

# Company accounting policies

## (a) Basis of preparation of individual financial statements

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

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

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

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

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

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

## (b) Fixed asset investments

Investments held as fixed assets are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value in use.

## (c) Deferred taxation

Deferred taxation is provided in full on all material timing differences, with certain exceptions. No provision for deferred taxation is made for any timing differences on non-monetary assets arising from fair value adjustments, except where there is a binding agreement to sell the assets concerned. However, no provision is made where it is more likely than not that any taxable gain will be rolled over into replacement assets.

Deferred tax assets are only recognised to the extent that they are considered recoverable.

Deferred tax balances have not been discounted.

## (d) Foreign currencies

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

Gains and losses arising on retranslation of monetary assets and liabilities are included in the profit and loss account.

## (e) Financial instruments

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

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

Current asset investments are initially measured at cost including transaction costs. 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 net profit or loss for the period. Investment income on investments classified as available-for-sale is recognised in the profit and loss account as it accrues.

Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs, plus accrued interest less any repayments.

Finance charges are recognised in the profit and loss account in the period in which they are incurred.

Derivative financial instruments are recorded as described below.

## (f) Hedge accounting and derivative financial instruments

The Company enters into derivative financial instruments ('derivatives') in order to manage its interest rate and foreign currency exposures. The principal derivatives used include interest rate swaps, forward rate agreements, currency swaps, forward foreign currency contracts and interest rate swaptions.

All derivative transactions are undertaken, or maintained, with a view to managing the interest or currency risks associated with the Company's underlying business activities and the financing of those activities.

Derivatives are carried in the balance sheet at their fair value.

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

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

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

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

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

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts.

#### **(g) Parent Company guarantees**

The Company has guaranteed the repayment of the principal and any associated premium and interest on specific loans due from certain subsidiary undertakings to third parties. In the event of default or non-performance by the subsidiary, the Company recognises such guarantees as insurance contracts, at fair value with a corresponding increase in the carrying value of the investment.

#### **(h) Share-based payments**

The Company issues equity-settled share-based payments to certain employees of subsidiary undertakings, detailed in the Directors' Report, the Directors' Remuneration Report and in note 31 in the consolidated financial statements.

Equity-settled share-based payments are measured at fair value at the date of grant. The Company has no employees. Equity-settled share-based payments that are made available to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investments in subsidiaries, based on an estimate of the number of shares that will eventually vest. Where payments are subsequently received from subsidiaries, these are accounted for as a disposal of investment.

#### **(i) Dividends**

Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

# Company balance sheet

at 31 March

	Notes	2007 £m	2006 £m
<b>Fixed assets</b>			
Investments	2	<b>3,707</b>	2,428
		<b>3,707</b>	2,428
<b>Current assets</b>			
Debtors (amounts falling due within one year)	3	<b>9,050</b>	7,109
Debtors (amounts falling due after more than one year)	3	<b>3</b>	–
Derivative financial instruments (amounts falling due within one year)		<b>119</b>	64
Derivative financial instruments (amounts falling due after more than one year)		<b>192</b>	79
Current asset investments		<b>1,030</b>	1,046
		<b>10,394</b>	8,298
<b>Creditors (amounts falling due within one year)</b>			
Borrowings	5	<b>(360)</b>	(109)
Derivative financial instruments		<b>(29)</b>	(21)
Other creditors	4	<b>(2,799)</b>	(1,876)
		<b>(3,188)</b>	(2,006)
<b>Net current assets</b>			
		<b>7,206</b>	6,292
<b>Total assets less current liabilities</b>			
		<b>10,913</b>	8,720
<b>Creditors (amounts falling due after more than one year)</b>			
Borrowings	5	<b>(4,524)</b>	(1,715)
Derivative financial instruments		<b>(54)</b>	(56)
<b>Provisions for liabilities and charges</b>			
Deferred taxation	6	<b>–</b>	(5)
<b>Net assets employed</b>			
		<b>6,335</b>	6,944
<b>Capital and reserves</b>			
Called up share capital	7	<b>308</b>	310
Share premium account	8	<b>1,332</b>	1,316
Cash flow hedge reserve	8	<b>22</b>	7
Other reserves	8	<b>91</b>	74
Profit and loss account	8	<b>4,582</b>	5,237
<b>Equity shareholders' funds</b>			
	9	<b>6,335</b>	6,944

Commitments and contingencies are shown in note 10 to the Company accounts on page 179.

The notes on pages 176 to 179 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 16 May 2007 and were signed on its behalf by:

**Sir John Parker** Chairman

**Steve Lucas** Finance Director

# Notes to the Company accounts

## 1. Adoption of new accounting standards

### New financial reporting standards (FRS) and abstracts adopted in 2006/07

During the year the Company has adopted the following FRSs and abstracts:

Amendment to FRS 17 'Retirement benefits' replaces the disclosures required by FRS 17 with those of IAS 19, 'Employee benefits', its international equivalent and amends paragraph 16 of FRS 17, so that for quoted securities, the current bid price (rather than the mid-market value) is taken as fair value. Implementation of this standard has not had a material impact on the Company's results or assets and liabilities.

Amendment to FRS 23 'The Effects of Changes in Foreign Exchange Rates' clarifies the requirements of FRS 23 regarding an entity's investment in foreign operations and, in particular, the treatment of monetary items entered into as net investment hedges. Implementation of this amendment had no impact on the Company's results or assets and liabilities.

UITF Abstract 41, 'Scope of FRS 20 (IFRS 2)' addresses the issue of whether FRS 20 'Share-based payment', applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. Implementation of this abstract has not had a material impact on the Company's results or assets and liabilities.

UITF Abstract 45, 'Liabilities arising from participating in a specific market – Waste electrical and electronic equipment' relates to the European Union's Directive on waste electrical and electronic equipment and deals with the responsibility of producers for the backlog of waste for goods sold to private households. Implementation of this abstract has not had a material impact on the Company's results or assets and liabilities.

### New financial reporting standards (FRS) and abstracts not yet adopted

The following standards and abstracts will be adopted in future periods:

Amendment to FRS 26: 'Financial instruments: Measurement – Recognition and derecognition' implements the recognition and derecognition material in IAS 39. The requirements of FRS 5, 'Reporting the substance of transactions', are superseded for transactions that fall within FRS 26's scope, but FRS 5 continues to apply to transactions in non-financial assets and liabilities. Implementation of this standard is not expected to have a material impact on the Company's results or assets and liabilities.

UITF Abstract 42, 'Reassessment of embedded derivatives' prohibits reassessment of the treatment of embedded derivatives subsequent to initial recognition unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. Implementation of this abstract is not expected to have a material impact on the Company's results or assets and liabilities.

UITF Abstract 44, 'FRS 20 (IFRS 2) – Group and treasury share transactions' provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for instance, options over a parent's shares) should be accounted for as equity-settled or cash-settled. Implementation of this abstract is not expected to have a material impact on the Company's results or assets and liabilities.

## 2. Fixed asset investments

	Subsidiary undertakings £m
At 1 April 2005	2,428
Additions	6
Disposals	(6)
At 31 March 2006	2,428
Additions	1,279
<b>At 31 March 2007</b>	<b>3,707</b>

During the year the Company acquired a further 92,741 ordinary shares of £1 each in National Grid (US) Holdings Limited for a total consideration of £1,264m.

The names of the principal subsidiary undertakings and joint ventures are included in note 36 in the consolidated financial statements.

## 3. Debtors

	2007 £m	2006 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	9,047	7,105
Prepayments and accrued income	3	4
	<b>9,050</b>	7,109
Amounts falling due after more than one year:		
Deferred taxation (note 6)	3	–

## 4. Creditors (amounts falling due within one year)

	2007 £m	2006 £m
Borrowings (note 5)	360	109
Derivative financial instruments	29	21
Amounts owed to subsidiary undertakings	2,776	1,856
Other creditors	23	20
	<b>3,188</b>	2,006

The notional amounts relating to financial instruments held to manage interest rate and currency profiles for interest rate swaps and forward rate agreements, foreign currency contracts and cross-currency swaps at 31 March 2007 were £2,935m (2006: £2,926m) and £7,983m (2006: £3,454m) respectively.

## 5. Borrowings

The following table analyses the Company's total borrowings:

	2007 £m	2006 £m
Amounts falling due within one year:		
Bank loans and overdrafts	30	27
Bonds	301	27
Other loans	29	55
	<b>360</b>	109
Amounts falling due after more than one year:		
Bonds	4,524	1,715
	<b>4,524</b>	1,715
<b>Total borrowings</b>	<b>4,884</b>	1,824
	2007 £m	2006 £m
Total borrowings are repayable as follows:		
In one year or less	360	109
In more than one year, but not more than two years	642	–
In more than two years, but not more than three years	295	348
In more than three years, but not more than four years	495	–
In more than four years, but not more than five years	897	37
In more than five years, other than by instalments	2,195	1,330
	<b>4,884</b>	1,824

The notional amount of borrowings outstanding as at 31 March 2007 was £4,872m (2006: £1,835m).

## 6. Provisions for liabilities and charges

	Deferred taxation £m
At 31 March 2005	–
First time adoption of FRS 26	19
At 1 April 2005	19
Credited to equity	(14)
At 31 March 2006	5
At 1 April 2006	5
Charged to equity	4
Credited to the profit and loss account (i)	(12)
Transferred to debtors (note 3) (ii)	3
<b>At 31 March 2007</b>	<b>–</b>

(i) Included is a deferred tax credit of £13m in respect of prior years (2006: £nil).

(ii) Included is a current deferred tax asset of £1m (2006: £nil).

### Factors that may affect future deferred tax charges

The UK rate of corporation tax is expected to decrease from the current rate of 30% to 28% in 2008/2009. We are in the process of evaluating the impact this tax rate will have on our future deferred tax charge.

## 7. Share capital

	Allotted and issued		Called up and fully paid	
	number	£	millions	£m
At 1 April 2005	3,090,202,955	309,020,296	3,090	309
Issued during the year	8,016,297	898,906	8	1
Effect of share consolidation (i)	(378,520,134)	–	(378)	–
At 31 March 2006	2,719,699,118	309,919,202	2,720	310
Issued during the year	3,748,135	427,113	4	–
Repurchased during the year (ii)	(22,388,381)	(2,551,234)	(23)	(2)
<b>At 31 March 2007</b>	<b>2,701,058,872</b>	<b>307,795,081</b>	<b>2,701</b>	<b>308</b>

(i) On 29 July 2005, the ordinary share capital was consolidated, with 43 new ordinary shares of 11<sup>1</sup>/<sub>4</sub>s pence each issued for every 49 existing ordinary shares of 10 pence each cancelled.

(ii) From 20 November 2006 to 22 March 2007, the Company repurchased, and subsequently cancelled, under its share buy-back programme 22,388,381 ordinary shares for aggregate consideration of £169m, including transaction costs. The shares repurchased have a nominal value of 11<sup>1</sup>/<sub>4</sub>s pence each and represented 1% of the ordinary shares in issue as at 31 March 2007. The excess of the consideration over the nominal value has been recharged against retained earnings.

For further details on share capital, see note 31 in the consolidated financial statements.

## 8. Reserves

	Share premium account £m	Cash flow hedge reserve £m	Other reserves £m	Profit and loss account £m
At 1 April 2005	1,289	39	61	7,957
Exchange adjustments	–	–	7	–
Net loss transferred from equity in respect of cash flow hedges (net of tax)	–	(32)	–	–
Ordinary shares issued during the year	27	–	–	–
Share-based payment	–	–	6	–
Return of capital to shareholders through B share scheme	–	–	–	(2,009)
Retained loss for the year	–	–	–	(711)
At 1 April 2006	1,316	7	74	5,237
Net loss transferred from equity in respect of cash flow hedges (net of tax)	–	15	–	–
Ordinary shares issued during the year	16	–	–	–
Repurchase of shares	–	–	2	(169)
Share-based payment	–	–	15	–
Retained loss for the year	–	–	–	(486)
<b>At 31 March 2007</b>	<b>1,332</b>	<b>22</b>	<b>91</b>	<b>4,582</b>

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985.

The Company's profit after taxation was £244m (2006: £34m). Of the Company's profit and loss account reserve of £4,582m at 31 March 2007 (2006: £5,237m), £2,131m (2006: £2,581m) relating to gains on intra-group transactions was not distributable to shareholders.

**9. Reconciliation of movements in equity shareholders' funds**

	2007 £m	2006 £m
Profit for the year after taxation	244	34
Dividends	(730)	(745)
Retained loss for the financial year	(486)	(711)
Net proceeds of issue of ordinary shares	16	28
Return of capital to shareholders through B share scheme	–	(2,009)
Movement on cash flow hedge reserve (net of tax)	15	(32)
Share-based payment	15	13
Repurchase of ordinary shares	(169)	–
Net decrease in equity shareholders' funds	(609)	(2,711)
Opening equity shareholders' funds	6,944	9,655
<b>Closing equity shareholders' funds</b>	<b>6,335</b>	<b>6,944</b>

**10. Commitments and contingencies**

The Company has guaranteed the repayment of principal sum, any associated premium and interest on specific loans due from certain subsidiary undertakings to third parties. At 31 March 2007, the sterling equivalent amounted to £650m (2006: £2,223m). The guarantees are for varying terms between 3 months and 11 years.

The Company has also guaranteed the lease obligations of a former associate to a subsidiary undertaking, amounting to £23m (2006: £31m).

**11. Directors and employees**

There are no employees of the Company (2006: nil). The Directors of the Company were paid by another subsidiary undertaking in 2007 and 2006. Details of Directors' emoluments are contained in note 6 in the consolidated financial statements and the Directors' remuneration report.