- electricity transmission joint ventures (£19.2 million, compared with £14.4 million in 1999/2000).

These increased contributions were partially offset by lower contributions from:

- Intelig (losses of £118.0 million, compared with losses of £44.1 million in 1999/2000);
- UK Transmission (£486.3 million, compared with £523.1 million in 1999/2000);
- UK Interconnectors (£42.8 million, compared with £46.6 million in 1999/2000); and
- other telecommunications joint ventures (losses of £3.4 million, compared with losses of £nil in 1999/2000)

Note 1 to the accounts contains a segmental analysis of the Group's results. A review of the businesses is set out on pages 10 to 29.

Goodwill amortisation
Goodwill amortisation for 2000/01 rose from £7.9 million to £74.5 million. This increase reflects a full year's amortisation of goodwill relating to the acquisition of NEES and the amortisation of goodwill arising from the acquisition of EUA on 19 April 2000.

Exceptional items
The results for 2000/01 include exceptional pre-tax profits of £217.7 million (£453.1 million post-tax), comprising:

- profits of £242.9 million, before and after tax, arising from reductions in the Group's interest in Energis, primarily as a result of a placing of shares by Energis in September 2000 and the acquisition by Energis of a majority stake in Ision in January 2001;
- net profits of £20.1 million, before and after tax, on the disposal of market services businesses as discussed on page 15;
- US integration costs of £45.3 million (£39.4 million post-tax); and
- a tax credit of £229.5 million arising from the realisation of capital losses for tax purposes as a result of Group restructurings.

Interest
Net interest rose from £64.9 million to £250.6 million for 2000/01. This increase is largely attributable to the acquisitions of NEES and EUA, which were paid for out of cash balances and new borrowings.

The net interest charge for 2000/01 also includes:

- a £17.4 million gain on closing out sterling fixed-interest rate swaps originally entered into as hedges for sterling borrowings; and
- £21.0 million of losses arising from the valuation at maturity of dollar interest rate swaptions which provided an economic hedge of dollar borrowings but do not qualify as hedges for accounting purposes.

Taxation
The net tax credit of £149.6 million for 2000/01 includes a net credit of £235.4 million relating to exceptional items. If these exceptional items are excluded, the tax charge for 2000/01 is £85.8 million, including a £20.0 million tax credit arising from an adjustment to prior years' tax. After adjusting for the exceptional items and the tax credit adjustment relating to prior years, the effective tax rate for 2000/01 is 26.0 per cent. The effective tax rate for 1999/2000, excluding the impact of exceptional items, was 26.0 per cent.

During the year ending 31 March 2002, National Grid will implement a new accounting standard, Financial Reporting Standard 19: Deferred taxation (FRS 19), which requires full provision to be made for deferred taxation. Prior to the implementation of this new accounting standard, National Grid's accounting policy was to provide for deferred taxation to the extent that a tax liability was expected to become payable in the foreseeable future. The implementation of this new accounting standard is expected to increase the deferred tax provision at 31 March 2001 by £1 billion, but it is estimated that the effective tax rate of 26.0 per cent, including deferred taxation, will be maintained for 2001/02. This change in accounting policy has no effect on the net debt position of National Grid.

Exchange rates
Exchange rate movements during the year have had a beneficial effect on the operating profit contribution from National Grid USA. Sterling has weakened during the year such that National Grid USA's operating profit has been translated into a higher sterling operating profit than would otherwise have been expected. The results for 2000/01 have been translated at a weighted average rate for the year of £1.00 = $1.483 as compared with the rate of £1.00 = $1.60 which applied at 31 March 2000. If the 31 March 2000 rate had been used, operating profit would have been lower by approximately £20 million.

The increased operating profit is largely offset by the increased sterling interest cost of US dollar debt taken on to finance the cost of the investment in National Grid USA and the increased sterling cost of US taxes. As a result, the impact of the stronger US dollar has not had a significant effect on earnings per share.

Exchange rate movements during the year have adversely affected National Grid's share of operating losses in Intelig, the Brazilian telecommunications operator, as sterling has weakened against the Brazilian currency during 2000/01. We estimate that, as compared with the average exchange rate for 1999/2000, this increased our share of operating loss by approximately £5 million.

Earnings per share
Basic earnings per share fell 25.9 pence to 52.1 pence, reflecting the very significant level of exceptional profits in 1999/2000. Excluding exceptional items and goodwill amortisation, basic earnings per share increased 2.2 pence to 26.5 pence. If telecoms start-up losses are also excluded, basic earnings per share rose by 7.6 pence to 35.9 pence, an increase of 27 per cent.

Ordinary dividends
The total ordinary dividend for 2000/01 amounts to 15.08 pence per ordinary share, an increase of 8.2 per cent over the previous year. The total dividend is covered 1.8 times (1999/2000: 1.7 times) by earnings per ordinary share, excluding exceptional items and goodwill amortisation, and amounts to £223.0 million.

Dividends
The table below shows the amounts of cash dividends in respect of each of the five most recent financial years. These dividends do not include any associated UK tax credit in respect of all such dividends.

	2000/01 p	1999/2000 p	1998/99 p	1997/98 p	1996/97 p
Interim	**6.05**	5.59	5.25	4.83	4.45
Final	**9.03**	8.35	7.82	7.24	6.68
Total ordinary dividends	**15.08**	13.94	13.07	12.07	11.13
Special dividend	**–**	–	–	44.70	–
Total dividends	**15.08**	13.94	13.07	56.77	11.13
US dollar per ADS(i)	**$**	$	$	$	$
Interim	**0.44**	0.46	0.43	0.39	0.36
Final	**0.64**	0.63	0.63	0.62	0.54
Total ordinary dividends	**1.08**	1.09	1.06	1.01	0.90
Special dividend	**–**	–	–	3.64	–
Total dividends	**1.08**	1.09	1.06	4.65	0.90

(i) Translated into US dollars per ADS (each ADS representing five ordinary shares) at the Noon Buying Rate nearest to the dates the dividends were paid, or at £1.00 = $1.42 in respect of the 2000/01 final dividend, which has not yet been paid.

As dividends paid by National Grid are in pounds sterling, exchange rate fluctuations will affect the US dollar amounts received by holders of ADSs on conversion by The Bank of New York, the Depositary, of such cash dividends.

Dividend policy
National Grid is committed to delivering sustained real dividend growth. Confidence in the Group’s future financial strength and in the prospects for growth and greater diversity of earnings has increased. Consequently, the Board announced on 21 November 2000 its aim to increase dividends per share by 5 per cent real in each of the next five years.

Financial year ended 31 March 2000 (1999/2000) compared with financial year ended 31 March 1999 (1998/99)

Acquisition of NEES
The acquisition of NEES was completed on 22 March 2000. The acquisition cost £2,070.8 million and the net assets acquired had a fair value of £1,155.0 million, resulting in goodwill of £915.8 million which has been capitalised and is being amortised through the profit and loss account over 20 years. As a result of the short period of ownership, the contribution of National Grid USA, the successor to NEES, to the Group’s results for the year ended 31 March 2000 was not material.

Turnover
Group turnover from continuing operations increased from £1,514.2 million in 1998/99 to £1,614.7 million in 1999/2000 as a result of the contribution from National Grid USA, higher UK Transmission turnover and higher other activities turnover reflecting the launch of the OCM through EnMO.

Operating profit
Total operating profit decreased by £33.4 million to £546.5 million in 1999/2000 as a result of the operating losses incurred by Intelig, the Group’s telecommunications joint venture in Brazil. The operating losses incurred by Intelig, of which the Group’s share was £44.1 million, were in line with expectations for a start-up operation of this size. The movement in total operating profit also reflects higher profit contributions from UK Transmission (£15.0 million), UK Interconnectors (£7.1 million), Energis (£10.9 million) and a lower profit contribution (£27.3 million) from other activities.

Note 1 to the accounts contains a segmental analysis of the Group’s results. A review of the businesses is set out on pages 10 to 29.

Exceptional items
The results for 1999/2000 include an exceptional profit of £1,027.3 million relating to the partial disposal of the Group’s shareholding in Energis, an associated undertaking. This comprised a pre-tax profit of £895.2 million (£665.7 million after tax) on the sale of shares in Energis and a pre- and post-tax profit of £132.1 million resulting from reductions in the Group’s interest in Energis, primarily as a consequence of the placing of shares by Energis.

Interest
The net interest charge in 1999/2000 decreased from £118.5 million to £64.9 million. This reduction reflects a lower average level of net debt, which resulted from the sale of shares in Energis in both 1999/2000 and 1998/99.

Taxation
The tax charge in 1999/2000 totalled £352.6 million and included £229.5 million relating to exceptional profits. The effective tax rate for the year, excluding the impact of exceptional items, was 26.0 per cent, compared with 26.2 per cent in 1998/99.

Earnings per share
Basic earnings per share, excluding exceptional items and goodwill amortisation, rose from 23.3 pence in 1998/99 to 24.3 pence in 1999/2000, an increase of 4.3 per cent. If telecoms start-up losses are also excluded, basic earnings per share increased by 15.0 per cent from 24.6 pence to 28.3 pence.

Ordinary dividends
The total ordinary dividend for 1999/2000 amounted to 13.94 pence per ordinary share. This represents an increase of 6.7 per cent over the previous year. The total dividend was covered 1.7 times (1998/99: 1.8 times) by earnings per ordinary share, excluding exceptional items and goodwill amortisation, and cost £205.5 million.

Liquidity and capital resources

Cash flow
Net cash inflow from operations was £810.6 million in 2000/01 compared with £682.0 million in 1999/2000 and £605.9 million in 1998/99. The 2000/01 increase in net cash inflow from operations has arisen from the impact of National Grid USA’s contribution to cash inflow. Details of the components of net cash inflow from operations are set out in note 25(a) to the accounts.

In 1999/2000, the sale of ordinary shares in Energis contributed £952.9 million to the inflow of cash.

Cash flow in 1998/99 benefited significantly from the following two transactions carried out in February 1999, both relating to National Grid’s shareholding in Energis:

- the sale of ordinary shares in Energis, which produced net proceeds of £959.3 million; and
- the issue of Equity Plus Income Convertible securities (EPICs) in the principal amount of $401.2 million, the net proceeds of which were £242.6 million.

Details of the EPICs, which are mandatorily exchangeable into Energis ordinary shares, are contained in note 18 to the accounts. The profit from the disposal of Energis shares arising from this transaction will not be recognised in the accounts until the EPICs have been exchanged into Energis ordinary shares.

Cash outflow in 2000/01 relating to the acquisition of Group undertakings and other investments amounted to £778.1 million, which substantially relates to the acquisition of EUA and an additional investment in Intelig. Cash outflow relating to the acquisition of Group undertakings and other investments in 1999/2000 was £2,189.6 million (of which £2,045.1 million related to the acquisition of NEES) and in 1998/99 was £25.2 million.

Payments to the providers of finance, in the form of dividends and interest, totalled £519.4 million (net) in 2000/01, compared with £262.3 million in 1999/2000 and £302.8 million in 1998/99. Net interest cash outflows increased from £119.7 million and £64.7 million in 1998/99 and 1999/2000 respectively to £303.4 million in 2000/01. This increase primarily reflects the acquisitions of NEES and EUA.

Corporate tax payments amounted to £137.2 million in 2000/01 compared with £274.3 million in 1999/2000 and £154.9 million in 1998/99. Notwithstanding additional corporate tax payments in respect of National Grid USA, corporate tax payments in 2000/01 were lower than in 1999/2000, for two main reasons:

- UK corporate tax payments on account were lower in 2000/01, primarily as a result of tax relief on exchange adjustments; and
- corporate tax payments in respect of partial disposals of Energis in 1998/99 and 1999/2000 were lower as a result of the realisation for tax purposes of capital losses arising from Group restructurings.

Tax payments in 1999/2000 were higher than in 1998/99, reflecting the introduction during that year of quarterly payments on account for UK corporation tax and corporate tax payments on the partial disposal of Energis in 1998/99.

Net purchases of tangible fixed assets absorbed cash of £457.6 million in 2000/01, compared with £279.2 million in 1999/2000 and £312.5 million in 1998/99. Net purchases of tangible fixed assets in 2000/01 include amounts in respect of National Grid USA amounting to £153.5 million, compared with £4.3 million for 1999/2000 (which relates to the period 22 March to 31 March 2000).

In January 1999, in addition to the debt of £242.6 million raised through the issue of the EPICs, National Grid issued a 5.875 per cent 25-year bond in the principal amount of £450 million, the net proceeds of which were £443.0 million.

Equity shareholders’ funds
Equity shareholders’ funds increased from £2,909.0 million at 31 March 2000 to £3,475.8 million at 31 March 2001, primarily as a result of the retained profit for the year of £546.0 million, which reflected the favourable impact of exceptional net profits of £453.1 million.

Net debt
Net debt increased from £2,663.6 million at 31 March 2000 to £3,918.2 million at 31 March 2001, primarily as a result of the acquisition of EUA, additional investment in telecommunications joint ventures and exchange rate movements. Gearing at 31 March 2001 was 111 per cent, up from 90 per cent at the start of the year. Interest cover (the number of times the net interest charge is covered by total operating profit excluding goodwill amortisation and exceptional items), which is considered more relevant than gearing as an indicator of the Group’s borrowing capacity, was 2.9 times (compared with 8.4 times in 1999/2000 and 4.9 times in 1998/99).

When the impact of exchangeable bonds is also excluded, interest cover excluding exceptional items and goodwill amortisation was 3.6 times (1999/2000: 26.8 times; 1998/99: 7.6 times).

Capital expenditure
Capital expenditure, including interest capitalised, in 2000/01 was £535.8 million, compared with £316.1 million in 1999/2000. The higher level of capital expenditure reflects capital expenditure relating to National Grid USA of £154.2 million compared with £4.3 million for 1999/2000 (which relates to the period 22 March to 31 March 2000) and an increase of £74.7 million in UK Transmission capital expenditure to £361.2 million.

At 31 March 2001, future capital expenditure contracted for but not provided in the accounts amounted to £396.8 million. It is expected that this capital expenditure commitment will be financed from the Group’s operational cash flow.

Capital expenditure fell from £329.0 million in 1998/99 to £316.1 million in 1999/2000. This fall in capital expenditure reflects a decrease of £27.5 million in UK Transmission capital expenditure to £286.5 million.

Credit facilities
The credit facility established in March 1999 in connection with the acquisition of NEES remains in place as a prime source of liquidity, although its size has been reduced to $1,190 million for National Grid Group plc (NGG) and £250 million for The National Grid Company plc (NGC), the Group’s principal UK operating company. This facility

runs to March 2004. NGC has further committed facilities of £100 million maturing in less than one year. A short-term bridging facility has been set up for NGG for $1,000 million to run to September 2001. These changes form part of an overall plan to ensure that new and additional financings are in place prior to completion of the acquisition of Niagara Mohawk.

Companies within the National Grid USA group have committed facilities totalling $578 million (£407 million) which mature in less than one year and $300 million (£211 million) maturing in one to two years. At 31 March 2001, all these facilities were unused and were available to provide back-up in respect of borrowings under commercial paper and note issuance programmes.

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. Acting within these policies, certain treasury management activities are delegated to regional treasury centres. The Treasury Policy Committee, a committee of the Group Board, is responsible for regular review and monitoring of treasury activity and for approval of specific transactions. Treasury-related risks faced by the Group include interest rate risk, currency risk, credit risk and liquidity and funding risk, and the policies applicable are described below.

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. Derivative financial instruments ("derivatives"), including swaps and options, are used principally for reducing interest rate and currency risk. Derivatives are not held for trading purposes.

Interest rate risk

To provide protection against adverse interest rate movements, the interest rate on the debt portfolio is managed through the use of fixed-rate debt, combined with the use of interest rate swaps, options and option-related instruments with a view to maintaining a significant proportion of the debt portfolio at fixed rates over the medium term. The proportion at fixed rates is varied over time with an objective of achieving 50 per cent to 85 per cent of debt at fixed rates depending on debt projections and market levels of interest rates.

The interest rate composition of the Group's financial liabilities at 31 March 2001 is shown in note 19 to the accounts. Based on the level and composition of net borrowings at 31 March 2001, an increase in average interest rates of 1 per cent per annum would result in a decrease in profit before taxation of £4.8 million.

The acquisition of NEES in March 2000 was partly funded from sterling cash balances held at that time, combined with currency swaps to create an effective US dollar liability. The swap generates a sterling floating rate interest receivable and a US dollar floating rate interest payable. After allowing for all derivative instruments, 88.5 per cent of total borrowings at 31 March 2001 were at fixed rates.

The table opposite provides information about the Group's financial instruments that are sensitive to changes in interest rates, including borrowings, interest rate swaps, cross currency swaps and other derivative instruments. For borrowings, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. The analysis opposite is before taking into account interest rate and currency swaps and does not include unamortised issue costs: as a result, it differs from the analysis of borrowings contained in note 18 to the accounts.

For interest rate swaps, cross currency swaps and swap options, the table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates. For foreign exchange deals, the table presents the value of currency in the relevant contracts. The information is presented in sterling equivalents which is the Group's reporting currency.

Substantially all of the variable rate borrowings and the floating legs of swaps are subject to interest rates which fluctuate with the London Inter-Bank Offered Rate (LIBOR) for the appropriate currency at differing premiums or, in the case of certain US-based companies, are based on the market rates for tax-exempt commercial paper. Cash and deposits earn interest at local prevailing rates for the appropriate currency and comprise £136.9 million of sterling deposits, £131.6 million of US dollar deposits and £2.7 million of other currencies.

In determining maturity dates, swaps that are cancellable at the option of the swap provider are taken to have a maturity based on the earliest date at which they can be cancelled. Debt which is callable by the issuer is taken to have a maturity based on the earliest date on which the issuer is obliged to make repayment.

During the year, the Group sought to increase the amount, and extend the maturity, of its fixed US dollar component and to that end was able to reduce the contracted rate to well below the market rates at that time through a strategy involving the sale of options. Although this strategy has allowed out-performance against internal targets, at the time of exercise of the option, there was an accounting mark to market cost of £21.0 million which has been recognised in the results for the year and which will be amortised through net interest in the profit and loss account over the next ten years.

	At 31 March 2001 £m	Expected maturity – financial year ending: 31 March 2002 £m	31March 2003 £m	31 March 2004 £m	31 March 2005 £m	31 March 2006 £m	Thereafter £m	Fair value £m
Variable rate borrowings (cash flows)								
Sterling borrowings	394.6	228.6	–	166.0	–	–	–	394.5
US dollar borrowings	1,654.4	511.2	2.6	832.0	1.9	1.4	305.3	1,654.3
Swiss franc borrowings	186.9	–	–	186.9	–	–	–	186.9
Australian dollar borrowings	2.5	2.5	–	–	–	–	–	2.5
	2,238.4	742.3	2.6	1,184.9	1.9	1.4	305.3	2,238.2
Fixed rate borrowings (cash flows)								
Sterling borrowings	1,431.9	242.6	39.3	–	–	240.0	910.0	1,552.8
weighted average interest rate		6.0%	6.6%			8.0%	6.2%	
US dollar borrowings	475.5	24.5	57.4	27.2	45.6	12.2	308.6	506.9
weighted average interest rate		8.9%	7.7%	7.9%	7.7%	3.6%	7.5%	
	1,907.4	267.1	96.7	27.2	45.6	252.2	1,218.6	2,059.7
Total borrowings	4,145.8	1,009.4	99.3	1,212.1	47.5	253.6	1,523.9	4,297.9
Cash and deposits	271.2	271.2	–	–	–	–	–	271.2
Interest rate swaps (sterling – notional amounts)								
Receive fixed rate	476.2	–	26.2	450.0	–	–	–	8.8
average fixed rate element			6.6%	5.9%				
Pay fixed rate	100.0	–	–	100.0	–	–	–	(9.4)
average fixed rate element				5.7%				
Interest rate swaps (US dollar – notional amounts)								
Pay fixed rate	2,313.4	1,056.3	–	528.2	352.1	–	376.8	(39.8)
average fixed rate element		6.8%		6.8%	6.8%		6.5%	
	2,889.6	1,056.3	26.2	1,078.2	352.1	–	376.8	(40.4)
Cross currency swaps (notional amounts)								
Receive Swiss francs floating/pay sterling fixed	257.7	–	–	257.7	–	–	–	(70.0)
average fixed rate element				7.9%				
Receive sterling floating/pay US dollars floating	1,690.1	1,253.5	436.6	–	–	–	–	(176.7)

	1,947.8	1,253.5	436.6	257.7	–	–	–	(246.7)
Other financial instruments (notional amounts)								
Interest rate swaps to pay fixed rate	300.0	–	–	–	–	300.0	–	(28.2)
weighted average interest rate						8.3%		
Interest rate swaps to receive fixed rate	300.0	–	–	–	–	300.0	–	1.2
weighted average interest rate						5.5%		
Foreign exchange deals (sterling/US dollar)	170.2	170.2	–	–	–	–	–	1.5

Currency risk
Although foreign currency transaction exposures relating to cross-border trading activity remain very limited, the policy of the Group is to hedge all exposures exceeding $500,000 through the use of forward foreign exchange contracts. The principal currency risk to which the Group is exposed arises from the translation of assets and liabilities not denominated in sterling. In general, the policy has been to hedge the balance sheet exposure through currency borrowings, currency swaps or forward foreign exchange deals to the extent of the original cost of the investment, where this is material and where it is practical to do so in the light of costs and availability of suitable financial instruments for the currency concerned. The currency risk on the original cost of acquiring NEES and EUA is fully hedged by both US dollar borrowings and the use of currency swaps, while the investment in Intelig in Brazil remains unhedged.

The acquisition of Niagara Mohawk will further increase the balance sheet exposure to US dollars. In view of the increased materiality of the US dollar to the Group the policy has been reviewed, and the objective will be to match the US dollar proportion of the Group’s financial liabilities to the proportion of its cash flow that arises in dollars and is available to service those liabilities.

Currency fluctuations will affect the translated value of overseas earnings. This translation has no impact on the cash flow of the Group, and accordingly is not hedged other than indirectly through the natural hedge of having foreign currency interest expense arising on currency denominated liabilities. Dividend flows may be hedged through matching with interest flows or by forward foreign exchange deals and options.

The currency composition of the Group’s financial assets and liabilities is shown in note 19 to the accounts.

Liquidity risk
National Grid seeks to ensure that all of its forecast funding needs for a period of at least 12 months ahead are fully covered by term loans drawn or committed bank facilities. Beyond this time, a prudent level of committed availability is maintained. Longer-term refinancing risk is controlled by ensuring that the amount of loans maturing in any year is not excessive, compared with the Group’s borrowing capacity.

Financing arrangements for the acquisition of Niagara Mohawk have not yet been put in place because of the extended period to completion of the acquisition and the Group’s desire not to incur commitment fees on finance arrangements unnecessarily. It is National Grid’s opinion that, nearer the time of completion, it will have sufficient new finance available to complete the acquisition and to meet its working capital requirements.

Following announcement of the intended acquisition of Niagara Mohawk, the credit ratings of National Grid Group plc were placed on review for a possible downgrade. The long-term ratings stand at A from Standard & Poor’s and at A1 from Moody’s, both on creditwatch. Certain other entities within the US and UK parts of the Group are also rated. These ratings mean that the principal borrowing entities in the Group should have ready access to the capital and bank markets for future funding when necessary.

National Grid Group plc is a registered holding company under the Public Utility Holding Act of 1935 in the US. Arising from this and other regulatory limits applicable to certain Group companies, the freedom of companies to provide financing between themselves is restricted. Notwithstanding this, external financings or other arrangements are in place to ensure that Group companies have adequate access to short-term liquidity.

Credit risk
At 31 March 2001, National Grid had £271.2 million of cash and deposits. The Group is exposed to the credit risk of counterparties to these investments and to counterparties’ credit risk in respect of off-balance sheet derivative financial instruments. The Group’s policy is to select only counterparties with high-quality credit ratings (namely long-term ratings of at least A-/A3 or short-term ratings of A1/P1 from Standard & Poor’s or Moody’s respectively) and to avoid excessive concentration of risk. It does not expect any counterparties to fail to meet their obligations.

Changes and developments

The acquisition of Niagara Mohawk will give rise to a major change in overall Group debt and in the currency mix of the Group’s businesses. During the year, financing plans have been developed to cover any additional and refinancing needs. The current plan is to cover this financing need at a suitable time prior to completion of the Niagara Mohawk acquisition by issuing or putting in place approximately $2.0 billion of additional bonds or committed medium-term bank facilities, $1.6 billion of shorter-term bank facilities and $1.0 billion of forward underwriting commitments. As a precursor to this, and in the interests of reducing costs, National Grid cancelled $1.4 billion of medium-term bank facilities and replaced them with $1.0 billion of short-term facilities.

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 accounts.

US GAAP

The accounts have been prepared in accordance with UK GAAP, which differ in certain significant respects from US GAAP. The US accounting information in note 30 to the accounts gives a summary of the principal differences between the amounts determined in accordance with National Grid’s accounting policies (based on UK GAAP) and determined in accordance with US GAAP together with reconciliations of net income and equity shareholders’ funds from a UK GAAP basis to a US GAAP basis.

Net income under US GAAP was £810.3 million (1999/2000: £1,009.8 million; 1998/99: £1,002.8 million), compared with £769.0 million (1999/2000: £1,148.4 million; 1998/99: £1,015.0 million) under UK GAAP. Equity shareholders’ funds at 31 March 2001 under US GAAP were £2,920.0 million (31 March 2000: £2,345.7 million) compared with £3,475.8 million (31 March 2000: £2,909.0 million) under UK GAAP. The differences primarily result from the differing accounting treatment in respect of pensions, deferred taxation, recognition of UK Transmission income, financial instruments and the carrying value of the EPICs liability.

US Statement of Financial Accounting Standard 133: Accounting for Derivative Instruments and Hedging Activities (SFAS 133), was issued in June 1998 and is effective from 1 April 2001 for National Grid. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivatives embedded in other contracts (collectively referred to as derivatives), and for hedging activities. The indicative effect of adopting SFAS 133 is expected to decrease US GAAP equity shareholders’ funds by approximately £14 million (net of tax) at 1 April 2001.

Inflation

In the UK, National Grid’s operating costs may be affected by inflation both in terms of potential cost increases and in terms of the regulatory revenue control, which is influenced by, amongst other things, movements in the UK Retail Price Index. While higher inflation would tend to increase National Grid’s cost base, this impact would be more than offset by increased revenue allowed under the regulatory revenue control.

Higher inflation would increase National Grid USA’s cost base. However, if the rate of inflation, as measured by the change in the Gross Domestic Product Implicit Price Deflator, exceeds 4 per cent, the regulatory settlements in Massachusetts and Rhode Island allow for additional distribution revenue to be recovered from customers. In recent years, inflation in the UK and US has been relatively stable and has not significantly affected the period under review.

Seasonality

Although demand for electricity can vary on a seasonal basis, National Grid’s UK turnover and earnings are not, generally speaking, subject to substantial seasonal variations, as the largest elements of UK turnover relate to customers’ use of the transmission system. Customers are charged for these services on the basis of a regulatory formula which provides for a relatively constant revenue stream over the course of a financial year.

In respect of National Grid USA, some 60 per cent of the annual revenues of the transmission and distribution businesses of National Grid USA arise in the periods January-March and June-August inclusive, reflecting seasonal peaks in demand for electricity.

Euro

The single European currency (the “euro”) came into existence on 1 January 1999. The impact on National Grid to date has been minimal, but facilities have been established to enable euro dealings where necessary. Internally, an analysis of the impact on National Grid of adopting the euro as a replacement for sterling has been undertaken.

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40 The Board of Directors




From left to right

James Ross Chairman and a member of the Nominations Committee. Appointed as a Director of National Grid on 1 March 1999, James Ross became Chairman in July 1999. He is also Chairman of Littlewoods plc, having been Chief Executive of Cable and Wireless plc from 1992 to 1995. Before that, he was a Managing Director of the British Petroleum Company plc and Chairman and Chief Executive Officer of BP America. He is a Non-executive Director of McGraw Hill and of Datacard, both based in the US, and of Schneider Electric based in France. James Ross is a trustee of the Cleveland Orchestra and a Board member of the Regional Development Agency for the North West. Aged 62.

Roger Urwin Group Chief Executive. Appointed as a Director of National Grid and of The National Grid Company plc in 1995, Roger Urwin was previously Chief Executive of London Electricity plc. Prior to this, he held a number of appointments within the Central Electricity Generating Board before joining Midlands Electricity Board as Director of Engineering. He is a Non-executive Director of Energis, The Special Utilities Investment Trust PLC and TotalFinaElf Exploration UK plc and is a Fellow of the Royal Academy of Engineering. Aged 55.

John Grant Non-executive Director, Chairman of the Audit Committee and a member of the Nominations and Remuneration Committees. Appointed as a Director of National Grid in 1995, John Grant is Executive Chairman of Hasgo Group Limited and of Peter Stubs Limited. He was Chief Executive of Ascot Plc from 1997 to June 2000, Finance Director of Lucas Industries plc (subsequently LucasVarity plc) from 1992 to 1996 and held a number of senior executive positions during 25 years with Ford Motor Company, including Vice President, Ford of Europe, Director of Corporate Strategy, Ford US and Executive Deputy Chairman of Jaguar. He is also a Non-executive Director of Torotrak plc, Corac Group Plc and Cordex plc. Aged 55.

Richard Reynolds Non-executive Director and a member of the Audit and Remuneration Committees. Appointed as a Director of National Grid in 1998, Richard Reynolds was a Director of GEC from 1986 to 1995. He was Managing Director of GEC Telecommunications and became Managing Director of GPT on the merger of the GEC and Plessey telecommunications companies. He was also Chairman of GPT and is currently Chairman of Photobition Group plc and of Wavionix Software Limited. He is also a Non-executive Director of Telme.com plc. Aged 62.

Rick Sergel Group Director, North America. Appointed as a Director of National Grid in 2000, Rick Sergel is President, Chief Executive Officer and Director of National Grid USA. From February 1998 until the merger, he served as its President and Chief Executive Officer. His previous positions with NEES include Senior Vice President in charge of retail operations and unregulated ventures, Vice President and Treasurer. He serves as Chairman of the board of the distribution companies and is also a Director of State Street Bank & Trust. Aged 51.

Bob Faircloth Non-executive Director, Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees.

Appointed as a Director of National Grid in 1995, Bob Faircloth was Chief Operating Officer and an Executive Director of BTR until 1995 and a Non-executive Director until May 1998. Before joining BTR in 1990, Bob Faircloth held technical and management posts, mainly in the petrochemicals and paper industries in Canada and Europe. He is engaged in international management consulting with involvement with international banks, industrial companies and government agencies. Aged 64.

Paul Joskow Non-executive Director and a member of the Audit Committee. Appointed as a Director of National Grid in 2000, Paul Joskow is a Professor of Economics and Management at the Massachusetts Institute of Technology (MIT) and is Director of the MIT Center for Energy and Environmental Policy Research. He is a research associate of the US National Bureau of Economic Research and a Fellow of the Econometric Society and of the American Academy of Arts and Sciences. Paul Joskow served as a Director of NEES from 1987 until the merger. He is a trustee of the Putnam Mutual Funds, a Director of State Farm Indemnity Company and a Director of the Whitehead Institute for Biomedical Research. Aged 53.

Steven Holliday Group Director, Europe. Appointed as a Director of National Grid and Chief Executive of The National Grid Company plc on 30 March 2001, Steven Holliday was an Executive Director of British Borneo Oil and Gas from 1997. Prior to this, he spent 19 years with the Exxon Group, where he held senior positions in the operations and business development areas. Aged 44.

Stephen Box Group Finance Director. Appointed as a Director of National Grid and of The National Grid Company plc in August 1997. Formerly with Coopers & Lybrand, where he was a partner specialising in corporate finance, he is a Non-executive Director of Energis and of Michael Page International PLC and a member of the Financial Reporting Review Panel. Aged 50.

National Grid's General Counsel and Company Secretary is Fiona Smith.

Corporate governance

Corporate governance is the system by which companies are directed and controlled, focusing on the responsibilities of directors and the structure and conduct of the board.

The Combined Code of Corporate Governance, which is appended to the Listing Rules of the United Kingdom Listing Authority, sets out Principles of Good Governance and specific provisions relating to governance with which listed companies are required to comply, or to explain the reasons for any areas of non-compliance. The Combined Code is based on the report of the Hampel Committee on Corporate Governance, which itself draws on the earlier Cadbury and Greenbury reports.

The following statement sets out National Grid's application of the Principles of Good Governance and its compliance with the provisions set out in the Combined Code.

Corporate governance within National Grid

We are committed to high standards of corporate governance and recognise that sound governance is key, not only to compliance with external requirements but also to the establishment of good business practice throughout the Group.

We therefore maintain our own code of corporate governance, the National Grid Code of Business Practice. The Code of Business Practice was introduced in March 2000 and is closely modelled on the Combined Code. We have operated throughout the year in accordance with the Code of Business Practice and have thus complied with the provisions of the Combined Code, other than with respect to the nomination of a senior non-executive director. We believe that the independent Non-executive Chairman is the appropriate point of contact for shareholders with concerns relating to the executive management of the Group and for this reason do not propose to nominate a senior non-executive director.

Directors

The Board: National Grid is led by the Group Board, which currently consists of nine Directors. The Board meets at least eight times a year, with additional meetings as necessary. To ensure that the direction and control of the Group are firmly in its own hands, the Board reserves certain matters for its collective decision and/or monitoring. Matters for which Board approval is required include the start-up or acquisition of new businesses and the establishment of any activity in a new territory. Also reserved to the Board are matters relating to health and safety, the environment and policy issues affecting the reputation and standing of the Group.

Chairman and Group Chief Executive: There is a clear division of responsibility between the Non-executive Chairman and the Group Chief Executive, whose posts are, and will remain, separate.

Board balance: The Board is currently made up of nine Directors, four executive and five non-executive (including the Chairman).

Independence: National Grid considers non-executive directors to be independent if they are independent of the Group's management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Board considers that all of the serving Non-executive Directors are independent.

Supply of information: Regular and ad hoc reports are made throughout the year to ensure that the Board is supplied in a timely manner with information of the quality and detail it requires. All Directors have the right and duty to make further enquiries where they consider this necessary.

All Directors have access to the advice and services of the Group General Counsel and Company Secretary and may take independent advice, at the Group's expense, in the furtherance of their duties.

Appointments to the Board: The Board has delegated to the Nominations Committee responsibility for considering and recommending the reappointment of existing Directors, for identifying and selecting potential new Directors and for proposing to the Board the appointment of new Directors. The Nominations Committee, the members of which are identified on page 40, meets at least once a year and additionally as necessary.

Reappointment: Every Director is required by the Group's Articles of Association to retire and seek reappointment by the shareholders at the Annual General Meeting (AGM) at least once every three years. Additionally, any new Director who has been appointed by the Board is required by the Articles to retire at the next AGM and to seek reappointment by the shareholders.

Directors' remuneration: The Board has charged the Remuneration Committee with the design of remuneration packages to attract, retain and motivate high-calibre Directors. The Remuneration Committee, the members of which are shown on page 40, recognises the importance of linking rewards to performance and uses a range of incentives. The report on pages 44 to 47 sets out the Group's policy on remuneration and gives details of the remuneration of each Director.

Relations with shareholders
Dialogue with institutional investors: Regular dialogue is maintained with institutional investors, fund managers and financial analysts with the aim of fostering a mutual understanding of objectives.

The Annual General Meeting: At each AGM, the Chairman makes a presentation on the year's financial results and business activities and open discussion between Directors and shareholders is encouraged. Shareholders are invited to vote separately on each substantive issue.

Networking: National Grid is very proud of its Networking programme, which gives individual shareholders the opportunity to meet Directors and staff and to experience our operations at first hand.

Accountability and audit
Financial reporting: The Directors are responsible for ensuring that the annual report and the accounts provide a balanced and understandable presentation of the Group's position and prospects.

Audit Committee and auditors: The Board has delegated to the Audit Committee responsibility for maintaining an appropriate relationship with the Group's external auditors. The Audit Committee also reviews the scope and extent of internal audit and has particular responsibility for reporting annually to the Board on the scope of work, authority and resources of the internal audit function. The Audit Committee meets four times a year, and has at least one private meeting with the external auditors. The membership of the Audit Committee is shown on page 40.

The Audit Committee has the specific task of keeping under review the nature and extent of non-audit services provided by the external auditors in order to ensure that a proper balance is maintained between objectivity and value for money. The Audit Committee has reviewed the auditors' remuneration set out in note 2 to the accounts and is satisfied that it is proper and reasonable, having regard to the following considerations:

- substantial non-audit expenditure is associated with work incremental to the statutory audit or with accounting, taxation and regulatory issues which are so closely allied to the mainstream audit that, in the Audit Committee's view, it would be contrary to National Grid's strategic and financial interests to seek advice from sources other than the external auditors;
- other consultancy work is awarded on the basis of the skills and value for money offered by advisers, including the external auditors, and all costs are subject to close scrutiny; and
- the objectivity and independence of the external auditors is ensured by their compliance with their own professional codes of conduct and by their internal procedures, including "Chinese Wall" arrangements and the regular rotation of key audit staff.

Internal control: The Group's system of internal control helps to safeguard shareholders' investment and the Company's assets and is designed to manage, rather than to eliminate, material risks to the achievement of business objectives. The Board is responsible for the Group's system of internal control and for reviewing its effectiveness, recognising that any such system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

We have an ongoing process for the identification, evaluation and management of the significant risks faced by the Group. This process, which accords with the Turnbull working party guidance published in September 1999, has been in place throughout the year and continues in operation to date. During the year, we have taken steps to introduce and embed the process throughout the Group through the business planning process. All parts of the Group, including joint ventures, have:

- captured and reported, in a standard risk register format, their key business risks;
- categorised all risks to highlight the source of the risk;
- subjectively scored all risks to reflect both the financial and reputational impact of the risk and the likelihood of its occurrence; and
- validated and approved, through local management, the risk register.

Energis, being a separately listed company, is independent from National Grid and must comply with reporting requirements in its own right.

All parts of the Group are required to keep their risk registers up to date and relevant to their businesses. All operating companies, including joint ventures, report any material changes in risks and associated actions through the periodic reporting process. A network of risk co-ordinators has been established throughout the Group to facilitate this.

In parallel with business planning and consistent with the risks identified in the bottom-up risk assessment process, a schedule of Board-level risks has been considered and endorsed by the Audit Committee. Any material changes in these risks and associated actions will be reported through the periodic reporting process.

We continue to embed good risk management principles throughout the expanding Group as part of a process of

continuous improvement. Progress is monitored by a risk steering group chaired by the Group General Counsel and Company Secretary, the objectives of which are to give direction and impetus to the implementation of risk management at all levels of the Group, act as a catalyst for change and provide senior and visible executive support to the process.

In March 2000, the Board set out its procedure for the review of effectiveness of internal control, emphasising that risk management should be aligned as closely as possible to existing business processes and structures. In accordance with this procedure the Board, through the Group Executive and Audit Committees, regularly reviews the effectiveness of internal control (including the process for identifying, evaluating and managing significant risks) through the assurance mechanisms shown below. Any material matters arising are reported to the Board.

Throughout the year:

Executive Committee considers:

- periodic business reports from all operating companies
- the top-down strategic plan for the Group and the bottom-up business plans of the operating companies
- all proposals for material capital and revenue spend, including new business development
- reports from management on key risk areas including, where appropriate, any material control weaknesses and failings and actions taken to address them

Audit Committee considers:

- external and internal audit work plans
- audit work plans for health and safety and environmental management
- summary reports from external and internal assurance providers on significant matters arising
- specific reports from management on the actions taken to manage key risk areas and, if applicable, to address material control weaknesses and failings

At the end of each financial year:

Executive Committee considers:

Annual statements on risk management and internal control provided by all operating companies that highlight:

- how risk management has been made more visible in the business
- how management has addressed key risks and any significant control issues in the course of the year
- the key changes in risk profile since the start of the year

Audit Committee considers:

Specific reports on:

- significant corporate governance and legal matters
- risk management
- health and safety and environmental management
- internal audit issues and the effectiveness of the risk management process
- external audit issues

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44 Directors’ remuneration

Composition and role of the Remuneration Committee
The Remuneration Committee consists exclusively of independent Non-executive Directors. It is chaired by Bob Faircloth, its other members being John Grant and Richard Reynolds. The Remuneration Committee is responsible for determining all aspects of Executive Directors’ compensation, drawing on advice from external independent remuneration consultants and internal advisers.

Remuneration policy
The Remuneration Committee designs remuneration packages with the aim of attracting, motivating and retaining high-calibre Directors who will deliver success for shareholders and high levels of customer service, safety and environmental standards while having due regard to the markets in which the Group operates.

Executive Directors’ remuneration
Remuneration packages for Executive Directors consist of the following elements:

- base salary: base salaries are reviewed annually taking account of the median market position (against businesses of a similar size and complexity) and business and personal performance. Account is also taken of salary increases and employment conditions across the Group. The Committee will continue to review the competitiveness of salaries, taking account of the increasing size, diversity and international focus of the business.
- incentives: the Remuneration Committee recognises the importance of linking rewards to business and personal performance and considers that the following incentive arrangements provide a balance between short- and long-term incentives:

  annual bonus: a non-pensionable annual cash bonus of up to a maximum of 50 per cent of base salary can be paid for the achievement of demanding financial, personal and quality of service targets. Rick Sergel also participates in the National Grid USA Goals Program, an all-employee bonus plan that can pay up to 4.5 per cent of base salary on the achievement of certain earnings and performance targets. In line with US market practice, Rick Sergel’s cash bonus is pensionable.

  Share Match scheme: UK Directors are required to invest 25 per cent of any annual cash bonus in National Grid shares, which are placed in trust. At the end of three years (provided the Director is still employed) additional shares equal to the pre-tax value of the invested shares will be awarded and all shares released to the individual. Rick Sergel participates in an incentive plan whereby National Grid shares equivalent to 60 per cent of the annual cash bonus are awarded, subject to a three-year vesting requirement.

executive share options: the National Grid Executive Share Option Plan 2000 permits executive share options to be granted at market price up to a maximum value of 150 per cent of base salary per annum. Grants of a greater value may be made in exceptional circumstances, for example to a new Executive Director at first appointment. The exercise of executive share options granted during the year is subject to National Grid's Total Shareholder Return (TSR), relative to that of a group of UK and US companies, over a three-year period. Options up to the value of an individual's base salary become exercisable in full if National Grid's TSR is at least median. Options in excess of base salary are exercisable on a sliding scale and are only exercisable in full if National Grid's TSR is in the upper quartile of the comparator group. Executive share options granted between September 1997 and March 2000 are exercisable in full if National Grid's growth in earnings per share (EPS) exceeds RPI by 3 per cent per annum over a three-year period.

Sharesave: Executive Directors resident in the UK are eligible to participate in the all-employee Sharesave scheme (subject to eligibility based on service).

US Incentive Thrift Plan: Rick Sergel participates in a tax-advantaged savings plan (known as a 401(k) plan) provided for employees by National Grid USA, to which he chooses to contribute 6 per cent of base salary up to the Federal limit of $10,500. National Grid USA provides a further 5 per cent of base salary which is invested on Rick Sergel's behalf in National Grid American Depositary Receipts (ADRs). Under the terms of this Plan, 199.191 ADRs (1999/2000: 52.344) were purchased on behalf of Rick Sergel.

- pensions: pension benefits earned by individual Executive Directors in 2000/01 are as follows:

	Ageat 31 March 2001	Director's contributions during year £000	Increase to accrued pension during year (net of inflation) £000	Accrued pension as at 31 March 2001[1] £000	2000 £000
David Jones[2]	58	13	57	284	220
Roger Urwin	55	8	26	160	130
Stephen Box	50	9	14	36	22
Wob Gerretsen[3]	–	4	–	–	127
Steven Holliday[4]	44	0	–	0	–
Rick Sergel	51	0	21	229	193

1 Accrued pension represents the pension which would be paid annually at age 60 if the Director resigned on 31 March 2001.
2 David Jones, the highest-paid Director, retired on 31 March 2001 with an unreduced pension.
3 Wob Gerretsen died on 19 October 2000. His beneficiaries received payments of £988,613 and are receiving a pension of £100,256 per annum.
4 Steven Holliday was appointed to the Board on 30 March 2001.

UK-based Executive Directors are members of the National Grid section of the Electricity Supply Pension Scheme (ESPS), to which they currently contribute 3 per cent of base salary per annum up to the Inland Revenue earnings cap. The normal employee contribution is 6 per cent but there is currently a pensions holiday on employee contributions which affects all staff. The pension scheme's main features in respect of Executive Directors are: normal retirement at age 60; pension at normal retirement age of two-thirds final salary subject to completion of 20 years' service (although Directors may retire early from age 55 with a reduction in pension); death-in-service payment of four times pensionable salary; spouse's pension of two-thirds Director's pension on death; discretionary payment of dependant's pension if there is no surviving spouse; pension increased by inflation by up to 5 per cent per annum; and, for Directors affected by the earnings cap, the Company may provide a pension on salary above the cap on a partially-funded basis.

Rick Sergel participates in a qualified pension plan and an executive supplemental retirement plan provided through National Grid USA. These plans are non-contributory defined benefit arrangements.

Benefits are calculated using formulae based on years of service and highest average compensation over five consecutive years. In line with many US plans, compensation covered includes salary, bonuses and incentive share awards. Normal retirement age is 65. Pursuant to the executive supplemental plan, however, unreduced benefits may be payable at age 55. The plans also provide for a spouse's pension, the actual value of which is based on the participant's age at death. Benefits from both plans are fixed and do not increase after retirement.

- non-cash benefits: the Company provides competitive benefits such as a fully expensed car and private medical insurance to the Executive Directors.

- service contracts: service contracts for Executive Directors are set at one year's notice. The application of longer contract periods at appointment, reducing after an initial period, is considered appropriate by the Board to recruit and retain key executives. In this regard, the initial period of Rick Sergel's contract is for a fixed period of three years, reducing to one year after 2002. Steven Holliday's contract is for a fixed period of two years, reducing to one year after one year of service.

Directors' remuneration
The remuneration of individual Directors for the year ended 31 March 2001 is set out below:

	Base salary and fees £000	Annual bonus[1] £000	Benefits £000	Total emoluments (excluding pension) 2000/01 £000	1999/2000 £000
Chairman					
James Ross[2] (Non-executive Director)	120	–	–	**120**	98
Executive Directors					
David Jones	440	212	13	**665**	489
Roger Urwin	275	150	11	**436**	321
Stephen Box	300	142	13	**455**	348
Wob Gerretsen[3]	177	34	48	**259**	348

Steven Holliday[4]	1	–	–	**1**	–
Rick Sergel[5]	408	197	15	**620**	5
Non-executive Directors					
David Jefferies[6] (former Chairman)	–	–	–	**–**	53
Bob Faircloth	30	–	–	**30**	30
John Grant	30	–	–	**30**	30
Paul Joskow[5]	45	–	–	**45**	0
Richard Reynolds	50	–	–	**50**	50
Malcolm Williamson[6]	–	–	–	**–**	8
	1,876	**735**	**100**	**2,711**	**1,780**

1 Total cash bonus paid includes amount invested by Director in Share Match scheme and, in the case of Roger Urwin, an ex-gratia payment of £19,000 in respect of dividends on Matching Shares.
2 Appointed to the Board on 1 March 1999. Appointed Chairman on 22 July 1999.
3 Died on 19 October 2000: £36,427 of his benefits is in respect of repatriation of personal property.
4 Appointed to the Board on 30 March 2001.
5 Appointed to the Board on 27 March 2000.
6 Resigned from the Board on 22 July 1999.
The total remuneration of David Jones, the highest-paid Director during the year, was £665,440 (1999/2000: £488,577).

Directors' interests in share options

Directors' interests in share options over the ordinary shares of National Grid are as follows[1]:

	Options held at 1 April 2000	Options exercised during the year	Options granted during the year	Options held at 31 March 2001	Exercise price p	Date from which exercisable	Expiry date
David Jones							
Executive	230,837	–	–	230,837	280.50	Sep 2000	Sep 2007
	146,906	–	–	146,906	375.75	Jun 2001	Jun 2008
	44,045	–	–	44,045	455.25	Jun 2002	Jun 2009
	–	–	67,730	67,730	531.50	Jun 2003	Jun 2010
Share Match[2]	22,304	–	–	22,304	100.0 in total	Sep 2000	Sep 2004
	5,862	–	–	5,862	100.0 in total	Jun 2001	Jun 2005
	5,930	–	–	5,930	100.0 in total	Jun 2002	Jun 2006
	–	–	5,989	5,989	100.0 in total	Jun 2003	Jun 2007
Total	**455,884**	**Nil**	**73,719**	**529,603**			
Roger Urwin							
Executive	169,340	–	–	169,340	280.50	Sep 2000	Sep 2007
	91,656	–	–	91,656	375.75	Jun 2001	Jun 2008
	22,098	–	–	22,098	455.25	Jun 2002	Jun 2009
	–	–	33,867	33,867	531.50	Jun 2003	Jun 2010
Share Match[2]	16,059	16,059[3]	–	–	100.0 in total	Sep 2000	Sep 2004
	4,047	–	–	4,047	100.0 in total	Jun 2001	Jun 2005
	3,884	–	–	3,884	100.0 in total	Jun 2002	Jun 2006
	–	–	3,859	3,859	100.0 in total	Jun 2003	Jun 2007
Sharesave	10,648	10,648[4]	–	–	162.00	Feb 2001	Aug 2001
Total	**317,732**	**26,707**	**37,726**	**328,751**			
Stephen Box							
Executive	160,427	–	–	160,427	280.50	Sep 2000	Sep 2007
	93,147	–	–	93,147	375.75	Jun 2001	Jun 2008
	43,931	–	–	43,931	455.25	Jun 2002	Jun 2009
	–	–	37,630	37,630	531.50	Jun 2003	Jun 2010
Share Match[2]	2,955	–	–	2,955	100.0 in total	Jun 2001	Jun 2005
	3,844	–	–	3,844	100.0 in total	Jun 2002	Jun 2006
	–	–	4,122	4,122	100.0 in total	Jun 2003	Jun 2007
Sharesave	3,125	–	–	3,125	312.00	Sep 2001	Feb 2002
Total	**307,429**	**Nil**	**41,752**	**349,181**			
Steven Holliday[5]							
Executive	–	–	150,000	150,000	540.00	Mar 2004	Mar 2011
Total	**Nil**	**Nil**	**150,000**	**150,000**			
Rick Sergel							
Executive	201,845	–	–	201,845	566.50	Mar 2003	Mar 2010
Total	**201,845**	**Nil**	**Nil**	**201,845**			

1 Wob Gerretsen died on 19 October 2000.
2 Share Match options granted during the year relate to the annual bonus paid for the financial year ended 31 March 2000.
3 The closing mid-market price of an ordinary share in National Grid on 29 March 2001, the date at which Roger Urwin exercised his Share Match grant, was 540.0 pence. Roger Urwin retained his shares.
4 The closing mid-market price of an ordinary share in National Grid on 28 March 2001, the date at which Roger Urwin exercised his Sharesave options, was 539.0 pence. Roger Urwin retained his shares.
5 Steven Holliday was appointed to the Board on 30 March 2001.
The closing mid-market price of a National Grid ordinary share on Friday 30 March 2001, the last day of trading in the 2000/01 financial year, was 544.0 pence.
The range during the period 1 April 2000 to 31 March 2001 was 646.0 pence (high) and 479.5 pence (low).

Directors' beneficial interests

The Directors' beneficial interests (which include those of their families) in the ordinary shares of National Grid are shown below:

	Ordinary shares at 31 March 2001	Ordinary shares at 1 April 2000	Options over ordinary shares at 31 March 2001	Options over ordinary shares at 1 April 2000
James Ross	19,000	2,000	–	–
David Jones	110,050	106,457	529,603	455,884
Roger Urwin	144,539	115,517	328,751	317,732
Stephen Box	6,552	4,079	349,181	307,429
Steven Holliday	–	–	150,000	–
Rick Sergel	1,257	261	201,845	201,845
Bob Faircloth	–	–	–	–
John Grant	10,000	10,000	–	–
Paul Joskow	5,000	–	–	–
Richard Reynolds	10,000	10,000	–	–

After the end of the financial year, Rick Sergel became aware that, as a result of investments by National Grid USA in National Grid ADRs under its 401(k) programme, he had acquired an interest in 24.355 ADRs on 24 April 2001.

There has been no other change in the beneficial interests of the Directors in the ordinary shares of National Grid between 1 April 2001 and 31 May 2001.

None of the Directors held any non-beneficial interests in the ordinary shares of National Grid.

Each of the Executive Directors (David Jones, Roger Urwin, Stephen Box, Steven Holliday and Rick Sergel) was, for Companies Act purposes, deemed to be a potential beneficiary under the NGG Qualifying Employee Share Ownership Trust (QUEST) and the NGG 1996 Employee Benefit Trust and thereby to have an interest in the 5,204,219 National Grid ordinary shares held by the QUEST and the 655,245 National Grid ordinary shares held by the 1996 Employee Benefit Trust as at 31 March 2001.

Non-executive Directors

Non-executive Directors receive an annual fee of £25,000 with an additional £5,000 payable for committee chairmanship. Richard Reynolds receives a fee of £25,000 in respect of duties as a member of the Supervisory Board of Intelig. Paul Joskow receives a fee of $30,000 in respect of duties with National Grid USA. The Non-executive Chairman receives a fee of £120,000.

Non-executive fees are determined by the Board subject to the limits applied by National Grid's Articles of Association.

Non-executive Directors do not have service contracts but have letters of engagement for periods of up to three years. No benefits are payable on termination.

The Directors of National Grid Group plc present their report and accounts for the financial year ended 31 March 2001.

Incorporation of the Company

The Company was originally incorporated under the name The National Grid Holding plc (NGH) in April 1990 and registered in England and Wales as a public limited company under the terms of the Companies Act 1985. It was re-named The National Grid Group plc in 1995 and in July 2000 was renamed National Grid Group plc.

The Company's agent in the US is Lawrence J. Reilly, National Grid USA, 25 Research Drive, Westborough, MA 01582.

History and development of the business

On the restructuring of the electricity industry in England and Wales in 1990, The National Grid Company plc (NGC) assumed from the Central Electricity Generating Board ownership and control of the transmission network and the interconnectors with Scotland and France. NGC became the wholly-owned subsidiary of NGH, the predominant shareholders in which were the 12 Regional Electricity Companies (RECs) which owned and operated the local distribution systems. Each REC disposed of substantially all of its holding in NGH in 1995 or 1996.

NGG's ordinary shares were admitted to the Official List of the London Stock Exchange in December 1995. The Secretary of State for Trade and Industry holds a Special Share in NGG, further details of which are given in note 21 to the accounts.

National Grid established the telecommunications operator Energis plc in 1993 and has interests in telecommunications joint ventures in Poland, Argentina, Brazil and Chile. It entered the US electricity market in 2000 with its acquisitions of New England Electric System (NEES) and Eastern Utilities Associates (EUA), now merged and operating as National Grid USA.

National Grid's American Depositary Shares (ADSs) were listed on the New York Stock Exchange on 7 October 1999. NGG is a registered holding company under the United States Public Utility Holding Company Act of 1935.

Principal activities and future developments

The principal UK activities of the Group are the operation of the electricity transmission system in England and Wales and the operation of the interconnectors with Scotland and France.

The Group's principal US activities are the operation of the electricity transmission and distribution systems serving approximately 1.7 million customers in Massachusetts, New Hampshire and Rhode Island. On 29 January 2001, National Grid received shareholder approval for the acquisition of Niagara Mohawk, Inc., an electricity and gas utility in New York State.

Other interests include joint ventures in Argentina, Brazil, Chile, Poland and Zambia.

A review of National Grid's activities during 2000/01 is given on pages 10 to 29 of this document.

Financial results

The financial results of the Group are discussed on pages 32 to 39 of this document.

Dividends

An interim dividend of 6.05 pence net per ordinary share was paid on 15 January 2001 to shareholders who were on the share register on 1 December 2000. The Directors are recommending a final dividend for 2000/01 of 9.03 pence net per ordinary share. Subject to approval by shareholders at the Annual General Meeting, the final dividend will be paid on 15 August 2001 to shareholders on the share register on 1 June 2001 and will bring the total ordinary dividend for the year to 15.08 pence net per ordinary share.

Share capital

Changes in National Grid’s share capital during the year are set out in note 21 to the accounts.

Substantial shareholdings
As at 31 May 2001, National Grid had been notified of the following interests in 3 per cent or more of its issued share capital:

Prudential Corporation plc	4.70%
Deutsche Bank AG London*	3.00%
HSBC Investment Bank plc*	3.72%
Credit Suisse First Boston Equities Limited*	3.37%

*On 13 July 2000, National Grid was notified that HSBC Investment Bank plc (in respect of 3.7 per cent), Deutsche Bank AG London (in respect of 3.8 per cent) and Credit Suisse First Boston Equities Limited (in respect of its total holding) have each hedged their economic exposure to National Grid shares pursuant to a structured derivatives transaction entered into with the Olayan Group. As a result of these transactions, the Olayan Group has an exposure to 10.88 per cent of issued National Grid shares.

No further notifications have been received.

Directors
The names of the Directors of National Grid, with brief biographical details, are given on page 40.

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 in relation to the Group’s business. Details of the Directors’ remuneration, terms and conditions of service and interests in National Grid

shares are given in “Directors’ remuneration” on pages 44 to 47 of this document.

Employment policies
National Grid has well-established arrangements, through team briefing, electronic mail and in-house newspapers, for communicating effectively with staff on matters of concern to them as employees. Regular consultation with UK staff and their trades union representatives takes place through the Company Council and local workplace councils.

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. Applications for employment from disabled people are welcomed and given full and fair consideration. If any employee becomes disabled, every effort is made to continue their employment, including retraining.

Investors in People accreditation for the Group’s UK operations was received in November 2000.

National Grid operates equity participation arrangements for employees, including Sharesave in the UK.

Pensions litigation
On 4 April 2001, the House of Lords delivered its decision on an appeal brought by National Grid concerning the use of the surplus in its section of the Electricity Supply Pension Scheme (ESPS). The House of Lords found in favour of National Grid and confirmed that its use of the surplus was entirely lawful and proper. The House of Lords decision resolves this extended litigation, which arose from complaints made by two pensioners in 1995 about National Grid’s actions in relation to the 1992 surplus. International Power (formerly National Power) was also successful in a parallel case.

Research and development
Expenditure on research and development in 2000/01 was £8.1 million, compared with £7.8 million in 1999/2000 and £8.4 million in 1998/99.

Payments to suppliers
National Grid is a signatory to the CBI Code of Prompt Payment and has implemented procedures to ensure the payment of bills in accordance with contract 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 at 31 March 2001 for The National Grid Company plc, the principal UK operating company within the Group, was 28 days (at 31 March 2000: 30 days).

Donations
In the UK, charitable donations of £225,388 were made in 2000/01 and no donations were made for political purposes.

Auditors
The auditors of National Grid, PricewaterhouseCoopers, have expressed their willingness to remain in office. A resolution for their reappointment will be proposed at the Annual General Meeting.

Annual General Meeting
National Grid’s Annual General Meeting will be held on Tuesday 17 July 2001. Details are set out in the Notice of Annual General Meeting accompanying this document.

On behalf of the Board

Fiona B Smith
Group General Counsel and Company Secretary
31 May 2001

Registered Office: 15 Marylebone Road,
London NW1 5JD
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.

A copy of this Annual Report and Form 20-F is placed on the National Grid website. The maintenance and integrity of the National Grid website is the responsibility of the Directors.

Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Independent auditors’ report

Independent auditors’ report to the members of National Grid Group plc

We have audited the accounts which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, the related notes on pages 52 to 90 and the Directors’ remuneration disclosures on pages 44 to 47.

Respective responsibilities of Directors and auditors
The Directors’ responsibilities for preparing the Annual Report, the Report on Form 20-F and the accounts in accordance with applicable United Kingdom and United States laws 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, United Kingdom Auditing Standards issued by the Auditing Practices Board (APB) and the Listing Rules of the United Kingdom Financial Services Authority.

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 United Kingdom 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 or the Listing Rules regarding Directors’ remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. The other information comprises only the Directors’ report, the Chairman’s statement, the Group Chief Executive’s review, the Operating and financial review and the Corporate governance statement.

We review whether the Corporate governance statement reflects the Company’s compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board’s statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group’s corporate governance procedures or its risk and control procedures.

Basis of audit opinion
We conducted our audit in accordance with Auditing Standards issued by the United Kingdom Auditing Practices Board and with Auditing Standards generally accepted in the United States. 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.

United Kingdom opinion
In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 March 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

United States opinion
In our opinion, the accounts present fairly, in all material respects, the consolidated financial position of the Group at 31 March 2001 and 31 March 2000 and the results of its operations and its cash flows for the years ended 31 March 2001, 31 March 2000 and 31 March 1999, all expressed in pounds sterling in conformity with accounting principles generally accepted in the United Kingdom.

These principles differ in certain significant respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of the net income for the years ended 31 March 2001, 31 March 2000 and 31 March 1999, and consolidated shareholders’ equity at 31 March 2001 and 31 March 2000, all expressed in pounds sterling, as shown in the summary of differences between United Kingdom and United States generally accepted accounting principles set out in note 30 to the accounts.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
31 May 2001

Accounting policies

a **Basis of preparation of accounts**

The accounts are prepared under the historical cost convention as modified by the valuation of National Grid Group plc's ("the Company") investment in National Grid Holdings Limited (note 13), and in accordance with applicable UK accounting and financial reporting standards.

The accounts have been prepared in accordance with UK GAAP, which differ in certain respects to US GAAP. A summary of the main differences between UK and US GAAP is set out in note 30.

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

b **Basis of consolidation**

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 associate and joint ventures ("associated undertakings"). 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 one Group undertaking and certain 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 businesses disposed of are included up to the date that control is relinquished.

c **Goodwill**

Goodwill, representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised and amortised through the profit and loss account over its estimated useful economic life – up to 20 years.

d **Foreign currencies**

The results of the Group's overseas operations are translated into sterling at average rates of exchange. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date or, if hedged forward, at the rates of exchange under the related currency contract.

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 taken to hedge overseas assets are taken directly to reserves. All other exchange differences are taken to the profit and loss account.

e **Tangible fixed assets and depreciation**

Tangible fixed assets are included in the balance sheet at their cost less accumulated depreciation and after the deduction of related capital contributions. Cost includes payroll and finance costs incurred which are directly attributable to the construction of tangible fixed 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	
Transmission plant	15 to 60
Distribution plant	15 to 60
Interconnector plant	15 to 25
Freehold and leasehold properties	up to 65
Motor vehicles and office equipment	3 to 5

f **Deferred taxation**

Deferred taxation, on accelerated capital allowances and other timing differences, is calculated on the liability method and is provided to the extent that a tax liability is expected to become payable in the foreseeable future.

g **Stocks**

Stocks, which primarily comprise consumable stores, are stated at the lower of cost and net realisable value.

h **Regulatory assets**

Regulatory assets established in accordance with US Statement of Financial Accounting Standards 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS 71) are recorded as debtors, if they comprise rights or other access to future economic benefits which arise as a result of past transactions or events which have created an obligation to a third party (note 14).

i **Decommissioning**

Decommissioning liabilities, based on discounted future estimated expenditures expected to be incurred, are provided for in full and a corresponding tangible fixed asset or regulatory asset is also recognised.

j **Turnover**
Turnover primarily represents the amounts derived from the transmission, distribution and generation of electricity and the provision of related services, including the recovery of stranded costs (note 1). It excludes inter-business and inter-company transactions, and is stated net of value added tax and similar sales-based taxes.

k **Pensions and post-retirement benefits**
The cost of providing pensions and post-retirement benefits is charged to the profit and loss account on a systematic basis over the service lives of the employees in the schemes. Variations from the regular pension cost are allocated over the estimated average remaining service lives of current employees.

l **Research and development**
Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

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. Derivatives include interest rate swaps, currency swaps, options and forward rate agreements. All transactions are undertaken or maintained to provide a commercial hedge of the interest and currency risk associated with the Group’s underlying business activities and the financing of those activities.

Amounts payable or receivable in respect of interest rate swaps or interest rate swap options 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. Gains or losses arising on hedging instruments which do not qualify as hedges for accounting purposes are taken to the profit and loss account as they arise.

Group profit and loss account
for the years ended 31 March

	Notes	2001 £m	2000 £m	1999 £m
Turnover, including share of joint ventures		**4,004.1**	1,677.5	1,568.3
Less: share of joint ventures’ turnover (continuing operations)		**(204.4)**	(62.8)	(54.1)
Group turnover – continuing operations	1(a)	**3,799.7**	1,614.7	1,514.2
Operating costs	2	**(3,084.1)**	(1,042.6)	(937.5)
Operating profit of Group undertakings	1(b)	**715.6**	572.1	576.7
Share of joint ventures’ and associate’s operating (loss)/profit	1(b)	**(103.5)**	(33.5)	0.7
Operating profit				
– Before exceptional integration costs and goodwill amortisation	1(b)	**731.9**	546.5	579.9
– Exceptional integration costs	3(a)	**(45.3)**	–	–
– Goodwill amortisation		**(74.5)**	(7.9)	(2.5)
Total operating profit – continuing operations	1(b)	**612.1**	538.6	577.4
Exceptional profit relating to partial disposal of Energis	3(b)	**242.9**	1,027.3	891.8
Profit on disposal of businesses	3(c)	**20.1**	–	–
Net interest	7	**(250.6)**	(64.9)	(118.5)
Exceptional cost of closing out interest rate swaps	3(d)	**–**	–	(52.6)
Profit on ordinary activities before taxation – continuing operations		**624.5**	1,501.0	1,298.1
Taxation				
– Excluding exceptional items	8	**(85.8)**	(123.1)	(120.3)
– Exceptional items	8	**235.4**	(229.5)	(162.8)
	8	**149.6**	(352.6)	(283.1)
Profit on ordinary activities after taxation		**774.1**	1,148.4	1,015.0
Minority interests				
Equity		**(3.3)**	–	–
Non-equity		**(1.8)**	–	–
		(5.1)	–	–
Profit for the year		**769.0**	1,148.4	1,015.0
Dividends	9	**(223.0)**	(205.5)	(192.0)
Retained profit	22	**546.0**	942.9	823.0
Earnings per ordinary share				
– Basic, including exceptional items and goodwill amortisation	10	**52.1p**	78.0p	69.2p
– Basic, excluding exceptional items and goodwill amortisation	10	**26.5p**	24.3p	23.3p
– Diluted, including exceptional items and goodwill amortisation	10	**49.5p**	73.4p	65.2p
– Diluted, excluding exceptional items and goodwill amortisation	10	**25.8p**	23.8p	22.7p
Dividends per ordinary share	9	**15.08p**	13.94p	13.07p

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

	2001 £m	2000 £m	1999 £m
Profit for the year	**769.0**	1,148.4	1,015.0
Exchange adjustments	**(12.0)**	3.1	(0.8)
Tax on exchange adjustments	**31.9**	–	–
Total recognised gains and losses relating to the year	**788.9**	1,151.5	1,014.2

Balance sheets
at 31 March

	Notes	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Fixed assets					
Intangible assets – goodwill	11	**1,186.2**	844.7	**–**	–
Tangible assets	12	**5,617.3**	4,938.3	**–**	–
Investments in joint ventures					
– Share of gross assets		**1,133.6**	828.6	**–**	–
– Share of gross liabilities		**(798.2)**	(622.7)	**–**	–
– Share of net assets		**335.4**	205.9	**–**	–
– Loans to joint ventures		**64.9**	–	**–**	–
Investment in associate		**414.9**	205.8	**–**	–
Other investments		**145.1**	107.3	**1,996.5**	1,995.7
Total investments	13	**960.3**	519.0	**1,996.5**	1,995.7
		7,763.8	6,302.0	**1,996.5**	1,995.7
Current assets					
Stocks		**34.1**	29.3	**–**	–
Debtors (amounts falling due within one year)	14	**880.4**	490.1	**4,066.3**	3,474.7
Debtors (amounts falling due after one year)	14	**1,016.5**	798.3	**18.1**	16.9
Assets held for exchange	15	**16.6**	16.6	**–**	–
Business held for resale		**–**	118.9	**–**	–
Cash and deposits		**271.2**	1,011.6	**1.6**	383.2
		2,218.8	2,464.8	**4,086.0**	3,874.8
Creditors (amounts falling due within one year)					
Borrowings		**(1,008.7)**	(669.0)	**(760.9)**	(248.5)
Other creditors		**(1,205.0)**	(1,192.1)	**(2,212.4)**	(2,151.8)
	16	**(2,213.7)**	(1,861.1)	**(2,973.3)**	(2,400.3)
Net current assets		**5.1**	603.7	**1,112.7**	1,474.5
Total assets less current liabilities		**7,768.9**	6,905.7	**3,109.2**	3,470.2
Creditors (amounts falling due after more than one year)					
Convertible bonds		**(480.3)**	(469.0)	**–**	–
Other borrowings		**(2,700.4)**	(2,537.2)	**(834.1)**	(1,000.0)
Other creditors		**(574.8)**	(494.0)	**–**	–
	17	**(3,755.5)**	(3,500.2)	**(834.1)**	(1,000.0)
Provisions for liabilities and charges	20	**(495.8)**	(461.4)	**–**	–
Net assets employed		**3,517.6**	2,944.1	**2,275.1**	2,470.2
Capital and reserves					
Called up share capital	21	**174.7**	174.7	**174.7**	174.7
Share premium account	22	**276.9**	274.7	**276.9**	274.7
Revaluation reserve	22	**–**	–	**624.4**	624.4
Other reserve	22	**–**	–	**39.1**	59.1
Profit and loss account	22	**3,024.2**	2,459.6	**1,160.0**	1,337.3
Equity shareholders' funds		**3,475.8**	2,909.0	**2,275.1**	2,470.2
Minority interests					
Equity		**21.8**	22.9	**–**	–
Non-equity	23	**20.0**	12.2	**–**	–
		41.8	35.1	**–**	–
		3,517.6	2,944.1	**2,275.1**	2,470.2

The accounts on pages 52 to 90 inclusive were approved by the Board of Directors on 31 May 2001 and were signed on its behalf by:

R J Urwin Group Chief Executive

S J Box Group Finance Director

Group cash flow statement

for the years ended 31 March

	Notes	2001 £m	2000 £m	1999 £m
Net cash inflow from operating activities	25(a)	**810.6**	682.0	605.9
Dividends from joint ventures		**20.3**	4.5	3.1
Returns on investments and servicing of finance				
Interest received		**94.8**	92.0	18.2
Interest paid		**(398.2)**	(156.7)	(137.9)
Dividends paid to minority interests		**(3.5)**	–	–
Net cash outflow for returns on investments and servicing of finance		**(306.9)**	(64.7)	(119.7)
Taxation				
Corporate tax paid		**(137.2)**	(274.3)	(154.9)
Capital expenditure				
Payments to acquire tangible fixed assets		**(471.6)**	(292.2)	(329.7)
Receipts of capital contributions		**2.2**	7.6	11.9
Receipts from disposals of tangible fixed assets		**11.8**	5.4	5.3
Net cash outflow for capital expenditure		**(457.6)**	(279.2)	(312.5)
Acquisitions and disposals				
Payments to acquire investments		**(337.2)**	(144.5)	(13.1)
Acquisition of Group undertakings	25(b)	**(440.9)**	(2,045.1)	(12.1)
Receipts from sales of Energis shares		**–**	952.9	959.3
Disposal of businesses	25(c)	**195.9**	–	–
Net cash (outflow)/inflow for acquisitions and disposals		**(582.2)**	(1,236.7)	934.1
Equity dividends paid		**(212.5)**	(197.6)	(183.1)
Net cash (outflow)/inflow before management of liquid resources and financing		**(865.5)**	(1,366.0)	772.9
Management of liquid resources				
Decrease/(increase) in short term deposits		**775.2**	618.8	(1,482.3)
Net cash inflow/(outflow) from the management of liquid resources	25(d), (e)	**775.2**	618.8	(1,482.3)
Financing				
Issue of ordinary shares		**7.0**	5.5	5.4
Payments to repurchase ordinary shares		**–**	(1.1)	–
New borrowings		**1,015.4**	1,029.3	717.7
Borrowings repaid		**(934.0)**	(260.1)	(35.5)
Increase in borrowings	25(d), (e)	**81.4**	769.2	682.2
Net cash inflow from financing		**88.4**	773.6	687.6
Movement in cash and overdrafts	25(d), (e)	**(1.9)**	26.4	(21.8)

Notes to the accounts

1 Segmental analysis

Eastern Utilities Associates (EUA) was acquired on 19 April 2000 (note 26(a)). The operations of EUA and New England Electric System (NEES) – acquired 22 March 2000 – were successfully integrated on 1 May 2000 and now operate as National Grid USA. As a consequence it is not possible to provide an indication of EUA's contribution to the Group's results for the year.

Transmission – UK includes Ancillary services, previously reported as a separate segment. The activities of NEES, previously reported as a single segment, are now reported over the integrated National Grid USA business segments. The comparative figures have been adjusted to reflect these revised presentations.

a Turnover

	Turnover								
	Total sales 2001	Sales between businesses 2001	Sales to third parties 2001	Total sales 2000 (restated)	Sales between businesses 2000 (restated)	Sales to third parties 2000 (restated)	Total sales 1999 (restated)	Sales between businesses 1999 (restated)	Sales to third parties 1999 (restated)

	£m	£m	£m	£m	£m	£m	£m	£m	£m
Turnover, including share of joint ventures	**4,049.3**	**45.2**	**4,004.1**	1,715.3	37.8	1,677.5	1,601.9	33.6	1,568.3
Less: share of joint ventures' turnover	**(204.4)**	**–**	**(204.4)**	(62.8)	–	(62.8)	(54.1)	–	(54.1)
Group turnover	**3,844.9**	**45.2**	**3,799.7**	1,652.5	37.8	1,614.7	1,547.8	33.6	1,514.2
Transmission – UK	**1,315.6**	**16.8**	**1,298.8**	1,319.7	16.9	1,302.8	1,310.1	15.7	1,294.4
– USA	**194.7**	**3.4**	**191.3**	3.4	0.6	2.8	–	–	–
Distribution – USA	**1,519.0**	**0.6**	**1,518.4**	25.8	–	25.8	–	–	–
Stranded costs recovery and generation – USA	**334.9**	**0.1**	**334.8**	6.1	–	6.1	–	–	–
Interconnectors – UK	**83.6**	**–**	**83.6**	86.6	–	86.6	75.8	–	75.8
– USA	**47.9**	**–**	**47.9**	1.3	–	1.3	–	–	–
Telecommunications – USA	**9.5**	**–**	**9.5**	0.2	–	0.2	–	–	–
Other activities	**339.7**	**24.3**	**315.4**	209.4	20.3	189.1	161.9	17.9	144.0
Group turnover	**3,844.9**	**45.2**	**3,799.7**	1,652.5	37.8	1,614.7	1,547.8	33.6	1,514.2
Europe			**1,696.6**			1,576.1			1,513.6
North America			**2,103.1**			38.6			0.6
			3,799.7			1,614.7			1,514.2

The analysis of turnover by geographical area is on the basis of origin. Turnover on a destination basis would not be materially different.

Other activities turnover primarily comprises market services, including EnMO, which provides the On-the-day Commodity Market for gas trading in Great Britain, and contracting activities.

1 **Segmental analysis** continued

b **Operating profit**

	Operating profit					
	Before exceptional integration costs and goodwill amortisation			After exceptional integration costs and goodwill amortisation		
	2001 £m	2000 (restated) £m	1999 (restated) £m	2001 £m	2000 (restated) £m	1999 (restated) £m
Transmission – UK	**486.3**	523.1	508.1	**486.3**	523.1	508.1
– USA	**49.6**	1.3	–	**39.5**	1.2	–
Distribution – USA	**154.8**	1.7	–	**110.0**	0.7	–
Stranded costs recovery and generation – USA	**61.7**	0.2	–	**61.7**	0.2	–
Interconnectors – UK	**42.8**	46.6	39.5	**42.8**	46.6	39.5
– USA	**22.3**	0.6	–	**22.3**	0.6	–
– Other	**(0.1)**	(0.9)	–	**(0.1)**	(0.9)	–
Telecommunications – USA	**2.9**	0.1	–	**(1.4)**	(0.1)	–
Other activities	**0.8**	2.0	29.3*	**(0.2)**	0.7	29.1*
Exceptional integration costs – USA	**–**	–	–	**(45.3)**	–	–
Group undertakings	**821.1**	574.7	576.9	**715.6**	572.1	576.7
Telecommunications – Energis	**5.1**	1.3	(9.6)	**(8.7)**	(4.0)	(11.6)
– Intelig	**(118.0)**	(44.1)	–	**(118.0)**	(44.1)	–
– Other	**(3.4)**	–	–	**(3.9)**	–	–
Generation – USA	**7.9**	0.2	–	**7.9**	0.2	–
Other electricity activities	**19.2**	14.4	12.6	**19.2**	14.4	12.3
Joint ventures and associate	**(89.2)**	(28.2)	3.0	**(103.5)**	(33.5)	0.7
Total operating profit	**731.9**	546.5	579.9	**612.1**	538.6	577.4
Europe	**545.7**	577.6	568.4	**531.9**	572.3	566.4

North America	**288.0**	(1.4)	(1.1)	**182.5**	(4.0)	(1.3)
Latin America	**(106.0)**	(33.7)	8.5	**(106.5)**	(33.7)	8.5
Rest of the World	**4.2**	4.0	4.1	**4.2**	4.0	3.8
	731.9	546.5	579.9	**612.1**	538.6	577.4
Electricity	**851.3**	590.4	591.6	**750.1**	588.0	589.1
Telecommunications	**(119.4)**	(43.9)	(11.7)	**(138.0)**	(49.4)	(11.7)
	731.9	546.5	579.9	**612.1**	538.6	577.4

*Includes £15.2m relating to a revision of accounting estimates of provisions resulting from the implementation of FRS 12.

It is not practical to allocate the exceptional integration costs (note 3(a)) over the above segments, as a consequence of the integration of the operations of NEES and EUA.

1 **Segmental analysis** continued

c **Total and net assets**

	Total assets		Net assets	
	2001 £m	2000 (restated) £m	2001 £m	2000 (restated) £m
Transmission – UK	**3,426.2**	3,104.5	**3,055.9**	2,788.2
– USA	**744.4**	600.0	**701.7**	608.2
Distribution – USA	**2,686.8**	1,884.4	**2,402.5**	1,679.5
Stranded costs recovery and generation – USA	**1,105.6**	777.7	**371.6**	97.6
Interconnectors – UK	**154.9**	166.4	**152.1**	166.4
– USA	**191.2**	184.1	**190.6**	178.1
–Other	**11.0**	5.7	**9.8**	5.7
Telecommunications – USA	**148.4**	108.3	**143.4**	106.4
Other activities	**392.1**	479.5	**199.7**	272.9
Group undertakings	**8,860.6**	7,310.6	**7,227.3**	5,903.0
Telecommunications – Energis	**414.9**	205.8	**414.9**	205.8
– Intelig	**164.8**	92.6	**164.8**	92.6
– Other	**110.5**	0.7	**110.5**	0.7
Generation – USA	**32.8**	28.7	**32.8**	28.7
Other electricity activities	**92.2**	83.9	**92.2**	83.9
Joint ventures and associate	**815.2**	411.7	**815.2**	411.7
Unallocated	**306.8**	1,044.5	**(4,524.9)**	(3,370.6)
	9,982.6	8,766.8	**3,517.6**	2,944.1
Europe	**4,270.0**	3,695.3	**3,834.9**	3,308.1
North America	**5,060.2**	3,849.3	**3,863.2**	2,828.9
Latin America	**319.2**	156.6	**319.2**	156.6
Rest of the World	**26.4**	21.1	**25.2**	21.1
Unallocated	**306.8**	1,044.5	**(4,524.9)**	(3,370.6)
	9,982.6	8,766.8	**3,517.6**	2,944.1

The analysis of total assets and net assets by business segment includes all attributable goodwill and excludes inter-business balances. Unallocated total assets include investment in own shares, assets held for exchange and cash and deposits. Unallocated net liabilities include net borrowings, taxation, interest, dividends, certain provisions, investment in own shares and assets held for exchange.