-	3,931	590	887	437	477	398	2	-	12	2,803
Other loans	24	37	18	21	7	-	-	-	107	14	20	10	12	9	-	-	-	65
Borrowings from fellow subsidiaries	36	54	26	32	12	-	-	-	160	-	-	-	-	-	-	-	-	-
	1,042	1,569	766	886	315	-	-	-	4,578	675	1,014	500	546	455	2	-	14	3,206
Total borrowings	1,246	1,876	916	1,059	377	-	-	-	5,474	832	1,249	616	673	561	2	-	17	3,950

Allocated total borrowings are repayable as follows:

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
In 1 year or less	204	307	150	173	62	-	-	-	896	157	235	116	127	106	-	-	3	744
Between 1 and 2 years	-	-	-	-	-	-	-	-	-	87	130	64	70	58	-	-	2	411
Between 2 and 3 years	36	54	26	31	11	-	-	-	158	-	-	-	-	-	-	-	-	-
Between 3 and 4 years	32	48	24	27	9	-	-	-	140	-	-	-	-	-	-	-	-	-
Between 4 and 5 years	108	163	79	92	32	-	-	-	474	26	39	20	21	18	-	-	1	125
In more than 5 years other than by instalments	866	1,304	637	736	263	-	-	-	3,806	562	845	416	455	379	2	-	11	2,670
	1,246	1,876	916	1,059	377	-	-	-	5,474	832	1,249	616	673	561	2	-	17	3,950

18. Borrowings continued

The allocated fair value of borrowings at 31 March 2009 was £4,896m (2008: £3,727m). 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 borrowings outstanding as at 31 March 2009 was £5,555m (2008: £4,101m).

Collateral is placed with or received from any counterparty where NGG 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 £172m (2008: £23m) in respect of cash received under collateral agreements. Cash placed under collateral agreements is shown in note 16.

As at 31 March 2009, National Grid Gas plc had committed credit facilities of £755m (2008: £810m) of which £755m was undrawn (2008: £810m undrawn). These undrawn facilities expire in more than one year but less than two years. All of the unused facilities at 31 March 2009 and at 31 March 2008 were held as back-up to commercial paper and similar borrowings.

None of the NGG's borrowings are secured by charges over the assets of NGG.

19. Trade and other payables

	North West DN **2009** **£m**	East of England DN **2009** **£m**	West Midlands DN **2009** **£m**	North London DN **2009** **£m**	Metering **2009** **£m**	Meter Reading **2009** **£m**	De-minimis activities **2009** **£m**	Other activities **2009** **£m**	Total **2009** **£m**	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Trade payables	**38**	**54**	**30**	**62**	**32**	**1**	**-**	**5**	**222**	25	51	21	41	51	-	1	8	198
Amounts owed to fellow subsidiaries	**19**	**48**	**20**	**17**	**71**	**-**	**-**	**1**	**176**	18	32	16	17	39	1	-	2	125
Social security and other taxes	**6**	**11**	**5**	**4**	**7**	**-**	**-**	**1**	**34**	19	35	17	16	14	-	-	1	102
Other payables	**5**	**6**	**3**	**4**	**3**	**-**	**-**	**1**	**22**	5	6	3	5	1	-	-	1	21
Deferred income	**21**	**30**	**17**	**24**	**7**	**-**	**2**	**-**	**101**	18	27	14	17	6	-	1	-	83
	89	**149**	**75**	**111**	**120**	**1**	**2**	**8**	**555**	85	151	71	96	111	1	2	12	529

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

20. Other non-current liabilities

	North West DN **2009** **£m**	East of England DN **2009** **£m**	West Midlands DN **2009** **£m**	North London DN **2009** **£m**	Metering **2009** **£m**	Meter Reading **2009** **£m**	De-minimis activities **2009** **£m**	Other activities **2009** **£m**	Total **2009** **£m**	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Other payables	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	1	1	-	-	-	-	-	-	2
Deferred income	**204**	**302**	**161**	**201**	**62**	**-**	**-**	**4**	**934**	197	292	158	189	59	-	-	-	895
	204	**302**	**161**	**201**	**62**	**-**	**-**	**4**	**934**	198	293	158	189	59	-	-	-	897

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

21. Deferred tax assets and liabilities

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

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 2007	-	6	-	9	15
Deferred tax liabilities at 31 March 2007	(1,171)	-	(12)	(22)	(1,205)
At 1 April 2007	(1,171)	6	(12)	(13)	(1,190)
(Charged)/credited to income statement	(1)	-	3	2	4
(Charged)/credited to equity	-	(4)	(1)	-	(5)
Transfers	-	-	-	-	-
At 31 March 2008	(1,172)	2	(10)	(11)	(1,191)
Deferred tax assets at 31 March 2008	-	2	-	9	11
Deferred tax liabilities at 31 March 2008	(1,172)	-	(10)	(20)	(1,202)
At 1 April 2008	(1,172)	2	(10)	(11)	(1,191)
(Charged)/credited to income statement	(105)	1	1	(1)	(104)
Charged to equity	-	(2)	(8)	-	(10)
At 31 March 2009	**(1,277)**	**1**	**(17)**	**(12)**	**(1,305)**
Deferred tax assets at 31 March 2009	-	1	-	9	10
Deferred tax liabilities at 31 March 2009	(1,277)	-	(17)	(21)	(1,315)
	(1,277)	1	(17)	(12)	(1,305)

21. Deferred tax assets and liabilities continued

Deferred tax assets and liabilities by business

	North West DN £m	East of England DN £m	West Midlands DN £m	North London DN £m	Metering £m	Meter Reading £m	De-minimis activities £m	Other activities £m	Total £m
Deferred tax assets at 31 March 2007	3	4	2	2	4	-	-	-	15
Deferred tax liabilities at 31 March 2007	(253)	(345)	(206)	(239)	(160)	-	-	(2)	(1,205)
At 1 April 2007	(250)	(341)	(204)	(237)	(156)	-	-	(2)	(1,190)
(Charged)/credited to income statement	(6)	(8)	(4)	1	22	-	-	(1)	4
Charged to equity	(1)	(2)	(1)	(1)	-	-	-	-	(5)
Transfers	-	-	-	-	-	-	-	-	-
At 31 March 2008	(257)	(351)	(209)	(237)	(134)	-	-	(3)	(1,191)
Deferred tax assets at 31 March 2008	2	3	1	1	4	-	-	-	11
Deferred tax liabilities at 31 March 2008	(259)	(354)	(210)	(238)	(138)	-	-	(3)	(1,202)
At 1 April 2008	(257)	(351)	(209)	(237)	(134)	-	-	(3)	(1,191)
(Charged)/credited to income statement	(29)	(34)	(20)	(28)	8	-	-	(1)	(104)
Charged to equity	(2)	(3)	(2)	(2)	(1)	-	-	-	(10)
At 31 March 2009	**(288)**	**(388)**	**(231)**	**(267)**	**(127)**	**-**	**-**	**(4)**	**(1,305)**
Deferred tax assets at 31 March 2009	1	2	1	1	5	-	-	-	10
Deferred tax liabilities at 31 March 2009	(289)	(390)	(232)	(268)	(132)	-	-	(4)	(1,315)
	(288)	(388)	(231)	(267)	(127)	-	-	(4)	(1,305)

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 (2008: £nil).

Deferred tax assets in National Grid Gas in respect of capital losses of £24m (2008: £18m) 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.

22. Provisions

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Environmental																		
At 1 April	18	9	4	13	-	-	-	-	44	18	9	4	13	-	-	-	-	44
Additions	5	3	1	4	-	-	-	-	13	-	-	-	-	-	-	-	-	-
Unwinding of discount	1	-	-	1	-	-	-	-	2	1	-	-	-	-	-	-	-	1
Utilised	(1)	(1)	-	(1)	-	-	-	-	(3)	(1)	-	-	-	-	-	-	-	(1)
At 31 March	**23**	**11**	**5**	**17**	**-**	**-**	**-**	**-**	**56**	18	9	4	13	-	-	-	-	44
Restructuring																		
At 1 April	5	7	3	4	1	-	-	-	20	4	6	3	3	-	-	-	-	16
Additions	3	4	3	3	-	-	-	-	13	5	7	4	5	1	-	-	-	22
Utilised	(3)	(3)	(2)	(2)	(1)	-	-	-	(11)	(4)	(6)	(4)	(4)	-	-	-	-	(18)
At 31 March	**5**	**8**	**4**	**5**	**-**	**-**	**-**	**-**	**22**	5	7	3	4	1	-	-	-	20
Other																		
At 1 April	5	6	3	4	11	-	-	-	29	5	5	3	4	-	-	-	-	17
Additions	1	-	1	1	11	-	-	-	14	-	1	-	-	11	-	-	-	12
Unwinding of discount	-	1	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-
Utilised	-	(1)	-	-	(7)	-	-	-	(8)	-	-	-	-	-	-	-	-	-
At 31 March	**6**	**6**	**4**	**5**	**15**	**-**	**-**	**-**	**36**	5	6	3	4	11	-	-	-	29
Total																		
At 1 April	28	22	10	21	12	-	-	-	93	27	20	10	20	-	-	-	-	77
Additions	9	7	5	8	11	-	-	-	40	5	8	4	5	12	-	-	-	34
Unwinding of discount	1	1	-	1	-	-	-	-	3	1	-	-	-	-	-	-	-	1
Utilised	(4)	(5)	(2)	(3)	(8)	-	-	-	(22)	(5)	(6)	(4)	(4)	-	-	-	-	(19)
At 31 March	**34**	**25**	**13**	**27**	**15**	**-**	**-**	**-**	**114**	28	22	10	21	12	-	-	-	93

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

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Current	**6**	**6**	**3**	**6**	**7**	**-**	**-**	**-**	**28**	6	7	4	5	7	-	-	-	29
Non-current	**28**	**19**	**10**	**21**	**8**	**-**	**-**	**-**	**86**	22	15	6	16	5	-	-	-	64
	34	**25**	**13**	**27**	**15**	**-**	**-**	**-**	**114**	28	22	10	21	12	-	-	-	93

Environmental provision

The environmental provision represents the net present value of the estimated statutory decontamination costs of old gas manufacturing sites owned by National Grid Gas (discounted using a nominal rate of 2.0% (2008: 2.5%). The undiscounted amount of the provision at 31 March 2009 was £85m (2008: £69m). The anticipated timing of the cash flows for statutory decontamination cannot be predicted with certainty, but they are expected to be incurred over the next 50 years.

There are a number of uncertainties that affect the calculation of the provision for gas site decontamination, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. National Grid Gas has made its best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision and hence the income statement.

Restructuring provision

At 31 March 2009, £5m of the total restructuring provision (2008: £6m) consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties. The expected payment dates for property restructuring costs remain uncertain. The remainder of the restructuring provision related to business reorganisation costs, largely to be paid over the next two financial years.

Other provisions

Other provisions at 31 March 2009 include £21m (2008: £18m) in respect of employer liability claims and rectification costs of £11m associated with gas metering regulators (2008: £6m). In accordance with insurance industry practice, the estimates for employer liability claims are based on experience from previous years and, therefore, there is no identifiable payment date associated with these items.

23. 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.

	North West DN £m	East of England DN £m	West Midlands DN £m	North London DN £m	Metering £m	Meter Reading £m	De-minimis activities £m	Other activities £m	Total £m
At 31 March 2007	792	1,197	694	766	790	-	(1)	(15)	4,223
Total recognised income and expense for the year	72	105	64	54	38	3	-	5	341
Equity dividends	(71)	(104)	(63)	(53)	(38)	(3)	-	(5)	(337)
Other movements in minority interests	-	-	-	-	-	-	-	(1)	(1)
Share-based payments	1	1	-	1	1	-	-	-	4
Tax on share-based payments	(1)	-	-	-	-	-	-	-	(1)
Transfers (i)	1	10	11	28	2	(1)	-	5	56
At 31 March 2008	794	1,209	706	796	793	(1)	(1)	(11)	4,285
Total recognised income and expense for the year	35	67	27	36	30	-	1	(3)	193
Equity dividends	(52)	(105)	(40)	(56)	(45)	(1)	(1)	-	(300)
Share-based payments	1	1	1	1	-	-	-	-	4
Tax on share-based payments	-	-	(1)	(1)	-	-	-	-	(2)
Transfers (i)	(158)	(254)	(115)	(126)	198	1	(1)	15	(440)
At 31 March 2009	**620**	**918**	**578**	**650**	**976**	**(1)**	**(2)**	**1**	**3,740**

(i) Transfers largely comprise the reallocation of funding between regulatory businesses (see note 24) and changes in the allocation of other 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.

24. Cash flow statement

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

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Movement in cash and cash equivalents	(1)	(2)	(1)	(1)	-	-	-	-	(5)	(22)	(34)	(17)	(19)	(18)	-	-	-	(110)
Increase in financial investments	82	123	60	72	1	-	-	(1)	337	14	19	9	6	4	-	-	1	53
(Increase)/decrease in borrowings and derivatives	(148)	(220)	(104)	(159)	10	1	-	-	(620)	(61)	(64)	(31)	23	46	(2)	-	(11)	(100)
Net interest paid	38	57	28	31	26	-	-	1	181	30	46	23	26	25	-	-	-	150
Change in net debt resulting from cash flows	(29)	(42)	(17)	(57)	37	1	-	-	(107)	(39)	(33)	(16)	36	57	(2)	-	(10)	(7)
Changes in fair value of financial assets and liabilities	6	9	4	5	3	-	-	-	27	5	8	4	4	4	-	-	-	25
Net interest charge	(52)	(77)	(38)	(42)	(35)	-	-	(1)	(245)	(48)	(76)	(37)	(44)	(39)	-	-	-	(244)
Funding transfers (i)	(160)	(250)	(116)	(135)	204	1	-	17	(439)	-	2	(2)	2	(1)	-	-	(1)	-
Movement in net debt in the year	(235)	(360)	(167)	(229)	209	2	-	16	(764)	(82)	(99)	(51)	(2)	21	(2)	-	(11)	(226)
Net debt at the start of year	(754)	(1,130)	(558)	(610)	(508)	(2)	-	(16)	(3,578)	(672)	(1.031)	(507)	(608)	(529)	-	-	(5)	(3,352)
Net debt at end of year	(989)	(1,490)	(725)	(839)	(299)	-	-	-	(4,342)	(754)	(1,130)	(558)	(610)	(508)	(2)	-	(16)	(3,578)
Comprising:																		
Net cash and cash equivalents(ii)	(1)	(2)	(1)	(1)	(1)	-	-	-	(6)	-	-	-	-	(1)	-	-	-	(1)
Financial investments	145	217	107	124	44	-	-	-	637	63	95	47	51	43	-	-	1	300
Borrowings, excluding bank overdrafts	(1,245)	(1,874)	(915)	(1,058)	(376)	-	-	-	(5,468)	(831)	(1,248)	(616)	(672)	(560)	(2)	-	(17)	(3,946)
Derivatives	112	169	84	96	34	-	-	-	495	14	23	11	11	10	-	-	-	69
	(989)	(1,490)	(725)	(839)	(299)	-	-	-	(4,342)	(754)	(1,130)	(558)	(610)	(508)	(2)	-	(16)	(3,578)

(i) Reallocation of funding between National Grid Gas's regulatory businesses.
(ii) Includes bank overdrafts.

24. Cash flow statement continued

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 2007 £m	Cash flow £m	Fair value gains and losses £m	Interest charges £m	Funding transfers (i) £m	At 31 March 2008 £m	Cash flow £m	Fair value gains and losses £m	Interest charges £m	Funding transfers (i) £m	**At 31 March 2009 £m**
Cash and cash equivalents	113	(110)	-	-	-	3	(3)	-	-	-	**-**
Bank overdrafts	(4)	-	-	-	-	(4)	(2)	-	-	-	**(6)**
Net cash and cash equivalents	109	(110)	-	-	-	(1)	(5)	-	-	-	**-**
Financial investments	247	43	-	10	-	300	264	-	9	64	**637**
Borrowings, excluding bank overdrafts	(3,700)	56	(58)	(244)	-	(3,946)	(707)	(3)	(259)	(553)	**(5,468)**
Derivatives	(8)	4	83	(10)	-	69	341	30	5	50	**495**
Net debt at end of year	(3,352)	(7)	25	(244)	-	(3,578)	(107)	27	(245)	(439)	**(4,342)**

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

Notes to the regulatory accounting statements – additional information

25. Commitments and contingencies

a) Future capital expenditure

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Contracted for but not provided	**89**	**108**	**61**	**103**	**7**	**-**	**-**	**-**	**368**	92	109	65	77	8	-	-	2	353

b) Lease commitments

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

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Payments due																		
In 1 year or less	**2**	**3**	**2**	**2**	**1**	**-**	**-**	**-**	**10**	2	3	1	2	1	-	-	-	9
Between 1 and 2 years	**2**	**3**	**1**	**2**	**-**	**-**	**-**	**-**	**8**	2	2	1	2	1	-	-	-	8
Between 2 and 3 years	**2**	**2**	**1**	**1**	**-**	**-**	**-**	**-**	**6**	2	2	1	2	-	-	-	-	7
Between 3 and 4 years	**1**	**2**	**1**	**1**	**1**	**-**	**-**	**-**	**6**	2	2	1	2	-	-	-	-	7
Between 4 and 5 years	**1**	**2**	**1**	**1**	**-**	**-**	**-**	**-**	**5**	1	2	2	1	-	-	-	-	6
In more than 5 years	**7**	**8**	**4**	**6**	**1**	**-**	**-**	**-**	**26**	7	11	6	6	2	-	-	-	32
	15	**20**	**10**	**13**	**3**	**-**	**-**	**-**	**61**	16	22	12	15	4	-	-	-	69

c) Other commitments and contingencies

The total value of other commitments, contingencies and guarantees of National Grid Gas plc at 31 March 2009 amounted to £150m (2008: £84m), including guarantees amounting to £1m (2008: £5m), relating to certain property obligations of a National Grid group undertaking.

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 2009, the sterling equivalent amounted to £1,487m (2008: £1,159m).

e) Litigation and claims

In last year's regulatory financial statements, we reported a decision by the Gas and Electricity Markets Authority (GEMA) to levy on NGG a fine of £41.6m for a breach of the UK Competition Act 1998 in respect of term contracts with suppliers entered into by our UK metering services business in 2004. We also noted that we had appealed this decision to the Competition Appeal Tribunal (the Tribunal). On 29 April 2009, the Tribunal overturned the decision in part and reduced the fine to £30m but upheld the original decision in part.

On 29 May 2009 we lodged our application at the Tribunal for leave to appeal on points of law and on the amount of the penalty. This was refused and a further application for leave to appeal was lodged with the Court of Appeal on 14 July 2009. As at this date therefore, we remain of the view that an outflow of economic benefits is not probable, and as a result, no provision has been made in these accounts either for the reduced fine of £30m, or of any other possible financial impact of the ruling.

In October 2008, we informed Ofgem that our mains replacement activity carried out within the UK's West Midland Alliance partnership may have been misreported. National Grid and Ofgem have jointly appointed Ernst & Young to carry out a full investigation to determine the extent of the issue. At present it is too early to determine the likely outcome of the investigation and any potential consequences.

26. Related party transactions

The following information provides an estimated analysis of the incidence in these regulatory accounting statements of National Grid Gas's material transactions with related parties. These transactions are with fellow subsidiaries of National Grid and a pension plan, in the normal course of business and are summarised below. Additional information on related party transactions is provided in note 34.

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Income																		
Goods and services supplied	**1**	**1**	**-**	**1**	**-**	**3**	**4**	**8**	**18**	1	1	-	-	-	12	4	6	24
Expenditure																		
Services received	**14**	**21**	**10**	**17**	**-**	**-**	**-**	**-**	**62**	13	21	9	17	-	-	-	-	60
Corporate services received	**3**	**4**	**2**	**3**	**2**	**-**	**-**	**-**	**14**	3	3	2	2	2	-	-	-	12
Charges in respect of pension costs	**6**	**8**	**4**	**5**	**1**	**-**	**-**	**-**	**24**	3	3	2	2	1	-	-	-	11
Charges in respect of share-based payments	**1**	**1**	**1**	**1**	**-**	**-**	**-**	**-**	**4**	1	2	1	1	-	-	-	-	5
Interest paid on borrowings from parent	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	4	7	3	4	3	-	-	-	21
Interest paid on borrowings from other fellow subsidiaries	**2**	**5**	**1**	**2**	**1**	**-**	**-**	**-**	**11**	2	3	-	2	1	-	-	-	8
Interest received	**(1)**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**									
	26	**38**	**18**	**28**	**4**	**-**	**-**	**-**	**114**	26	39	17	28	7	-	-	-	117
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax																		
Amounts receivable	**23**	**28**	**16**	**26**	**22**	**-**	**-**	**4**	**119**	11	12	7	9	9	-	-	2	50
Amounts payable	**19**	**48**	**20**	**17**	**71**	**-**	**-**	**1**	**176**	18	32	16	17	39	1	-	2	125
Advances to parent due within one year																		
Advances	2	4	4	1	-	-	-	-	11	2	4	4	1	-	-	-	-	11
At 31 March	**2**	**4**	**4**	**1**	**-**	**-**	**-**	**-**	**11**	2	4	4	1	-	-	-	-	11
Advances to other fellow subsidiaries due within one year																		
At 1 April	-	-	-	-	-	-	-	-	-	9	15	8	9	8	-	-	-	49
Repayments	-	-	-	-	-	-	-	-	-	(9)	(15)	(8)	(9)	(8)	-	-	-	(49)
At 31 March	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	-	-	-	-

26. Related party transactions continued

	North West DN 2009 £m	East of England DN 2009 £m	West Midlands DN 2009 £m	North London DN 2009 £m	Metering 2009 £m	Meter Reading 2009 £m	De-minimis activities 2009 £m	Other activities 2009 £m	Total 2009 £m	North West DN 2008 £m	East of England DN 2008 £m	West Midlands DN 2008 £m	North London DN 2008 £m	Metering 2008 £m	Meter Reading 2008 £m	De-minimis activities 2008 £m	Other activities 2008 £m	Total 2008 £m
Advances to parent due after more than one year																		
At 1 April and 31 March	**730**	**1,183**	**595**	**657**	**858**	**-**	**-**	**-**	**4,023**	730	1,183	595	657	858	-	-	-	4,023
Borrowings from parent due within one year																		
At 1 April	23	34	17	18	16	-	-	-	108	172	261	129	153	134	-	-	2	851
Repayments	(23)	(34)	(17)	(18)	(16)	-	-	-	(108)	(149)	(227)	(112)	(135)	(118)	-	-	(2)	(743)
At 31 March	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	23	34	17	18	16	-	-	-	108
Borrowings from other fellow subsidiaries due within one year																		
At 1 April	43	66	33	36	30	-	-	1	209	26	40	20	24	21	-	-	-	131
Advances	65	96	47	56	18	-	-	-	282	35	53	26	28	24	-	-	1	167
Repayments	(37)	(57)	(29)	(31)	(28)	-	-	(1)	(183)	(18)	(27)	(13)	(16)	(15)	-	-	-	(89)
At 31 March	**71**	**105**	**51**	**61**	**20**	**-**	**-**	**-**	**308**	43	66	33	36	30	-	-	1	209

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 2009 (2008: £nil) and no expense recognised during the year (2008: £nil) in respect of impairment of amounts due from related parties.

Details of guarantees provided in respect of related parties are provided in note 25(c).

Details of key management compensation are provided in note 4(c).

27. 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 2007. The aggregate market value of the scheme's assets was £12,923m 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 2007 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £442m on the valuation date (£309m net of tax), in light of which National Grid agreed a recovery plan with the trustees.

The results of the actuarial valuation carried out at 31 March 2007 showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 32.4% of pensionable earnings (29.4% employers and 3% employees). In addition, the employers pay an allowance for administration expenses which was 3.2% of pensionable earnings for 2008/09, giving a total Company rate of 32.6% of pensionable earnings. These contribution rates will be reviewed as part of the next valuation on 31 March 2010.

In accordance with the recovery plan agreed with the trustees at the 2007 valuation date, NGG paid contributions of £228m (£164m net of tax) in the year to 31 March 2009 and a further payment of £58m (£42m net of tax) in April 2009 to ensure that the deficit revealed at the 2007 valuation is paid in full.

Assets allocations and actuarial assumptions

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

	2009	2008
	%	%
Equities	**33.9**	33.8
Corporate bonds	**34.7**	26.7
Gilts	**21.0**	29.9
Property	**5.5**	6.8
Other	**4.9**	2.8
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.

27. Actuarial information on pensions continued

The principal actuarial assumptions used were:

	2009 %	2008 %
Discount rate (i)	**6.8**	6.6
Expected return on plan assets	**6.4**	6.1
Rate of increase in salaries (ii)	**3.8**	4.6
Rate of increase in pensions in payment and deferred pensions	**3.0**	3.8
Rate of increase in Retail Price Index	**2.9**	3.7

(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:

	2009 Years	2008 Years
Today:		
Males	**20.8**	20.7
Females	**23.2**	23.0
In 20 years:		
Males	**23.1**	23.0
Females	**25.5**	25.3

Sensitivities analysed – all other assumptions held constant:

	Change in pension obligations		Change in annual pension costs	
	2009 £m	2008 £m	2009 £m	2008 £m
0.1% increase in discount rate	**143**	169	**1**	2
0.5% increase in the long-term rate of increase in salaries	**51**	67	**2**	2
Increase of one year to life expectations at age 60	**269**	360	**1**	1

28. 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. NGG 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 NGG's assets and liabilities.

Hedging policies using derivative financial instruments are further explained in note 29. 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.

29. Financial risk

NGG'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 NGG's treasury policy, described on pages 21 to 23.

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

NGG 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, NGG 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, NGG generally covers a percentage of the foreign currency flows depending on the level of agreed probability for those future cash flows.

During 2009 and 2008, derivative financial instruments were used to manage foreign currency risk as follows:

	2009					2008				
	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	**-**	**-**	**-**	**-**	**-**	3	-	-	-	3
Financial investments	**636**	**1**	**-**	**-**	**637**	300	-	-	-	300
Borrowings	**(3,974)**	**(835)**	**(501)**	**(164)**	**(5,474)**	(3,236)	(195)	(292)	(227)	(3,950)
Pre-derivative position	**(3,338)**	**(834)**	**(501)**	**(164)**	**(4,837)**	(2,933)	(195)	(292)	(227)	(3,647)
Derivative effect	**(1,000)**	**842**	**489**	**164**	**495**	(639)	197	284	227	69
Net debt position	**(4,338)**	**8**	**(12)**	**-**	**(4,342)**	(3,572)	2	(8)	-	(3,578)

There was no significant currency exposure on other financial instruments, including trade receivables and payables and other receivables and payables.

29. Financial risk continued

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from NGG's borrowings. Borrowings issued at variable rates expose NGG to cash flow interest rate risk. Borrowings issued at fixed rates expose NGG to fair value interest rate risk. The interest rate risk management policy, as further explained on page 22, is to minimise the finance costs (being interest costs and changes in the market value of debt). Some of NGG'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:

	2009 £m	2008 £m
Fixed interest rate borrowings		
In one year or less	**(443)**	(366)
In more than one year but not more than two years	**(1)**	(309)
In more than two years but not more than three years	**-**	-
In more than three years but not more than four years	**(13)**	-
In more than four years but not more than five years	**(475)**	(9)
In more than five years	**(1,863)**	(1,084)
	(2,795)	(1,768)
Floating interest rate borrowings (including RPI)	**(2,678)**	(2,182)
Non interest bearing	**(1)**	-
Total borrowings	**(5,474)**	(3,950)

During 2009 and 2008, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2009					2008				
	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	**-**	**-**	**-**	**-**	**-**	-	3	-	-	3
Financial investments	**-**	**637**	**-**	**-**	**637**	-	300	-	-	300
Borrowings	**(2,795)**	**(723)**	**(1,955)**	**(1)**	**(5,474)**	(1,768)	(586)	(1,596)	-	(3,950)
Pre-derivative position	**(2,795)**	**(86)**	**(1,955)**	**(1)**	**(4,837)**	(1,768)	(283)	(1,596)	-	(3,647)
Derivative effect	**890**	**(554)**	**157**	**2**	**495**	634	(570)	-	5	69
Net debt position	**(1,905)**	**(640)**	**(1,798)**	**1**	**(4,342)**	(1,134)	(853)	(1,596)	5	(3,578)

(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.

29. 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. NGG's limits are managed by National Grid plc, as explained in Treasury policies on page 21.

As at 31 March 2009 and 2008, NGG 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 13 was £563m (2008: £133m); after netting agreements it was £535m (2008: £104m). This exposure is further reduced by collateral received as shown in note 16.

Wholesale and retail credit risk

The DNs' 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. The Metering business's principal commercial exposure is governed by long-term contracts with gas suppliers which require monthly payment. Sales to retail customers, such as those requiring connections, are usually settled in cash or using major credit cards. Management does not expect any significant losses of receivables that have not been provided for as shown in note 15.

(c) Liquidity analysis

NGG 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 2009					At 31 March 2008				
	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial liabilities										
Borrowings	**(958)**	**-**	**-**	**(4,598)**	**(5,556)**	(690)	(410)	-	(2,997)	(4,097)
Interest payments on borrowings (i)	**(173)**	**(161)**	**(165)**	**(2,548)**	**(3,047)**	(133)	(111)	(99)	(1,915)	(2,258)
Other non-interest bearing liabilities	**(262)**	**-**	**-**	**-**	**(262)**	(412)	(2)	-	-	(414)
Derivative financial liabilities										
Derivative contracts – receipts	**284**	**79**	**36**	**425**	**824**	53	37	12	1,399	1,501
Derivative contracts – payments	**(26)**	**(22)**	**(18)**	**(270)**	**(336)**	(26)	(14)	(14)	(1,782)	(1,836)
	(1,135)	**(104)**	**(147)**	**(6,991)**	**(8,377)**	(1,208)	(500)	(101)	(5,295)	(7,104)

(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.

29. Financial risk continued

(d) Sensitivity analysis at 31 March 2009

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 2009 and 31 March 2008, 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.

	2009		2008	
	Income statement -/+ £m	Equity -/+ £m	Income statement -/+ £m	Equity -/+ £m
UK Retail Prices Index +/- 0.5%	**6**	**-**	6	-
UK interest rates +/- 0.5%	**3**	**9**	3	7

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

(e) Capital and risk management

NGG'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 gearing calculated as net debt expressed as a percentage of regulatory asset value. The combined gearing ratio at 31 March 2009 for the Distribution businesses included in these regulatory accounting statements was 62% compared with 56% at 31 March 2008.

30. 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 75 to 78 of the National Grid Gas plc Annual Report and Accounts 2008/09 which may be obtained from the Company Secretary, 1-3 Strand, London WC2N 5EH.

31. Ultimate parent company

National Grid Gas plc's immediate parent company is National Grid Gas Holdings Limited. 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.

32. Subsidiaries

The principal subsidiaries of National Grid Gas plc at 31 March 2009 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%
National Grid Metering Limited	UK	Gas Metering Services	100%
xoserve Limited	UK	Gas transportation transaction services	56.57%

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 33 and 34 to the regulatory accounting statements comprise information which NGG 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.

33. De-minimis activities and other activities

Note 33 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.

33. De-minimis activities and other activities continued

Note 33 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.

34. Charges and apportionments

Note 34 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.

34. Charges and apportionments continued

Note 34 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.

34. Charges and apportionments continued

Note 34 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.

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

TW
Terawatt, 10^{12} watts

TWh
Terawatt hours

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