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NATIONAL GRID HOLDINGS ONE plc

ANNUAL REPORT AND ACCOUNTS

31 March 2005

National Grid Holdings One plc ('NGH1')
Directors' report
for the year ended 31 March 2005.

The NGH1 ("the Company") Directors present their report and the audited accounts for the year ended 31 March 2005.

Principal activities

The Company acts as a holding company and will continue to do so for the foreseeable future. The principal activity of its Group of companies (the 'Group'), is operating network utilities, based mainly in the UK. Our principal interests are in the transmission of electricity and gas, the distribution of gas and in the provision of network infrastructure to the broadcast and telecommunications industries. We also have interests in related markets, including metering services, liquefied natural gas facilities and property in the UK, as well as electricity interconnectors in the UK and Australia.

Results and developments

Changes to the Group during the year
On 1 April 2004, NGH1 acquired from its parent company, National Grid plc (formerly National Grid Transco plc), the entire share capital of Lattice Group plc for a consideration of £6,437 million. In August 2004, we completed the purchase of the UK operations of Crown Castle International Corp. and integrated it with the Group's existing communications business, Gridcom UK, to form a single business, now known as National Grid Wireless.

The results of these businesses have been included in the results of the Group for 2005 and disclosed as "acquisitions". Further details of these acquisitions are give in note 14 to the accounts on page 18.

In August 2004, we agreed the sales of four of our UK gas distribution networks, which had been acquired as part of the Lattice Group acquisition. These sales were completed on 1 June 2005. The results of these four disposed networks are disclosed in the accounts as "discontinued operations". In August 2004, the Group also disposed of its interest in Citelec, an Argentinian joint venture.

Turnover and operating profit
Group turnover rose from £1,527 million in 2003/04 to £4,737 million in 2004/05, principally as a result of the acquisitions of both the Lattice Group and the UK operations of Crown Castle International Corp. Group turnover for continuing operations before acquisitions rose from £1,369 million in 2003/04 to £1,425 million in 2004/05.

Total operating profit rose from £508 million in 2003/04 to £1,047 million in 2004/05. This increase of £539 million is principally a result of acquisitions during the year. Total operating profit includes net exceptional charges of £230 million and goodwill amortisation of £77 million in 2004/05 compared with net exceptional charges of £12 million and goodwill amortisation of £nil in 2003/04. Total operating profit before exceptional items and goodwill amortisation for 2004/05 was £1,354 million, compared with £520 million in 2003/04.

Operating profit before exceptional items and goodwill amortisation for continuing operations before acquisitions was £568 million, compared with £514 million in 2003/04, an increase of £54 million. Within UK electricity transmission, there was an increase of £59 million, from £478 million in 2003/04 to £537 million in 2004/05. This increase was mainly as a result of higher Transmission Use of System income of £32 million and lower operating costs of £22 million, both resulting from the introduction of the new charging methodology 'Plugs'; timing and inflationary impacts associated with electricity transmission revenue collection of £29 million;partly offset by £21 million lower System operator incentive profits.

Exceptional items - operating and non-operating
Exceptional operating charges amounting to £230 million were incurred during 2004/05 compared with net exceptional charges of £12 million in 2003/04. Exceptional operating charges in 2004/05 related to: £69 million of reorganisation costs associated with the disposal of four gas distribution networks; £120 million other restructuring costs in our continuing operations, principally in our UK gas distribution operations; and a £41 million increase in provisions for environmental costs, based on higher cost estimates from the continued evaluation of new environmental legislation and the impact of changes in the timing of planned expenditures. Exceptional charges in 2003/04 of £12 million related to restructuring charges within our UK electricity transmission business.

Non-operating exceptional credits amounting to £18 million were recognised in 2004/05 compared with £228 million credits for 2003/04. The exceptional credits for 2004/05 included a £13 million gain on the disposal of our investment in Citelec, an Argentinian joint venture, and £5 million profit on the disposal of tangible fixed assets. The exceptional credits in 2003/04 included £226 million relating to a gain on assets held for exchange. This gain related to the profit recognised on Energis shares delivered to Equity Plus Income Convertible Securities (EPICs) bondholders. The transaction represented the culmination of a deferred sale arrangement entered into by the Group in February 1999.

Amortisation of goodwill
Goodwill amortisation of £77 million has been included in the results for 2004/05, compared with £nil in 2003/04. This goodwill relates to that arising on the acquisitions of Lattice Group and the UK operations of Crown Castle International Corp. in 2004/05. Further information on these acquisitions, including the amount of goodwill and amortisation periods is given in note 14 on page 18.

Interest
Net interest for 2004/05 was £384 million (2003/04: £80 million). This increase in net interest charge is principally attributable to the increase in net debt relating to the acquisitions of Lattice Group and the UK operations of Crown Castle International Corp.

Taxation
The tax charge for 2004/05 was £161 million (2003/04: £36 million credit). The increase over 2003/04 is due to the acquisitions of Lattice Group and Crown Castle during the year. The tax credit for 2003/04 also included a release in respect of prior years. Exceptional tax credits in 2004/05 were £71 million, compared with £34 million in 2003/04.

Dividends
Interim dividends of £650 million (2003/04: £250 million) were paid during the year. Further details are shown in note 10 to the accounts on page 16. No final dividend is proposed.

Directors

The Directors of the Company, who served throughout the year and subsequently are: -

A B Chapman (Resigned 1 February 2005)
M C Cooper
S Lucas
S F Noonan
R F Petiffer
M A Smyth-Osbourne (appointed 1 February 2005)
Dr R J Urwin

Directors' interests

The interests of S Lucas and Dr R J Urwin, who are also Directors of the ultimate parent undertaking, National Grid plc ('NG'), in shares of Group companies at 31 March 2005 are disclosed in the NG annual report and accounts.

The interests of the other four Directors in NG ordinary shares are shown below:

	1 April 2004 (or appointment if later)	Granted	Exercised	31 March 2005
Employee Sharesave options				
M C Cooper	5,362	-	-	5,362
S F Noonan	5,005	3,451	4,005	4,451
R F Petiffer	3,891	-	-	3,891
M A Smyth-Osbourne	2,910	-	-	2,910
Executive Share options				
M C Cooper	17,501	-	-	17,501
S F Noonan	34,201	-	-	34,201
R F Petiffer	8,119	-	-	8,119
M A Smyth-Osbourne	8,842			8,842
Performance Share Plan Awards				
M C Cooper	29,611	39,917	-	69,528
S F Noonan	11,844	11,862	-	23,706
R F Petiffer	6,525	6,425	-	12,950
M A Smyth-Osbourne	14,637	-	-	14,637

	1 April 2004 (or appointment if later)	31 March 2005
Beneficial interests in shares*		
M C Cooper	49,252	51,647
S F Noonan	1,965	2,289
R F Petiffer	14,822	14,275
M A Smyth-Osbourne	11,991	11,991

Note: Includes shares acquired under the Share Matching Plan. Subject to retention of the shares acquired in accordance with the rules of the plan, matching awards totalling 3,560 NG ordinary shares were exercisable by M C Cooper (31 March 2004: Nil shares) in addition to the above.

At no time during the year has any Director had any material interest in a contract within the Group, being a contract of any significance to the business of NGH1 or its subsidiaries.

Employment policies
The Group has established, through e-mails, intranets, cascade briefings and in-house magazines, effective methods of communicating with employees on matters of concern to them. Regular consultation with staff and their trade union representatives takes place using both formal and informal mechanisms.

All operating companies within the Group are required to build and maintain good standards of employment practice appropriate to the culture and legislative requirements in each country of operation. The Group is 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

The Group takes a positive approach to equality and diversity. We promote equality in the application of reward policies, employment and development opportunities, and aim to support employees in balancing work and personal lifestyles.

Group employees are encouraged to become shareholders in NG and a Sharesave Scheme and a Share Incentive Plan are operated.

Research and development
Expenditure charged in 2005 on research and development was £7 million (2004: £3 million).

Payment to suppliers
The NG group is a signatory to the CBI Code of Prompt Payment and has procedures to ensure the payment of bills in accordance with contractual terms. Copies of the CBI Code of Prompt Payment may be obtained from the CBI, Centre Point, 183 New Oxford Street, London WC1A 1DU.

The average creditor payment period as at 31 March 2005 for the Group's principal operations in the UK was 28 days. As at 31 March 2004, the average creditor payment period was 15 days, which reflected the Group before the acquisitions of Lattice Group and the UK operations of Crown Castle International Corp.

Charitable and other donations

During the year, charitable donations of £383,873 (2004: £23,760) were made. In addition the Group provides financial and in kind support to many other organisations through its community involvement programme.

The Group made no political donations in the UK or European Union during the year (including donations as defined for the purposes of the Political Parties, Elections and Referendums Act 2000).

Treasury and financing

Both short and long-term cash flow forecasts are produced on a frequent basis to assist in identifying the liquidity requirements of the NG group. The NG group seeks to ensure that all of its forecast cash needs for a period of at least twelve months ahead are covered.

The Group has in place appropriate committed facilities and believes that the maturing amounts in respect of its contractual obligations can be met from these facilities, operating cash flows and other refinancings that it reasonably expects to be able to secure in the future.

Treasury policy

The funding and treasury risk management of the Group is carried out by a central department operating under policies and guidelines approved by the Directors of NG. The Finance Committee, a committee of the NG Board, is responsible for regular review and monitoring of treasury activity and for approval of specific transactions. NG has a Treasury department which raises all the funding for the Group and manages interest rate and foreign exchange rate risk.

NG has separate financing programmes for each of the rated companies. All funding is approved by the Finance Committee and the use of derivative financial instruments is controlled by policy guidelines set by the NG Board.

The Treasury department 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 of the NG Group. As part of its business operations, the Group is exposed to risks arising from fluctuations in interest rates and exchange rates. The Group uses derivative financial instruments (derivatives) to manage exposures of this type and as such they are a useful tool in reducing risk. The NG Group's policy is not to use derivatives for trading purposes.

The Group has separate financing programmes for each of the main Group companies.

The Group places surplus funds on the money markets usually in the form of short-term fixed deposits which are invested with approved banks and counterparties. Details of the Group's short-term investments as at 31 March 2005 are shown in note 20 to the financial statements, page 20.

The main risks arising from the Group's financing activities are set out below. The NG Board reviews and agrees policies for managing each risk and they are summarised below.

Risk management

Refinancing risk management

The Group principally controls refinancing risk by limiting the amount of financing obligations (both principal and interest) arising on borrowings in any 12-month and 36-month period, and by specifying a minimum average duration for borrowings. This policy restricts the Group from having an excessively large amount of debt to refinance in a given time frame.

Interest rate risk management

The interest rate exposure of the Group arising from its borrowings and deposits is managed by the use of fixed and floating rate debt, interest rate swaps, swaptions and forward rate agreements. The Group's interest rate risk management policy is to seek to minimise total financing costs (i.e. interest costs and changes in the market value of debt) subject to constraints so that even with large movements in interest rates, neither the interest cost nor the total financing cost can exceed pre-set limits.

Some of the bonds in issue from National Grid Electricity Transmission plc ('NGET'), formerly named National Grid Company plc, and National Grid Gas Holdings plc ('NGGH'), formerly named Transco Holdings plc, are index-linked, i.e. their cost is linked to changes in the UK Retail Price Index (RPI). The Group believes these bonds provide a good hedge for revenues which are also RPI-linked under each price control formula.

Foreign exchange risk management

The principal currency risk the Group is exposed to arises from the translation of assets and liabilities not denominated in sterling, this being the Group's currency for reporting purposes. Currency risk is managed by transacting forward foreign exchange transactions, currency borrowings and derivatives. An exception is made for certain countries where creating a currency hedge is not practical or cost effective.

The Group also has a policy of hedging certain contractually committed foreign exchange transactions over a certain size. Cover generally takes the form of forward sales and purchases of foreign currencies and must always relate to underlying operational cash flows.

The currency composition of the Group's financial assets and liabilities is shown in note 20 on page 20.

Counterparty risk management

At the end of the year, the Group had £366m of cash and deposits.

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. The Finance Committee has agreed a policy for managing such risk, which is controlled through credit limits, approvals and monitoring procedures.

Changes in financing

During the year NGET raised £75 million, NGGH raised £20 million and National Grid Gas plc ('NGG'), formerly named Transco plc, raised £50 million of new finance through the issue of three long term bonds. NGG repurchased £49 million and NGGH repurchased £50 million of long term debt.

Going concern

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

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the Annual General Meeting.

Annual General Meeting

Notice of the NGH1 Annual General meeting for 2005 will be posted separately to shareholders.

On behalf of the board

D C Forward

D C Forward
Company Secretary
31 October 2005

Registered Office
1-3 Strand
London
WC2N 5EH

Registered in England and Wales No. 2367004

Directors' responsibilities in respect of the preparation of the accounts

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for the financial year.

The Directors are responsible for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985. They also have general responsibility for taking reasonable steps to safeguard the assets of the Group and for taking reasonable steps to prevent and detect fraud and other irregularities.

The Directors consider that, in preparing the accounts, suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used and that applicable accounting and financial reporting standards have been followed. The Directors also confirm that the going concern basis is appropriate.

Independent auditors' report to the members of National Grid Holdings One plc

We have audited the accounts which comprise the Group profit and loss account, the balance sheets, the Group statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual report and accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 March 2005 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
31 October 2005

Accounting policies

a) Basis of preparation of accounts

The accounts are prepared under the historical cost convention and in accordance with applicable accounting and financial reporting standards.

The Group has adopted Financial Reporting Standard (FRS) 20 'Share-based Payment' during the year. The impact of the adoption is shown in note 1.

The Group is following the transitional arrangements of FRS 17 'Retirement Benefits'. The required disclosures are shown in note 6. Full adoption of the standard is required by the year ended 31 March 2006.

b) Basis of consolidation and comparatives

The Group accounts include the accounts of the Company and all its subsidiary undertakings, ("Group undertakings"), together with the Group's share of the results and net assets of its joint ventures ("associated undertakings"), less any provision for impairment. An associated undertaking is an entity in which the Group has a participating interest and over which it exercises a significant influence. The accounts of Group and associated undertakings used for consolidation are generally made up to 31 March. However, where this has not been practical, the results of certain Group undertakings and joint ventures have been based on their accounts to 31 December.

The results of newly acquired Group and associated undertakings are included in the Group accounts from the date the Group acquires control or, in respect of associated undertakings, an equity interest which enables it to exercise a significant influence. The results of Group and associated undertakings are included in the Group accounts up to the date that control or the exercise of significant influence, as appropriate, is relinquished.

In translating into sterling the Group's share of the net assets and results of a joint venture operating in a hyper-inflationary economy for the year ended 31 March 2004 and 31 March 2005, adjustments have been made to reflect current price levels. Such adjustments have been reflected through the Group profit and loss account or statement of total recognised gains and losses as appropriate. The Group's share of the gain on net monetary liabilities has been credited to the Group profit and loss account through 'net interest'.

c) Goodwill

Goodwill, representing the excess of fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised and amortised on a straight line basis, through the profit and loss account, over its estimated useful economic life, principally 20 to 40 years. See note 14 on page 18 for additional information on goodwill.

d) Foreign currencies

The results of the Group's overseas operations are translated into sterling at weighted average rates of exchange for the period the overseas operations are included within the Group accounts. In certain limited circumstances where the use of a weighted average rate would distort material transactions, these transactions are separately translated at the rate of exchange relevant to the dates on which the transactions occurred. Assets and liabilities in foreign currencies are generally translated at the rates of exchange ruling at the balance sheet date. In respect of certain assets or liabilities that are matched by an exact and directly related forward exchange derivative, then the relevant asset or liability is translated at the rate of exchange under the related derivative.

Exchange differences arising on the translation of the opening net assets of overseas operations, the re-translation of the retained earnings of overseas operations from average to closing rates of exchange and the translation of foreign currency borrowings or derivatives taken to hedge overseas assets are taken directly to reserves. Tax charges or credits arising on such items are also taken to reserves.

All other exchange differences and related tax charges or credits are taken to the profit and loss account and disclosed separately where deemed exceptional.

e) Tangible fixed assets and depreciation

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

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

Additions represent the purchase or construction of new assets, extensions to or significant increases in the capacity of tangible fixed assets. Contributions received towards the cost of tangible fixed assets are included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the estimated economic lives of the assets.

No depreciation is provided on freehold land and assets in the course of construction. Other tangible fixed assets are depreciated, principally on a straight line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of tangible fixed assets are, in general, as follows:

	Years
Plant and machinery	
Electricity transmission plant	15 to 60
Interconnector plant	15 to 60
Gas plant - mains, service and regulating equipment	30 to 65
Gas plant - storage	40
Gas plant - meters	10 to 33
Wireless towers/infrastructure	20 to 55
Freehold and leasehold properties	up to 50
Motor vehicles and office equipment	up to 10

f) Impairment of fixed assets

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

Impairment reviews are carried out if there is some indication that an impairment may have occurred, or where otherwise required, to ensure that fixed assets are not carried above their estimated recoverable amounts.

Impairments are recognised in the profit and loss account, and where material are disclosed as exceptional.

Accounting policies (continued)

g) Replacement expenditure

Replacement expenditure represents the cost of planned maintenance of the UK's gas mains and services assets by replacing or lining sections of pipe. This expenditure is principally undertaken to repair and to maintain the safety of the network and is written off as incurred. Expenditure that enhances the performance of the mains and services assets is treated as an addition to tangible fixed assets.

h) 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 their recovery is considered more likely than not.

Deferred tax balances have not been discounted.

i) Stocks

Stocks, which primarily comprise consumable stores, are stated at cost less provision for deterioration and obsolescence.

j) Environmental costs

Environmental costs, based on discounted future expenditures expected to be incurred, are provided for in full. The unwinding of discount is included within the profit and loss account as a financing charge.

k) Turnover

Turnover primarily represents the sales value derived from the transmission and distribution of energy together with the sales value derived from the provision of other services, including wireless infrastructure services, to customers during the year and excludes value added tax and intra-group sales.

Turnover from the transmission and distribution of energy originates from the value of units supplied during the year and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end. No liability is recognised when revenues received or receivable exceed the maximum permitted by regulatory agreement and reductions will be made to future prices to reflect this over-recovery.

Turnover from wireless infrastructure services consists mainly of the value of managed broadcast transmission services (for both television and radio networks) and site rentals earned by leasing antenna space on our sites to a range of customers who provide mobile telephony and transmission services. Site rental and transmission service revenue is recognised on a straight-line basis over agreed contracted periods with terms generally ranging from one to twenty years.

l) Pensions

The cost of providing pensions is charged to the profit and loss account on a systematic basis over the service lives of the employees in the scheme. Variations from the regular pension cost are allocated over the estimated average remaining service lives of current employees, with the interest component of any variation being reflected in net interest and the other component reflected through staff costs.

m) Leases

Finance lease income is allocated to accounting periods so as to give a constant rate of return on the net investment in the lease. The net investment in a finance lease is included in debtors and represents the total rentals receivable, net of finance charges, relating to future periods.

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

n) Financial instruments

Derivative financial instruments ("derivatives") are used by the Group mainly for the management of its interest rate and foreign currency exposures. The principal derivatives used include interest rate swaps, currency swaps and forward foreign currency agreements.

All transactions are undertaken or maintained to provide a commercial hedge of the interest or currency risks associated with NG's underlying business activities and the financing of those activities. Amounts payable or receivable in respect of interest rate swaps are recognised in the profit and loss account over the economic lives of the agreements or underlying position being hedged, either within net interest or disclosed separately where deemed exceptional.

Currency swaps and forward currency agreements are retranslated at the rate of exchange prevailing at the balance sheet date with the corresponding exchange adjustment being dealt with in reserves or the profit and loss account as appropriate.

Those derivatives, relating both to interest rates and/or currency exchange, that are directly associated with a specific transaction and exactly match the underlying cash flows relating to the transaction are accounted for on the basis of the combined economic result of the transactions including the related derivative.

Where hedging transactions are undertaken in respect of the NG Group's underlying business activities that are not considered hedging transactions in the Group accounts, those amounts are charged to the profit and loss account and disclosed as exceptional where deemed material.

o) Restructuring costs

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

p) Share-based payments

The Company's parent company, National Grid plc, issues equity-settled share-based payments to certain employees of the Group.

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 is expensed on a straight line basis over the vesting period, based on an estimate of shares that will eventually vest.

National Grid Holdings One plc

Group profit and loss account
for the years ended 31 March

	Notes	2005 £m	2004 (restated) (i) £m
Turnover, including share of joint ventures'		4,776	1,577
Less: share of joint ventures' turnover - continuing operations		(26)	(27)
Less: share of joint ventures' turnover - discontinued operations		(13)	(23)
Group turnover - continuing operations before acquisitions		1,425	1,369
Group turnover - acquisitions		2,283	-
Group turnover - continuing operations		3,708	1,369
Group turnover - discontinued operations		1,029	158
Group turnover	2(a)	4,737	1,527
Operating costs	3	(3,696)	(1,025)
Operating profit of Group undertakings - continuing operations before acquisitions		557	502
Operating profit of Group undertakings - acquisitions		361	-
Operating profit of Group undertakings - continuing operations		918	502
Operating profit of Group undertakings - discontinued operations		123	-
	2(b)	1,041	502
Share of joint ventures' operating profit - continuing operations		5	6
Share of joint ventures' operating profit - discontinued operations		1	-
	2(b)	6	6
Operating profit			
- Before exceptional items and goodwill amortisation	2(b)	1,354	520
- Exceptional items - continuing operations	4(a)	(156)	(12)
- Exceptional items - discontinued operations	4(a)	(74)	-
- Goodwill amortisation		(77)	-
Total operating profit	2(b)	1,047	508
Gain on assets held for exchange - discontinued operations	4(b)	-	226
Profit on disposal of tangible fixed assets - continuing operations	4(b)	5	2
Profit on sale of investments - discontinued operations	4(b)	13	-
Net interest	8	(384)	(80)
Profit on ordinary activities before taxation		681	656
Taxation			
- Excluding exceptional items	9	(232)	2
- Exceptional items	4(c), 9	71	34
	9	(161)	36
Profit on ordinary activities after taxation		520	692
Minority interests - Equity		3	3
Profit for the year		523	695
Dividends	10	(650)	(250)
(Loss)/profit transferred (from)/to profit and loss account reserve	23	(127)	445

Group statement of total recognised gains and losses
for the years ended 31 March

	2005 £m	2004 (restated) (i) £m
Profit for the year	523	695
Exchange adjustments	4	1
Tax on exchange adjustments	-	(12)
Total recognised gains and losses relating to the year	527	684
Prior year adjustment (i)	(36)	
Total recognised gains and losses since last annual report	491	

(i) During the year ended 31 March 2005, the Group adopted Financial Reporting Standard (FRS) 20 'Share-based Payment' - see note 1 to the Accounts.

National Grid Holdings One plc

Balance sheets
at 31 March

	Notes	**Group 2005 £m**	Group 2004 (restated) (i) £m	**Company 2005 £m**	Company 2004 (restated) (i) £m
Fixed assets					
Intangible assets	11	**2,857**	-	-	-
Tangible assets	12	**18,830**	4,281	-	-
Investments in joint ventures					
- Share of gross assets		**29**	31	-	-
- Share of gross liabilities		**(25)**	(27)	-	-
- Share of net assets		**4**	4	-	-
Other investments		**30**	32	**14,421**	4,717
Total investments	13	**34**	36	**14,421**	4,717
		21,721	4,317	**14,421**	4,717
Current assets					
Stocks	15	**76**	14	-	-
Debtors (amounts falling due within one year)	16	**4,409**	5,019	**2,780**	1,647
Debtors (amounts falling due after more than one year)	16	**44**	51	-	-
Current asset investments		**278**	76	**13**	27
Cash at bank and in hand		**88**	62	-	3
		4,895	5,222	**2,793**	1,677
Creditors (amounts falling due within one year)					
Borrowings		**(1,973)**	(20)	-	-
Other creditors		**(11,549)**	(3,211)	**(14,008)**	(4,301)
	17	**(13,522)**	(3,231)	**(14,008)**	(4,301)
Net current (liabilities)/assets		**(8,627)**	1,991	**(11,215)**	(2,624)
Total assets less current liabilities		**13,094**	6,308	**3,206**	2,093
Creditors (amounts falling due after more than one year)					
Other borrowings		**(8,056)**	(2,920)	-	-
Other creditors		**(260)**	(446)	**(300)**	(300)
	18	**(8,316)**	(3,366)	**(300)**	(300)
Provisions for liabilities and charges	21	**(2,819)**	(864)	-	-
Net assets employed		**1,959**	2,078	**2,906**	1,793
Capital and reserves					
Called up share capital	22	**176**	176	**176**	176
Share premium account	23	**335**	335	**335**	335
Revaluation reserve	23	-	-	**624**	624
Other reserve	23	-	-	**3**	3
Profit and loss account	23	**1,448**	1,567	**1,768**	655
Equity shareholders' funds		**1,959**	2,078	**2,906**	1,793

(i) During the year ended 31 March 2005, the Group adopted Financial Reporting Standard (FRS) 20 'Share-based Payment' - see note 1 to the Accounts.

The accounts on pages 6 to 26 inclusive were approved by the Board of Directors on 31 October 2005 and were signed on its behalf by:

SF Noonan
Director

Notes to the accounts

1. Adoption of Financial Reporting Standard (FRS) 20

During the year, the Group adopted FRS 20 'Share-based Payment'. The adoption of this standard constitutes a change in accounting policy. Therefore, the impact has been reflected as a prior year adjustment in accordance with Financial Reporting Standard 3. The standard requires that where shares or rights to shares are granted to third parties, including employees, a charge should be recognised in the profit and loss account based on the fair value of the shares at the date the grant of shares or right to shares is made.

For the year ended 31 March 2005, the adoption of FRS 20 has reduced both basic and adjusted operating profit by £16m, reduced basic and adjusted profit on ordinary activities after taxation for the year by £9m, and increased net assets employed by £19m.

The effect of the adoption of FRS 20 on prior year comparatives is as follows:

	Year ended 31 March 2004		
	As previously reported £m	Impact of FRS 20 £m	As restated £m
Operating profit - before exceptional items	528	(8)	520
Operating profit - after exceptional items	516	(8)	508
Profit for the year - before exceptional items	453	(8)	445
Profit for the year - after exceptional items	703	(8)	695
Net assets employed	2,076	2	2,078

The prior year adjustment recorded in the Group Statement of Total Recognised Gains and Losses reflects the cumulative profit and loss impact of FRS 20 at 31 March 2004 of £36m after deferred tax (£38m before deferred tax). The corresponding entry to the pre-tax FRS 20 charge is recorded through the profit and loss account reserve. Therefore, the impact of restatements for FRS 20 on the profit and loss account reserve at 31 March 2004 represents only the deferred tax credit of £2m.

For National Grid Holdings One plc (the parent company), the adoption of FRS 20 has increased the carrying value of fixed asset investments and net assets at 31 March 2004 by £3m. The adoption of FRS 20 has had no impact on the profit and loss account of the parent company.

2. Segmental analysis

Segmental information is presented in accordance with the management responsibilities and economic characteristics of the Group's business activities.

As a result of the acquisition of the Lattice Group plc on 1 April 2004, a new segment has been presented for the first time - 'UK gas distribution'. In addition, the Group acquired the UK operations of Crown Castle International Corp. (Crown Castle UK) on 31 August 2004. The results of Crown Castle UK have been combined with similar activities of the existing operations of the Group and presented as a new segment shown as 'Wireless infrastructure' below. The comparative numbers relating to this segment were previously reported within 'Other activities'.

Other activities primarily comprises UK based gas metering activities, UK liquefied natural gas storage activities, the electricity interconnectors business, and Advantica, the energy technology and systems solutions business.

Discontinued operations include the results of four UK gas distribution networks which were acquired with the Lattice Group acquisition on 1 April 2004 and disposed on 1 June 2005, together with EnMO, which was disposed in the year ended 31 March 2004. Both of these are reflected within Group undertakings. In addition, discontinued operations includes the results of Citelec, an Argentinian joint venture, which was sold in August 2004.

(a) Turnover

	Total sales 2005 £m	Sales between businesses 2005 £m	Sales to third parties 2005 £m	Total sales 2004 (restated) £m	Sales between businesses 2004 (restated) £m	Sales to third parties 2004 (restated) £m
Turnover, including share of joint ventures						
- continuing operations	4,106	372	3,734	1,443	47	1,396
- discontinued operations	1,115	73	1,042	181	-	181
Less: share of joint ventures' turnover						
- continuing operations	(26)	-	(26)	(27)	-	(27)
- discontinued operations	(13)	-	(13)	(23)	-	(23)
Group turnover	5,182	445	4,737	1,574	47	1,527
Continuing operations						
UK electricity and gas transmission	1,930	37	1,893	1,307	27	1,280
UK gas distribution	1,113	62	1,051	-	-	-
Wireless infrastructure	193	-	193	19	-	19
Other activities	844	273	571	90	20	70
	4,080	372	3,708	1,416	47	1,369
Discontinued operations	1,102	73	1,029	158	-	158
Group turnover	5,182	445	4,737	1,574	47	1,527
Continuing businesses of Group undertakings comprises:						
Existing businesses	1,465	40	1,425	1,416	47	1,369
Acquisitions	2,615	332	2,283	-	-	-
	4,080	372	3,708	1,416	47	1,369

Group turnover is, with minor exceptions, in respect of Europe both in terms of origin and destination.

Notes to the accounts

2. **Segmental analysis** (continued)

(b) Operating profit and net assets

	Operating profit				Net assets	
	Before exceptional items and goodwill amortisation		After exceptional items and goodwill amortisation			
	2005	2004 (restated)	**2005**	2004 (restated)	**2005**	2004 (restated)
	£m	£m	**£m**	£m	**£m**	£m
Continuing operations						
UK electricity and gas transmission	**790**	478	**777**	469	**5,793**	3,578
UK gas distribution	**120**	-	**(12)**	-	**1,710**	-
Wireless infrastructure	**47**	1	**14**	1	**1,118**	(1)
Other activities	**174**	35	**139**	32	**9,352**	288
	1,131	514	**918**	502	**17,973**	3,865
Discontinued operations	**217**	-	**123**	-	**1,927**	-
Group undertakings	**1,348**	514	**1,041**	502	**19,900**	3,865
Joint ventures - continuing operations	**5**	6	**5**	6	**4**	4
Joint ventures - discontinued operations	**1**	-	**1**	-	**-**	-
Joint ventures	**6**	6	**6**	6	**4**	4
Unallocated					**(17,945)**	(1,791)
	1,354	520	**1,047**	508	**1,959**	2,078
Europe	**1,347**	515	**1,042**	503	**19,667**	3,714
North America	**1**	-	**(1)**	-	**(15)**	-
Latin America	**1**	-	**1**	-	**-**	-
Rest of the World	**5**	5	**5**	5	**252**	155
Unallocated					**(17,945)**	(1,791)
	1,354	520	**1,047**	508	**1,959**	2,078
Continuing businesses of Group undertakings comprises:						
Existing businesses	**568**	514	**568**	502	**13,120**	3,865
Acquisitions	**563**	-	**350**	-	**4,853**	-
	1,131	514	**918**	502	**17,973**	3,865

The analysis of net assets by business segment excludes inter-business balances. Unallocated net liabilities include net borrowings, amounts owed to and from group undertakings, taxation, interest, dividends certain provisions and an investment in shares in the Company's ultimate parent undertaking.

3. **Operating costs**

	Continuing operations		Discontinued operations		Total	
	2005	2004 (restated)	**2005**	2004	**2005**	2004 (restated)
	£m	£m	**£m**	£m	**£m**	£m
Total operating costs	**2,790**	867	**979**	158	**3,769**	1,025
Charged from:						
- Continuing operations	**-**	-	**-**	-	**-**	-
- Discontinued operations	**(73)**	-	**-**	-	**(73)**	-
External operating costs	**2,717**	867	**979**	158	**3,696**	1,025
Depreciation	**663**	203	**225**	-	**888**	203
Payroll costs (note 5(a))	**467**	84	**132**	-	**599**	84
Other operating charges:						
- Purchases of gas	**85**	-	**28**	-	**113**	-
- Rates	**253**	92	**84**	-	**337**	92
- Balancing services incentive scheme direct costs	**303**	279	**-**	-	**303**	279
- EnMO direct costs	**-**	-	**-**	158	**-**	158
- Replacement expenditure	**239**	-	**235**	-	**474**	-
- Exceptional operating items	**156**	12	**74**	-	**230**	12
- Other non-exceptional operating charges	**551**	197	**201**	-	**752**	197
	1,587	580	**622**	158	**2,209**	738
	2,717	867	**979**	158	**3,696**	1,025

	2005	2004
Operating costs include:		
Research and development costs	**7**	3
Foreign exchange gains	**(6)**	(12)
Operating lease rentals		
- Plant and machinery	**12**	-
- Other	**46**	3
Amortisation of goodwill	**77**	-
Other amortisation	**-**	1
Auditors' remuneration		
- Statutory audit fees (Company £30,000 (2004: £21,200))	**1.4**	0.6
- Regulatory related services	**0.6**	0.3
- Taxation advice, including due diligence	**0.1**	0.2
- Other	**0.3**	0.1
	1.0	0.6

For the year ended 31 March 2005, operating costs from continuing operations include £1,806m relating to acquired businesses (Lattice Group and the UK operations of Crown Castle International Corp.). These costs comprise depreciation (£453m), payroll costs (£380m), purchases of gas (£85m), rates (£161m), replacement expenditure (£239m), exceptional operating items (£154m) and other non-exceptional operating charges (£334m).

Notes to the accounts

4. Exceptional items

a) Operating

	2005 £m	2004 £m
Continuing operations:		
Restructuring costs [i]	120	12
Environmental provision [ii]	36	-
	156	12
Discontinued operations:		
Restructuring costs [iii]	69	-
Environmental provision [ii]	5	-
	74	-
Total operating exceptional items	230	12

i) Relates to costs incurred in business reorganisations of continuing operations (£87m after tax; 2004: £8m after tax).
ii) A review of the environmental provision was undertaken to take into account the impact of recent changes to UK regulations on waste disposal. This review, together with related revisions to the expected expenditure profile, has resulted in a charge in 2005 to continuing operations of £36m (£23m after tax) and to discontinued operations of £5m (£3m after tax).
iii) Relates to costs incurred in business reorganisations of discontinued operations (£58m after tax).

b) Non-operating

	2005 £m	2004 £m
Continuing operations:		
Profit on disposal of tangible fixed assets [iv]	(5)	(2)
	(5)	(2)
Discontinued operations:		
Gain on assets held for exchange [v]	-	(226)
Profit relating to disposal of investments [vi]	(13)	-
	(13)	(226)
Total non-operating exceptional items	(18)	(228)

iv) The after tax profit on disposal of tangible fixed assets related to continuing operations was £4m (2004: £2m).
v) The gain on assets held for exchange related to the profit recognised on Energis shares delivered to Equity Plus Income convertible Securities (EPICs) bondholders on 6 May 2003 in settlement of all EPICs outstanding at that date that had a carrying value of £243m. This transaction represented the culmination of a deferred sale arrangement entered into in February 1999. The after tax gain on assets held for exchange was £226m.
vi) The credit in 2005 reflects the before and after tax profit on sale of the joint venture investment in Compañia Inversora En Transmicion Electrica S.A. (Citelec) of £13m.

c) Taxation

The exceptional tax credit of £71m in 2005 includes a credit of £22m associated with the prior period disposal of Energis, a former associate company; a £3m credit associated with the prior period write-down of investments; and a £12m charge relating to the settlement of the liabilities arising from the Group's Qualifying Employee Share Ownership Trust. The exceptional tax credit for 2004 of £34m included a credit of £30m relating to investments disposed of in prior periods.

5. Payroll costs and employees

		2005 £m	2004 (restated) £m
a)	**Payroll costs**		
	Wages and salaries	549	82
	Social security costs	50	8
	Other pension costs	118	8
	Employee share option costs	-	9
		717	107
	Less: Amounts Capitalised	(49)	(23)
	Payroll costs included in replacement expenditure	(69)	-
		668	84

		2005 Number	2004 Number
b)	**Average number of employees**		
	Continuing operations	11,797	2,358
	Discontinued operations	4,147	5
		15,944	2,363

The vast majority of the continuing operations employees are employed either directly or indirectly in the distribution and transmission of gas and electricity in the UK.

In addition to the payroll costs shown above, there were restructuring costs of £78m (2004: £12m) primarily in respect of severance costs, which have been included as part of restructuring costs within other operating charges - exceptional items.

6. Directors' emoluments and interests in shares

Total emoluments of the Directors of the Company for the year ended 31 March 2005 were as follows:

	2005 £000	2004 £000
Salaries and benefits	741	335
Performance related bonuses	334	151
	1,075	486

The emoluments of the highest paid Director were £436,062 (2004: £207,047).

A number of the current Directors are also directors and employees of National Grid plc or a subsidiary undertaking of that company and are paid by these companies. The amounts disclosed above include amounts recharged by National Grid plc or a subsidiary undertaking of National Grid plc for these Directors.

The amount of accrued pension at 31 March 2005 for the highest paid Director was £86,830 (2004: £79,428). Two Directors (2004: three directors) exercised share options in National Grid plc (the ultimate parent undertaking) during the year. Retirement benefits at 31 March 2005 are accruing in respect of seven Directors (2004: six Directors) under a defined benefit scheme.

Notes to the accounts

7. Pensions and post-retirement benefits

Substantially all the Group's employees are members of defined benefit pension schemes. The principal schemes are the Lattice Group Pension Scheme, the Electricity Supply Pension Scheme and the Crown Castle UK Pension Scheme.

Lattice Group Pension Scheme

The Lattice Group Pension Scheme provides final salary defined benefits for employees who joined Lattice Group plc prior to 31 March 2002. A defined contribution section was added to the scheme from 1 April 2002 for employees joining Lattice Group plc from that date. The scheme is funded with assets held in a separate trustee administered fund. It is subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contributions, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme.

The latest full actuarial valuation was carried out by Watson Wyatt LLP at 31 March 2003. The projected unit method was used and the principal actuarial assumptions adopted were that the annual rate of inflation would be 2.5% and that future real increases in pensionable earnings would be 1.5%. Investments held in respect of pensions before they become payable would average 5.05% real annual rate of return and investments held in respect of pensions after they become payable would average 2.7% real annual rate of return and that pensions would increase at a real annual rate of 0.05%. The aggregate market value of the scheme's assets was £10,141m and the value of the assets represented approximately 92% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 March 2003 on an ongoing basis and allowing for projected increases in pensionable earnings. The actuarial valuation carried out at 31 March 2003 showed that based on long-term financial assumptions the contribution rate required to meet future benefit accrual was 23.7% of pensionable earnings (20.7% employers and 3% employees). This contribution rate will be reviewed when the next independent actuarial valuation is carried out, which will be no later than 31 March 2006. The ongoing contribution rate does not include an allowance for administration expenses. These contributions are reviewed annually. From 1 April 2004 the rate used for the recovery of administration costs was 1.6% of salary, from 1 April 2005 the rate was 2.6% of salary. Employers are currently, therefore, paying a total contribution rate of 23.3%. The actuarial valuation revealed that the pre-tax deficit was £879m (£615m net of tax) in the defined benefit section on the basis of the funding assumptions adopted by the actuary. An interim annual assessment of the Lattice Scheme was conducted at 31 March 2004. This assessment showed that the deficit has decreased in the defined benefit section on the basis of the funding assumptions adopted by the actuary.

It has been agreed that no funding of the deficit identified in the 2003 actuarial valuation will need to be provided to the scheme until the outcome of an interim actuarial assessment at 31 March 2007 is known. At this point, the Group will pay the gross amount of any deficit up to a maximum amount of £520m (£364m net of tax) into the scheme. Until the 31 March 2007 actuarial valuation has been completed, the Group has arranged for banks to provide the trustees of the Lattice Scheme with letters of credit. The main conditions under which these letters of credit could be drawn relate to events which would imperil the interests of the scheme, such as Transco plc, a Group undertaking, becoming insolvent or the Group failing to make agreed payments into the fund.

Electricity Supply Pension Scheme

The Electricity Supply Pension Scheme provides final salary defined benefits on a funded basis. The assets of the scheme are held in a separate trustee administered fund. The scheme is divided into sections, one of which is the Group's section. It is subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contributions which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme.

The latest full actuarial valuation of the Group's section of the scheme was carried out by Bacon & Woodrow, Consulting Actuaries (now Hewitt, Bacon & Woodrow at 31 March 2004. The projected unit method was used and the principal actuarial assumptions adopted were that the annual rate of inflation would be 2.9% and that future real increases in pensionable earnings would be 1.0%. Investments held in respect of pensions before they become payable would average 3.80% real annual rate of return and investments held in respect of pensions after they become payable would average 2.8% real real annual rate of return and that pensions would increase at a real annual rate of 0.1%. The aggregate market value of the scheme's assets was £1,110m and the value of the assets represented approximately 80.4% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 March 2004 on an ongoing basis and allowing for projected increases in pensionable earnings. The results of the actuarial valuation carried out at 31 March 2004 showed that , based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 19.1% of pensionable earnings (13.1% employers and 6% employees). This contribution rate will be reviewed when the next independent actuarial valuation is carried out, which will be no later than 31 March 2007. The actuarial valuation revealed a pre-tax deficit of £272m (£190m net of tax) on the basis of the funding assumptions adopted by the actuary.

It has been agreed that no funding of the deficit identified in the 2004 actuarial valuation will need to be provided to the scheme until the outcome of the actuarial valuation at 31 March 2007 is known. At this point, the Group will pay the gross amount of any deficit up to a maximum amount of £68m (£48m net of tax) into the scheme. Until the 31 March 2007 actuarial valuation has been completed , the Group has arranged for banks to provide the trustees of the National Grid Scheme with letters of credit. The main conditions under which these letters of credit could be drawn relate to events which could imperil the interests of the scheme, such as National Grid Company plc, a Group undertaking, becoming insolvent or the Group failing to make agreed payments into the fund.

Crown Castle UK Pension Scheme

The Crown Castle UK Pension Scheme provides final salary defined benefits for service up to and including 30 June 2003 and a career averaged pension for service after 1 July 2003 on a funded basis. The scheme was closed to new entrants on 1 August 1997. The assets of the scheme are held in a separate trustee administered fund. It is subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contributions which, together with the specified contributions payable by employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme.

The latest full actuarial valuation of the scheme was carried out by Deloitte Total Reward and Benefits Limited at 31 December 2002. This valuation has been used to calculate the charge in accordance with SSAP 24. The attained age method was used and the principal actuarial assumptions adopted were that the annual rate of inflation would be 2.5% an that future real increases in pensionable earnings would be 1.5%. Investments held in respect of pensions before and after they become payable would average 4.25% real annual rate of return and pensions would increase in line with inflation.The aggregate market value of the scheme's assets was £15m and the value of the assets represented approximately 84% of the actuarial value of benefits due to memebers calculated on the basis of pensionable earnings and service at 31 December 2002 on an ongoing basis and allowing for projected increases in pensionable earnings.

The results of the actuarial valuation carried out at 31 December 2002 showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 25.9% of pensionable earnings (18.4% employers and 7.5% employees). This contribution rate will be reviewed when the next independent actuarial valuation is carried out, which will be no later than 31 December 2005.

SSAP 24 valuation assumptions

Further valuations of the Lattice Group Pension Scheme, using the attained age method, and the Group's section of the Electricity Supply Pension Scheme, using the projected unit method, were carried out at 31 March 2004 to calculate the charge in accordance with SSAP 24. The results of these valuations were that the regular cost , as a percentage of salary, was 24.5% for the Lattice Group Pension Scheme and 10.7% for the Electricity Supply Pension Scheme. The scheme deficits were £220m and £225m respectively.

7. **Pensions and post-retirement benefits** (continued)

Pension cost, prepayment and provisions for liabilities and charges

The costs recorded relating to the Group's pension plans were as follows:

	2005 £m	2004 £m
Defined contribution scheme costs	2	-
Defined benefit regular pension costs	100	9
Charge/(credit) related to variation from regular pension cost, of which £2m credit related to the partial release of a pension provision in 2005 (2004: £2m)	14	(1)
Pension costs charged to operating profit	116	8
Notional interest charged to net interest	26	-
Total pension costs for the year	142	8

Included in debtors at 31 March 2005 was a pension prepayment of £nil (2004: £6m)

Included within provisions for liabilities and charges at 31 March 2005 was a pension provision of £279m (2004 £8m) - see note 21.

FRS 17 Retirement benefits

On 20 November 2000, the Accounting Standards Board introduced a new accounting standard, FRS 17 "Retirement Benefits", replacing SSAP 24 "Accounting for Pension Costs". FRS 17 is fully effective for periods beginning on or after 1 January 2005, though disclosures are required in the financial years prior to its full implementation. Disclosures showing the impact on the Group's profit and loss account and balance sheet, together with other disclosures required by FRS17, are set out below. The disclosures have been prepared by updating the results of the aforementioned valuation by qualified independent actuaries using the projected unit method of valuation on the basis of the following assumptions.

	2005	2004	2003
Rate of increase in salaries *	3.9%	3.9%	3.5%
Rate of increase in pensions in payment	3.0%	3.0%	2.6%
Discount rate	5.4%	5.5%	5.4%
Rate of increase in RPI	2.9%	2.9%	2.5%

* A promotional age related salary scale has also been used.

An analysis of the assets held in the scheme and the expected rates of return at 31 March 2005, 31 March 2004 and 31 March 2003 were as follows:

	Long term rate of return expected at 31 March 2005	Value at 31 March 2005 £m	Long term rate of return expected at 31 March 2004	Value at 31 March 2004 £m	Long term rate of return expected at 31 March 2003	Value at 31 March 2003 £m
Equities	7.8%	5,414	8.0%	665	8.5%	583
Bonds	4.8%	6,412	5.0%	336	4.6%	286
Property	6.5%	1,049	6.5%	90	6.5%	85
Other	4.0%	175	4.0%	15	4.0%	13
Total market value of assets		13,050		1,106		967
Present value of scheme liabilities		(14,154)		(1,537)		(1,400)
Deficit in the scheme		(1,104)		(431)		(433)
Related deferred tax asset		331		129		130
Net pension liability		(773)		(302)		(303)

The net pension liability comprises net pension liabilities relating to funded schemes in deficit of £752m (2004: £295m) and net pension liabilities relating to unfunded schemes in deficit of £21m (2004: £7m).

If the above amounts had been recognised in the financial statements, the Group's net assets employed at 31 March would have been as follows:

	2005 £m	2004 (restated) £m
Net assets employed excluding net SSAP24 pension liability	2,217	2,079
Net FRS17 pension liability	(773)	(302)
Net assets employed including net FRS17 pension liability	1,444	1,777

The impact of the implementation of FRS17 on net assets employed, as shown above, would be reflected within the profit and loss account reserve.

The net pension deficit has moved during the year ended 31 March as set out below:	2005 £m	2004 £m
At 1 April	(431)	(433)
Acquisition of group undertakings	(1,000)	-
Current service cost	(113)	(14)
Net loss on settlements or curtailments	(17)	(9)
Contributions	111	19
Other financial income/(expense)	15	(7)
Actuarial gains	331	13
At 31 March	(1,104)	(431)

Notes to the accounts

7. Pensions and post-retirement benefits (continued)

If FRS17 had been implemented for the year ended 31 March, the following amounts would have been charged to the profit and loss account for the year:

	2005 £m	2004 £m
Operating charge		
Current service cost	**113**	14
Net loss on settlements or curtailments	**17**	9
Total charge to operating profit	**130**	23
Other financial (income)/expense		
Expected return on scheme assets	**(758)**	(67)
Interest on scheme liabilities	**743**	74
Impact on financial income	**(15)**	7
Net profit and loss charge before taxation	**115**	30

i) Expected return on scheme assets for the year ended 31 March 2005 is reported after charging administration expenses of £6m.

If the Group were to prepare its accounts under FRS 17, the net loss on settlements or curtailments would be reported as part of exceptional items. The net FRS 17 profit and loss account impact before tax excluding these exceptional items amounted to £98m (2004: £21m) and compares with the current UK GAAP gross charge, before amounts capitalised in respect of pensions of £142m (2004: £8m). The FRS 17 pre-exceptional profit and loss account charge (pre-tax) would therefore be £44m lower (2004: £13m higher) than the SSAP 24 charge.

In addition, the following amounts would have been recognised in the statement of total recognised gains and losses:

	2005 £m	2004 £m
Difference between actual and expected return on scheme assets	**415**	127
Experience gains arising in scheme liabilities	**86**	11
Changes in assumptions	**(170)**	(125)
Actuarial gains	**331**	13

History of experience gains and losses that would be recognised on an FRS17 basis:	2005	2004	2003
Difference between actual and expected return on scheme assets (£m)	**415**	127	(316)
- percentage of scheme assets	**3%**	11%	(33%)
Experience gains arising on scheme liabilities (£m)	**86**	11	7
- percentage of present value of scheme liabilities	**1%**	1%	1%
Actuarial gains/(losses) (£m)	**331**	13	(369)
- percentage of present value of scheme liabilities	**2%**	1%	(26%)

8. Net interest

	2005 £m	2004 £m
Bank loans and overdrafts	**40**	29
Interest payable to Group undertakings	**95**	77
Other	**565**	215
Interest payable and similar charges	**700**	321
Unwinding of discount in provisions (note 21)	**7**	-
Interest capitalised	**(62)**	(41)
Interest payable and similar charges net of interest capitalised	**645**	280
Interest receivable from Group undertakings	**(221)**	(187)
Interest receivable and similar income	**(50)**	(17)
	374	76
Joint ventures	**10**	4
	384	80

Interest on the funding attributable to assets in the course of construction was capitalised during the year at a rate of 5.6% (2004: 5.9%).

9. Taxation

	2005	2004 (restated)
	£m	£m
United Kingdom		
- Corporation tax at 30% (2004: 30%)	173	10
- Adjustment in respect of prior years	(47)	(99)
- Deferred tax	24	25
- Adjustment to deferred tax in respect of prior years	(17)	25
	133	(39)
Overseas		
- Corporate tax	25	3
- Deferred tax	-	(2)
- Adjustment in respect of prior years	1	-
	26	1
	159	(38)
Joint ventures	2	2
	161	(36)
Comprising:		
Taxation - excluding exceptional items	232	(2)
Taxation - exceptional items	(71)	(34)
	161	(36)

A reconciliation of the UK corporation tax rate to the effective tax rate of the Group is as follows:

	2005	2004 (restated)
	(% of profit before taxation)	
UK corporation tax rate	30.0	30.0
Effect on tax charge of:		
- Origination and reversal of timing differences	(4.3)	(5.2)
- Permanent differences	2.8	(21.0)
- Overseas income taxed at other than UK statutory rate	(3.3)	-
- Other	0.2	0.5
Current tax charge	25.4	4.3
Deferred taxation	3.6	5.2
Effective tax rate before goodwill amortisation, prior year adjustments and exceptional items	29.0	9.5
Effect of goodwill amortisation	2.5	-
Effective tax rate before prior year adjustments and exceptional items	31.5	9.5
Current tax adjustment in respect of prior years	(5.5)	(10.0)
Effective tax rate after adjustments in respect of prior years and before exceptionals	26.0	(0.5)
Exceptional items	(2.4)	(5.0)
Effective tax rate after exceptional items	23.6	(5.5)

10. Dividends

	2005	2004
	£m	£m
Ordinary dividends		
- Interim	650	250

11. Intangible fixed assets

Group	£m
Cost at 1 April 2004	-
Acquisition of Group undertakings	2,934
Cost at 31 March 2005	2,934
Amortisation at 1 April 2004	-
Amortisation charge for the year	77
Amortisation at 31 March 2005	77
Net book value at 31 March 2005	2,857
Net book value at 31 March 2004	-

Intangible fixed assets relate largely to goodwill.

For further details of acquisitions during the year see note 14, page 18.

12. Tangible fixed assets

Group	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2004	101	5,540	791	172	6,604
Exchange adjustments	-	-	2	-	2
Acquisition of Group undertakings	627	13,240	215	322	14,404
Additions	31	321	685	85	1,122
Disposals	(87)	(39)	-	(16)	(142)
Reclassifications	37	462	(521)	22	-
Cost at 31 March 2005	709	19,524	1,172	585	21,990
Depreciation at 1 April 2004	15	2,206	-	102	2,323
Depreciation charge for the year	11	757	-	120	888
Disposals	(4)	(33)	-	(14)	(51)
Depreciation at 31 March 2005	22	2,930	-	208	3,160
Net book value at 31 March 2005	**687**	**16,594**	**1,172**	**377**	**18,830**
Net book value at 31 March 2004	86	3,334	791	70	4,281

The cost of tangible fixed assets at 31 March 2005 includes £447m (2004: £374m) relating to interest capitalised.

The net book value of land and buildings comprises:

	2005 £m	2004 £m
Freehold	**648**	79
Long leasehold (over 50 years)	**12**	3
Short leasehold (under 50 years)	**27**	4
	687	86

13. Fixed asset investments

	Group			Company
	Unlisted joint ventures Share of net assets £m	Shares held in ultimate parent undertaking £m	Total £m	Group undertakings £m
Cost at 1 April 2004 (as previously reported)	4	32	36	4,714
Prior year adjustment (note 1)	-	-	-	3
Cost at 1 April 2004 (restated)	4	32	36	4,717
Acquisition of Group undertakings	-	2	2	11,693
Disposals	6	(4)	2	(1,127)
Share of retained loss	(6)	-	(6)	-
Cost at 31 March 2005	**4**	**30**	**34**	**15,283**
Impairment at 1 April 2004	-	-	-	-
Charge for the year	-	-	-	862
Impairment at 31 March 2005	-	-	-	862
Net book value at 31 March 2005	**4**	**30**	**34**	**14,421**
Net book value at 31 March 2004	4	32	36	4,717

Shares held in parent undertaking at 31 March 2005 relate to 6.5m (2004: 8m) 10p ordinary shares in National Grid plc (the ultimate parent undertaking), held by employee share trusts for the purpose of satisfying certain obligations under the various share option schemes operated by the group. The carrying value of £30m (2004: £32m) (market value £32m (2004: £34m)) represents the exercise amounts receivable in respect of those shares which were issued at market value by National Grid plc and cost in respect of those shares purchased in the open market. Funding is provided to the trusts by group undertakings. The trusts have waived their rights to dividends on these shares.

On 20 August 2004, the Company acquired 100% of the ordinary share capital of National Grid Jersey Investments Limited for a total consideration of £1,127m from National Grid Electricity Transmission plc and on 6 December 2004 this investment was sold to NGG Telecoms Limited for a total consideration of £1,127m.

On 23 December 2004, the Company acquired 100% of the ordinary and preference share capital of National Grid (Ireland) 1 Limited for a total consideration of £4,129m from National Grid Holdings Limited, a subsidiary undertaking.

During the year ended 31 March 2005, the Company impaired its investment in Lattice Group plc by £862m following a review of the carrying value of these investments.

Subsequent to the year end, on 25 May 2005 the Company as part of a Group reorganisation repurchased the entire share capital of National Grid Jersey Investments Limited for a total consideration of £1,127m from NGG Telecoms Limited, a subsidiary undertaking.

The names of the principal group undertakings and associated undertakings are included at note 27.

Notes to the accounts

14. Acquisitions

On 1 April 2004, the Group acquired Lattice Group plc from the Group's parent undertaking National Grid plc, for a consideration of £6,437m. This transaction has been recorded using the acquisition method of accounting.

Goodwill arising on the acquisition, being the difference between the purchase consideration and the fair value of the assets and liabilities acquired, amounted to £2,296m and is being amortised over 40 years from the date of acquisition, being its estimated useful economic life, assessed by reference to the economic life of the fixed assets in the gas business to which it relates.

On 31 August 2004, the Group acquired the UK operations of Crown Castle International Corp. for a total consideration of £1,143m, including acquisition costs of £14m. This transaction has been recorded using the acquisition method of accounting.

Goodwill arising on the acquisition, being the difference between the purchase consideration and the fair value of the assets and liabilities acquired, amounted to £627m and is being amortised over 20 years from the date of acquisition, being its estimated useful economic life.

Lattice Group plc	Book value at acquisition £m	Accounting policy adjustments £m	Fair value adjustments £m	Final fair value £m
Intangible fixed assets	13	-	(2)	11
Tangible fixed assets	8,103	-	5,675	13,778
Fixed asset investments	2	-	-	2
Stocks	53	-	-	53
Debtors	690	-	-	690
Cash and deposits	342	-	-	342
Creditors	(9,497)	-	568	(8,929)
Provisions for liabilities and charges	(1,706)	-	(100)	(1,806)
Net (liabilities)/assets acquired	(2,000)	-	6,141	4,141
Goodwill arising on acquisition				2,296
Total consideration				6,437

Fair value adjustments primarily related to the revaluation of tangible fixed assets to their fair value at the date of acquisition. Creditors fair value adjustments related to borrowings (£(444)m), the deferred capital contribution balance (£1,027m) which had a fair value of £nil and the recognition of a liability (£(15)m), which was reported as contingent at 31 March 2004 by Lattice Group plc, but recognised as a creditor in the year ended 31 March 2005, following the conclusion of legal proceedings. Fair value adjustments to provisions related to the recognition of the defined benefit scheme pension deficit of Lattice Group plc.

Turnover and profit after tax of Lattice Group plc, as reported in the consolidated accounts for the year ended 31 March 2004, was £3,229m and £491m respectively.

Crown Castle	Book value at acquisition £m	Accounting policy adjustments £m	Fair value adjustments £m	Final fair value £m
Tangible fixed assets	519	(4)	111	626
Stocks	3	-	-	3
Debtors	43	-	-	43
Cash and deposits	29	-	-	29
Creditors	(152)	-	-	(152)
Provisions for liabilities and charges	(34)	1	-	(33)
Net (liabilities)/assets acquired	408	(3)	111	516
Goodwill arising on acquisition				627
Total consideration				1,143

The adjustments recorded to book value reflect accounting alignments to bring the accounting policies of the acquired businesses into line with those of the Group, which resulted in a reduction of £4m to tangible fixed assets relating to the accounting for leasehold properties; and an increase of £1m to provisions for liabilities and charges relating to decommissioning provisions, offset by associated decreases in the provision for deferred tax of £2m.

The profit after tax of the UK operations of Crown Castle International Corp. for the period from 1 January 2004 to 31 August 2004 was £3m, reflecting turnover of £160m, operating profit of £22m, profit before tax of £15m and taxation of £12m. This compared with the reported profit after tax for the year ended 31 December 2003 of £2m.

15. Stocks

	Group 2005 £m	Group 2004 £m
Raw materials and consumables	**38**	12
Work in progress	**27**	2
Fuel stocks	**11**	-
	76	14

16. Debtors

	Group 2005 £m	Group 2004 £m	**Company 2005 £m**	Company 2004 £m
Amounts falling due within one year:				
Trade debtors	**137**	48	**-**	-
Amounts owed by Group undertakings	**3,784**	4,851	**2,780**	1,397
Dividends	**-**	-	**-**	250
Prepayments and accrued income	**394**	79	**-**	-
Other debtors	**94**	41	**-**	-
	4,409	5,019	**2,780**	1,647
Amounts falling due after more than one year:				
Prepayments and accrued income	**6**	-	**-**	-
Other debtors	**38**	51	**-**	-
	44	51	**-**	-
	4,453	5,070	**2,780**	1,647

Other debtors includes taxation recoverable of £16m (2004: £nil), of which £12m (2004: £nil) is falling due within one year and £4m (2004: £nil) is falling due after more than one year.

Notes to the accounts

17. Creditors (amounts falling due within one year)

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Borrowings (note 19)	**1,973**	20	**-**	-
Trade creditors and accruals	**803**	206	**-**	-
Amounts owed to Group undertakings	**9,873**	2,632	**13,937**	4,263
Amounts owed to related parties	**-**	1	**-**	-
Corporation tax	**-**	61	**54**	-
Social security and other taxes	**218**	17	**-**	-
Other creditors	**378**	197	**17**	38
Deferred income	**277**	97	**-**	-
	13,522	3,231	**14,008**	4,301

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

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Borrowings (note 19)	**8,056**	2,920	**-**	-
Amounts owed to Group undertakings	**-**	300	**300**	300
Other creditors	**3**	12	**-**	-
Deferred income	**257**	134	**-**	-
	8,316	3,366	**300**	300

19. Borrowings

The following table analyses the Group's financial liabilities, comprising gross borrowings after taking account of currency and interest rate swaps.

	Group 2005 £m	Group 2004 £m
Amounts falling due within one year:		
Bank loans and overdrafts	**135**	20
Commercial paper	**1,311**	-
Other bonds	**513**	-
Other loans	**14**	-
	1,973	20
Amounts falling due after more than one year:		
Bank loans	**910**	407
Other bonds	**7,136**	2,402
Other loans	**10**	111
	8,056	2,920
Total borrowings	**10,029**	2,940

Amounts falling due after more than one year are repayable as follows:

	Group 2005 £m	Group 2004 £m
In more than one year, but not more than two years	**1,298**	251
In more than two years, but not more than five years	**2,177**	772
In more than five years - other than by instalments	**4,581**	1,897
	8,056	2,920

Included in other bonds are the following items that were issued during the year. In respect of the following bonds, gross consideration equated to the notional principal of the issue.

GBP 75 million 5.0% Fixed Rate Instruments due 2035
GBP 50 million 5.625% Fixed Rate Instruments due 2007
JPY 4 billion Variable Rate Intruments due 2005

The notional amount at maturity of the Group's debt portfolio was £9,612m (2004: £2,915m).

20. Financial instruments

The Group's treasury policy, including details of the nature, terms and credit risk associated with financial instruments with off-balance sheet risk is described on pages 3 and 4.

The Group's counterparty exposure under foreign currency swaps and foreign exchange contracts was £133m (2004: £6m) and interest rate swaps £16m (March 2004: £1m).

The Group has no significant exposure to either individual counterparties or geographical groups of counterparties.

Short term debtors and creditors, where permitted by the financial reporting standard on derivatives and other financial instruments (FRS 13), have been excluded from the following disclosures. It is assumed that because of short maturities, the fair value of short term debtors and creditors approximate to their book values.

Currency and interest rate composition of financial liabilities

The currency and interest rate composition of the group's financial liabilities are shown in the table below after taking into account currency and interest rate swaps.

				Fixed rate liabilities	
At 31 March 2005	Total £m	Variable rate £m	Fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	**10,029**	**6,881**	**3,148**	**6.3**	**9.4**
US dollars	**-**	**-**	**-**	**-**	**-**
Borrowings	**10,029**	**6,881**	**3,148**	**6.3**	**9.4**
Other financial liabilities (sterling)	**61**	**61**	**-**	**-**	**-**
	10,090	**6,942**	**3,148**	**6.3**	**9.4**
At 31 March 2004					
Sterling	2,940	1,786	1,154	5.8	10.2
US dollars	-	(273)	273	6.8	1.0
Borrowings	2,940	1,513	1,427	6.0	8.4
Other financial liabilities (sterling)	312	312	-	-	-
Other financial liabilities (dollars)	15	15	-	-	-
	3,267	1,840	1,427	6.0	8.4

At 31 March 2005, the weighted average interest rate on short term borrowings of £1,973m (2004: £20m) was 4.8% (2004: 5.0%).

Other financial liabilities at 31 March 2005, related to onerous leases of £61m included in other creditors.

Substantially all of the variable rate borrowings are subject to interest rates which fluctuate with LIBOR for the appropriate currency at differing premiums.

In calculating the weighted average number of years for which interest rates are fixed, swaps which are cancellable at the option of the swap provider are taken to have a life based on the earliest date at which they can be cancelled.

Currency and interest rate composition of financial assets

The currency and interest rate composition of the group's financial assets are shown in the table below after taking into account currency and interest rate swaps.

				Fixed rate assets	
At 31 March 2005	Total £m	Variable rate £m	Fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	**362**	**362**	**-**	**-**	**-**
US dollars	**3**	**3**	**-**	**-**	**-**
Other currencies	**1**	**1**	**-**	**-**	**-**
Cash and deposits	**366**	**366**	**-**	**-**	**-**
Other financial assets (sterling)	**41**	**-**	**41**	**11.5**	**4.1**
	407	**366**	**41**	**11.5**	**4.1**
At 31 March 2004					
Sterling	85	85	-	-	-
US dollars	32	32	-	-	-
Other currencies	21	21	-	-	-
Cash and deposits	138	138	-	-	-
Other financial assets (sterling)	45	-	45	11.5	5.1
	183	138	45	11.5	5.1

Other financial assets at 31 March 2005 relate to a net investment in a finance lease of £41m (2004: £45m). Cash and investments earn interest at local prevailing rates.

Maturity of financial liabilities at 31 March	2005 £m	2004 £m
In one year or less	**1,989**	47
In more than one year, but not more than two years	**1,306**	251
In more than two years, but not more than five years	**2,191**	1,072
In more than five years	**4,604**	1,897
	10,090	3,267

20. Financial instruments (continued)

Maturity of financial assets at 31 March	2005 £m	2004 £m
In one year or less	374	145
In more than one year, but not more than two years	8	7
In more than two years, but not more than five years	23	28
In more than five years	2	3
	407	183

Fair values of financial instruments at 31 March	2005		2004	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Other short term debt	(1,971)	(1,985)	(20)	(20)
Other long term debt	(8,180)	(8,464)	(2,895)	(3,121)
Cash and investments	366	366	138	138
Other financial liabilities	(61)	(61)	(327)	(327)
Net investment in finance lease	41	41	45	45
Financial instruments held to manage interest rate and currency profile:				
Interest rate swaps	23	(67)	-	(30)
Forward foreign currency contracts and cross currency swaps	99	82	(25)	(27)

Market values, where available, have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

The notional principal amounts relating to financial instruments held to manage interest rate and currency profile for interest rate swaps and forward rate agreements, foreign currency contracts and cross currency swaps, amounted to £3,601m (2004: £818m) and £2,430m (2004:£3,324m) respectively.

Gains and losses on hedges	Unrecognised Gains £m	Unrecognised Losses £m	Unrecognised Net gain/(loss) £m	Deferred Gains £m	Deferred Losses £m	Deferred Net (loss)/gain £m
Gains and (losses) on hedges at 1 April 2004	15	(47)	(32)	-	(2)	(2)
Gains and (losses) on acquisition of Group undertakings	-	-	-	89	(80)	9
(Gains)/losses arising in previous years recognised in the year	(1)	10	9	(7)	10	3
Gains/(losses) arising in previous years not recognised in the year	14	(37)	(23)	82	(72)	10
Gains/(losses) arising in the year	2	(86)	(84)	27	(7)	20
Gains and (losses) on hedges at 31 March 2005	**16**	**(123)**	**(107)**	**109**	**(79)**	**30**
Of which:						
Gains and (losses) expected to be recognised within one year	14	(4)	10	13	(14)	(1)
Gains and (losses) expected to be recognised after one year	3	(120)	(117)	96	(65)	31

Borrowing facilities

At 31 March 2005, the Group had bilateral committed undrawn credit facilities of £1,985m (2004: £460m).

The Group also had committed credit facilities from syndicates of banks of £257m at 31 March 2005 (2004: £262m), £57m (2004: £151m) of which were undrawn, and an analysis of the maturity of these undrawn committed facilities is shown below:

Undrawn committed borrowing facilities are as follows:	2005 £m	2004 £m
In one year or less	1,985	460
In more than two years	57	151
	2,042	611

21. Provisions for liabilities and charges

Group	Pensions £m	Environmental £m	Deferred taxation (restated) £m	Restructuring £m	Other £m	Total provisions £m
At 1 April 2004 (as originally reported)	8	10	822	-	26	866
Prior year adjustment (note 1)	-	-	(2)	-	-	(2)
At 1 April 2004 (restated)	8	10	820	-	26	864
Acquisition of Group undertakings	220	252	1,215	89	63	1,839
Additions	141	41	10	175	11	378
Unused amounts reversed	-	(1)	(2)	-	-	(3)
Utilised	(84)	(36)	-	(133)	(3)	(256)
Unwinding of discount	-	7	-	-	-	7
Reclasifications	(6)	-	-	-	-	(6)
Other movements	-	-	(4)	-	-	(4)
At 31 March 2005	279	273	2,039	131	97	2,819

The environmental provision represented the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Group.

At 31 March 2005, £261m (2004: £nil) of the environmental provision represented the net present value of the estimated statutory decontamination costs of old gas manufacturing sites in the UK (discounted using a nominal rate of 5.25%). The anticipated timings of the cash flows for statutory decontamination cannot be predicted with certainty, but it is expected to be incurred over the period 2006 to 2057 with some 64% of the spend to be spent over the next five years. During the year ended 31 March 2005 a review of the provision was undertaken to take into account the impact of recent changes to the regulations on waste disposal. This review together with related revisions to the expected expenditure profile has resulted in an additional provision being made as an exceptional charge of £41m in the profit and loss account - see note 4(a).

There are a number of uncertainties that affect the calculation of the provision for UK 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. The Group 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 profit and loss account.

The undiscounted amount of the provision at 31 March 2005 relating to UK gas decontamination was £340m (2004: £nil), being the undiscounted best estimate of the liability having regard to the uncertainties referred to above (excluding the impact of changes in discount rate).

The remainder of the environmental provision of £12m related to the expected costs of remediation of certain other sites in the UK, is calculated on an undiscounted basis and is expected to be utilised in within the next five years.

As at 31 March 2005, £36m of the total restructuring provision (2004: £nil) 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 in the UK.

Other provisions include a severance provision of £6m (2004: £3m), which it is currently estimated will be utilised within the next year; employer liability provisions of £5m (2004: £5m) which comprises estimates of liabilities in respect of past events for which no payment date can be identified although it is expected that the liability will be substantially settled over 30 years; £11m (2004: £12m) in respect of obligations associated with the impairment of investments in joint ventures and associate; a £5m (2004: £6m) balance relating to other property commitments estimated to be utilised over the next ten years; £2m (2004: £nil) relating to a provision created during the year to cover protected rights for employees where NGET has an obligation under several deeds of covenant; and £59m (2004: £nil) of estimated liabilities in respect of past events incurred by the Group's insurance undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates were based on experience from previous years and there was, therefore, no identifiable payment date.

Deferred taxation comprises:

	Provided 2005 £m	Provided 2004 (restated) £m
Accelerated capital allowances	2,110	828
Other timing differences	(71)	(8)
	2,039	820

22. Share capital

	Authorised millions	Authorised £m	Allotted, called up and fully paid millions	Allotted, called up and fully paid £m
Ordinary shares of 11 13/17 pence each				
At 1 April 2004 and at 31 March 2005	2,125	250	1,498	176

Share Option and Award Schemes

The National Grid Group ("NG Group") operates two principal forms of share option scheme in which the employees and Directors of the Company are entitled to participate. They are an employee Sharesave scheme and an Executive Share Option Scheme ("the Executive Scheme"). The details given below relate to the schemes operated by the NG Group for the benefit of the Company's employees and Directors.

The Sharesave scheme is savings related where, under normal circumstances, share options are exercisable on completion of a three or five year save-as-you-earn contract. The exercise price of options granted represents 80% of the market price at the date the option was granted.

The Executive Scheme applies to senior executives, including Executive Directors. Options granted for the 1999/2000 financial year are subject to the achievement of performance targets related to earnings per share growth over a three year period and have now vested. Options granted for the 2000/01 financial year and thereafter are subject to the achievement of performance targets related to total shareholder returns over a three year period and these have not yet vested. The share options are generally exercisable between the third and tenth anniversaries of the date of grant if the relevant performance target is achieved.

The Company also operates a number of share award schemes including a Performance Share Plan (PSP), a Share Matching Plan and a Transitional Share Award and Special Share Award in relation to former Crown Castle employees.

Under the PSP, awards have been made to Executive Directors and a number of senior staff below the level of the Executive Management Team who have significant influence over the Group's ability to meet its strategic objectives. Under the PSP, awards are conditional on the Group's total shareholder return over a three year period. Awards are delivered in National Grid plc ordinary shares. At 31 March 2005 the number of conditional awards of ordinary share equivalents outstanding under the PSP was 4,649,768 (2004: 2,256,754) of which nil (2004: nil) were exercisable. The number of conditional awards during the year ended 31 March 2005 was 2,650,658 (2004: 2,256,754) with lapses/forfeits during the year of 254,647 (2004: nil) and exercises of 2,997 (2004: nil).

The Share Matching Plan applies to Executive Directors whereby a predetermined part of each Director's bonus entitlement is automatically deferred into National Grid plc shares and a matching award may be made under the Plan after a three year period provided the Director is still employed by the Group. At 31 March 2005 the number of conditional awards on ordinary share equivalents outstanding under the Share Matching Plan was 341,842 (2004: 212,185) of which 28,534 (2004: nil) were exercisable. The number of conditional awards during the year ended 31 March 2005 was 171,460 (2004: 88,455) with exercises during the year of 42,163 (2004: 11,245).

The Transitional Share Award and Special Share Awards were made during the year ended 31 March 2005 to former Crown Castle UK employees and have a vesting period of four and two years respectively provided that the employee is still employed by the Group. The number of awards made during the year were 188,650 and 45,700 repsectively.

Movements in options to subscribe for ordinary shares under the NG Group's various option schemes for the year ended 31 March 2005 are shown on the following page and include those options related to shares issued to employee share benefit trusts.

Notes to the accounts

22. Share capital (continued)

	Sharesave scheme options		Executive share scheme options		Total Options
	Weighted average price £	millions	Weighted average price £	millions	millions
At 31 March 2004	3.46	6.1	4.70	4.8	10.9
On acquistion of Lattice Group plc	3.24	25.6	4.37	2.8	28.4
Granted	3.83	4.8	-	-	4.8
Lapsed - expired	3.36	(1.5)	4.94	(0.8)	(2.3)
Exercised	3.37	(3.8)	3.9	(0.5)	(4.3)
At 31 March 2005	**3.35**	**31.2**	**4.58**	**6.3**	**37.5**

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

	2005 £	2004 £
Sharesave scheme options	**4.49**	3.97
Executive share scheme options	**4.65**	3.99

Included within options outstanding at 31 March 2005 and 31 March 2004 were the following options which were exercisable:

	Sharesave scheme options		Executive share scheme options		Total Options
	Weighted average price £	millions	Weighted average price £	millions	millions
At 31 March 2005	**3.25**	**0.3**	**4.6**	**3.7**	**4.0**
At 31 March 2004	-	-	4.43	2.1	2.1

The weighted average remaining contractual life of options in the employee sharesave scheme at 31 March 2005 was 2 years and 1 months. These options have exercise prices between £3.12 and £4.57.

Options outstanding and exercisable and their weighted average exercise prices for the respective ranges of exercise prices and years at 31 March 2005 are as follows:

	Weighted average exercise price of exercisable options £	Number exercisable millions	Weighted average exercise price of outstanding options £	Number outstanding millions	Exercise price per share Pence	Normal dates of exercise Years
Executive scheme	2.81	0.6	2.81	0.6	258.0 -280.5	2001 - 2008
	3.79	0.6	3.79	0.6	375.8 - 490.0	2002 - 2009
	4.46	0.3	4.46	0.3	424.0 - 566.5	2003 - 2010
	5.33	1.1	5.33	1.1	526.0 - 623.0	2004 - 2011
	5.37	1.1	5.37	1.1	479.5 - 563.0	2005 - 2012
	4.44	-	4.59	2.5	434.3 - 481.5	2006 - 2013
	4.05	-	4.05	0.1	405.0	2007 - 2014
	4.6	**3.7**	**4.58**	**6.3**		

Share based payment charges
Under UK GAAP, a charge is made to the profit and loss account based on the fair value of grants in accordance with FRS 20 'Share Based Payment'. All share awards are equity settled.

The charge to the profit and loss account for the year ended 31 March 2005 was £16m (2004: £8m).

Awards under share option plans
The average share price at grant date of options granted during the financial years ended 31 March were as follows:

	2005	2004
Where the exercise price is less than the market price at the date of grant	496.0p	400.0p

The average exercise price of the options granted during each of the financial years ended 31 March were as follows:

	2005	2004
Where the exercise price is less than the market price at the date of grant	383.0p	317.0p

The average fair value of the options granted during each of the financial years ended 31 March were as follows:

	2005	2004
Where the exercise price is less than the market price at the date of grant	90.4p	66.8p

The fair value of the options granted are estimated using the following principal assumptions

	2005	2004
Dividend yield (%)	5.3-5.8	7.0
Volatility (%)	15.4	20.4
Risk-free investment rate (%)	4.5	4.6
Average life (years)	4.0	4.5

22. Share capital (continued)

The fair value of awards under the Sharesave scheme have been calculated using the Black-Scholes model. This is considered appropriate given the short exercise window of sharesave options.

Volatility has been derived based on the following:
(i) implied volatility in traded options over the Group's shares;
(ii) historical volatility of the Group's shares from October 2002 (the date of the merger of National Grid Group plc and Lattice Group plc); and
(iii) implied volatility of comparator companies where options in their shares are traded.

Volatility is assumed to revert from its current implied level to its long run mean, based on historical volatility under (ii) above.

Awards under other share scheme plans

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

	2005	2004
Average share price	432.3p	407.4p
Average fair value	212.7p	390.8p

The fair value of the options granted are estimated using the following principal assumptions

	2005	2004
Dividend yield (%)	5.3-5.7	7.0
Volatility (%)	15.4	20.4
Risk-free investment rate (%)	4.5-5.2	4.6

In 2004 the fair value of awards under the PSP were estimated using the share price at date of grant less an adjustment for dividends not payable in the vesting period. In 2005 fair values have been calculated using a Monte Carlo simulation model, which better reflects the total shareholder return performance conditions of the plan.

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

Volatility for share awards has been calculated on the same basis as used for share options, as described above.

23. Reserves

	Group		Company			
	Share premium account £m	Profit & loss account £m	Share premium account £m	Revaluation Reserve £m	Other Reserve £m	Profit & loss account £m
At 31 March 2004 (previously reported)	335	1,565	335	624	-	655
Prior year adjustment	-	2	-	-	3	-
At 1 April 2004 (as restated)	335	1,567	335	624	3	655
Exchange adjustments	-	4	-	-	-	-
Deferred tax on employee option schemes	-	4	-	-	-	-
(Loss)/profit transferred (from)/to reserves	-	(127)	-	-	-	1,113
At 31 March 2005	**335**	**1,448**	**335**	**624**	**3**	**1,768**

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. Of the Group profit after taxation, a profit of £1,763m (2004: £196m) is attributable to the Company.

24. Reconciliation of movement in equity shareholders' funds

	2005 £m	2004 (restated) £m
Profit for the year	**523**	695
Dividends	**(650)**	(250)
	(127)	445
Exchange adjustments	**4**	1
Tax on exchange adjustments	**-**	(12)
Employee share options	**-**	8
Deferred tax on employee option schemes	**4**	-
Net increase/(decrease) in equity shareholders' funds	**(119)**	442
Equity shareholders' funds at start of year	**2,078**	1,636
Equity shareholders' funds at end of year	**1,959**	2,078

25. Related party transactions

The Company is exempt from disclosing transactions with National Grid plc and other subsidiaries of that company by virtue of the fact that the voting rights of all these companies are held within the National Grid plc group.

Under FRS 8 paragraph 3(c), the Company is exempt from disclosing transactions with entities that are part of the Group qualifying as related parties by virtue of the fact that the transactions are disclosed in the ultimate parent company's consolidated accounts.

26. Commitments and contingencies

a) Future capital expenditure

	Group	
	2005	2004
	£m	£m
Contracted for but not provided	**890**	352

b) Lease commitments

At 31 March 2005, the Group's operating lease commitments for the financial year ending 31 March 2006 amounted to £73m (2004: £4m), relating mainly to land and buildings for both years, and are analysed by lease expiry date as follows:

	Land and Buildings		Other		Total	
	2005	2004	**2005**	2004	**2005**	2004
	£m	£m	**£m**	£m	**£m**	£m
Within one year	**1**	-	**-**	-	**1**	-
Between two and five years	**8**	-	**9**	-	**17**	-
After five years	**55**	3	**-**	1	**55**	4
	64	3	**9**	1	**73**	4

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

	2005	2004
	£m	£m
In one year or less	**73**	4
In more than one year, but not more than two years	**70**	-
In more than two years, but not more than three years	**66**	-
In more than three years, but not more than four years	**63**	-
In more than four years, but not more than five years	**63**	-
In more than five years	**374**	-
	709	4

c) Other commitments, contingencies and guarantees

The value of other Group commitments, contingencies and guarantees at 31 March 2005 amounted to £329m (2004: £32m), including guarantees amounting to £169m (2004: £14m).

Details of the guarantees entered into by the Group at 31 March 2005 are shown below:

i) performance guarantees of £45m relating to certain property obligations of Group undertakings. The bulk of these expire by December 2025;

ii) a guarantee of £50m of the obligations of a Group undertaking to make payments in respect of any liabilities uner a meter operating contract that runs until May 2008;

iii) a performance guarantee relating to the construction of the Victoria to Tasmania interconnector that commenced at 840 million Australian Dollars, reducing at construction milestones. The maximum potential payout is now estimated as £11m. The guarantee expires at commisioning, currently anticipated in April 2006;

iv) a guarantee of the payment obligations of a Group undertaking in respect of a Power Connection Agreement amounting to an annual maximum of 6 million Australian Dollars, reducing over the term of the contract. This runs until June 2049, but the maximum potential payout is estimated as £5m;

v) a guarantee of the payment obligations of a Group undertaking in respect of a Nitrogen Supply Agreement amounting to a maximum potential payout of £15m subject to a cap of £1m per annum. This runs until November 2019;

vi) a guarantee of the payment obligations of a Group undertaking in respect of a Power Connection agreement amounting to a maximum potential payout of £14m subject to a cap of £7m per annum. This runs until December 2024;

vii) guarantees in respect of a former associate amounting to £14m, the bulk of which relates to its obligations to supply telecommunications services. This is open-ended; and

viii) other guarantees amounting to £15m arising in the normal course of business and entered into on normal commercial terms. These guarantees run for varying lengths of time.

d) Parent Company loan guarantees on behalf of Group undertakings

The Company has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from a finance subsidiary to third parties. At 31 March 2005, the sterling equivalent amounted to £1,371m (2004: £1,333m).

27. Group undertakings and joint ventures

Principal Group undertakings

The principal Group undertakings included in the Group accounts at 31 March 2005 are listed below. These undertakings are wholly-owned and, unless otherwise indicated, are registered in England and Wales.

	Principal activity
National Grid Holdings Limited (a)	Holding company
National Grid Electricity Transmission plc (formerly National Grid Company plc) (b)	Transmission of electricity in England and Wales
National Grid Australia Pty Ltd (formerly Basslink Pty Limited) (c) (incorporated in Australia)	Construction and operation of electricity interconnector
Lattice Group plc (a)	Holding company
National Grid Gas Holdings plc (formerly Transco Holdings plc) (c)	Holding company
National Grid Gas plc (formerly Transco plc) (c)	Gas transportation
British Transco International Finance BV (Incorporated in The Netherlands) (c)	Financing
National Grid Commercial Holdings Limited (formerly Lattice Group Holdings Limited) (c)	Holding company
National Grid Property Limited (formerly SecondSite Property Portfolio Limited) (c)	Property
National Grid Wireless Limited (formerly Crown Castle (UK) Limited (c)	Telecommunications and broadcast infrastructure
National Grid Wireless No 2 Limited (formerly Gridcom (UK) Limited (c)	Telecommunications infrastructure

(a) All of the issued ordinary share capital is held by National Grid Holdings One plc.
(b) All of the issued ordinary share capital is held by National Grid Holdings Limited.
(c) All of the issued ordinary share capital is held by a Group undertaking.

Principal joint ventures
(at 31 March 2005)

	Group holding	Country of incorporation and operation	Principal activity
Copperbelt Energy Corporation Plc[i]	38.5% ordinary shares	Zambia	Transmission, distribution and supply of electricity

(i) 31 December year end

The investment in joint ventures is held by a Group undertaking.

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

28. Cash flow statement

In accordance with FRS 1 (Revised 1996) Cash Flow Statements, no cash flow statement has been presented as the cash flows of the group have been included in the Group cash flow statement of National Grid plc.

29. Holding company

The Company's ultimate controlling and parent company is National Grid plc, which is registered in England and Wales. Copies of this company's Report and Accounts can be obtained from: The Company Secretary, National Grid plc, 1-3 Strand, London, WC2N 5EH.

30. Post balance sheet events

The sale of four of the regional gas distribution networks, owned by the Company's subsidiary undertaking, National Grid Gas plc was completed on 1 June 2005 for total cash consideration of £5.8 billion. The results related to the distribution networks which have now been sold are disclosed within discontinued operations.