

National Grid Electricity Transmission plc  
Regulatory accounting statements 2010/11

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# About these regulatory accounting statements

National Grid Electricity Transmission plc is the holder of an Electricity Transmission Licence granted under the Electricity Act 1989. Under Condition B1 of this licence, we are required to prepare and publish annual regulatory accounting statements setting out the financial position and performance of the regulatory business covered by the licence.

## Scope of the regulatory accounting statements

These regulatory accounting statements are for National Grid Electricity Transmission and its regulatory transmission business. The regulatory transmission business differs in certain respects from the transmission operating segment reported in the Company's annual report and accounts.

## Content of the regulatory accounting statements

In accordance with the licence and as agreed with the Gas and Electricity Markets Authority (GEMA), these regulatory accounting statements comprise:

- An Operating and financial review for the Company as a whole including information on the financial performance and financial position of our regulatory transmission business.
- A Directors' report in respect of the Company as a whole
- A Corporate governance statement in respect of our regulatory transmission business.
- A Statement of Directors' responsibilities for preparing regulatory accounting statements
- The Independent auditors' report on the regulatory accounting statements. This is separate to their report on the annual report and accounts of the Company.
- Consolidated financial statements for the Company as a whole, including additional accounting policies in respect of the basis of preparation of the supplementary analyses included in these regulatory accounting statements.
- Supplementary analysis of the financial statements by regulatory business, including a reconciliation to the financial statements of the Company as a whole.
- Analysis of charges and apportionments. In accordance with the licence, this information is provided only to GEMA and is not published.
- Supplementary analysis of the financial statements of our transmission business by Transmission Owner (TO) and System Operator (SO) activities. This extra-licence information is provided only to Ofgem and is not published.

## Relationship of regulatory accounting statements with statutory accounts

The financial information contained in these regulatory accounting statements does not constitute statutory accounts within the meaning of section 404 of the Companies Act 2006. Statutory accounts for the Company for the year ended 31 March 2011, to which the financial information relates, have been delivered to the registrar of Companies.

The auditors have made a report under Section 495 of the Companies Act 2006 on those statutory accounts which was unqualified and did not contain a statement under Section 498(2) or (3) of the Act. The auditors' opinion on the Company's statutory accounts is addressed to, and for the benefit of, the members of the Company and not for any other person or purpose. The auditors have clarified, in giving their opinion on those statutory accounts, that it has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. In giving their opinion, they do not accept or assume responsibility for any other purposes or to any other person to whom their audit report on the statutory accounts is shown or into whose hands it may come save where expressly agreed by their prior consent in writing.

The statutory accounts of the Company, and of the ultimate parent company National Grid plc (National Grid), can be obtained from the Company Secretary's Office, National Grid plc, 1-3 The Strand, London WC2N 5EH, and from the website of National Grid plc at [www.nationalgrid.com](http://www.nationalgrid.com).

## Basis of preparation of regulatory accounting statements

These regulatory accounting statements contain arbitrary apportionments of certain revenues, costs, assets, liabilities and shareholder's equity of the Company which are not specifically attributable to the regulatory transmission business, but which nevertheless, we are required to report against that business. Further details of these items are provided in the Basis of preparation on page 31.

# Operating and Financial Review

## Operating and Financial Review contents

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This Operating and Financial Review describes the main trends and factors underlying the development, performance and position of National Grid Electricity Transmission plc during the year ended 31 March 2011 as well as those likely to affect the Company in the future. It has been prepared in line with the guidance provided in the Reporting Statement on the Operating and Financial Review issued by the UK Accounting Standards Board and the Practice Statement on Management Commentary issued by the International Accounting Standards Board.

## Principal operations

Our principal operations are the ownership and operation of regulated electricity transmission networks in Great Britain.

### Electricity Transmission

Our Electricity Transmission business comprises the following principal activities:

#### *Electricity transmission owner*

We own the electricity transmission system in England and Wales.

#### *Electricity system operator*

We are the national electricity transmission system operator, responsible for managing the operations of both the England and Wales transmission system which we own and also the two high-voltage electricity transmission networks in Scotland which we do not own. Day-to-day operation of the system involves the continuous real-time matching of demand and generation output, ensuring the stability and security of the power system and the maintenance of satisfactory voltage and frequency. We are also designated as system operator for the new offshore electricity transmission regime.

## How the UK electricity industry works

Within the UK electricity industry there are 4 areas; generation (carried out by other companies), transmission (carried out by National Grid Electricity Transmission), distribution (carried out by other companies) and supply (also carried out by other companies).

### Generation

Electricity is generated from coal, gas, oil and nuclear power plants, and renewable resources including hydroelectric plants and wind farms. Generation voltage is typically 22 kV, and generators normally have their own transformers to increase the voltage to transmission voltages.

There are also interconnectors with France, Northern Ireland and the Netherlands, allowing electricity generated in those countries to meet demand in the UK and vice versa.

We do not own or operate electricity generation assets.

Electricity generators sell the electricity they produce in the wholesale market. The majority of the electricity sold in the wholesale market is to electricity suppliers in bilateral contracts. Electricity produced by the generators is transported by transmission and distribution networks to the end user.

National Grid Electricity Transmission is not an electricity supply company; we do not buy or sell the electricity we transport.

## Transmission

We transmit electricity in England and Wales at 400 kV and 275 kV. In Scotland, 132 kV is also considered to be transmission voltage. The national electricity transmission system (NETS) typically comprises the assets from the connection to the generator's transformer as far as the substation at which the voltage is stepped down to 132 kV or lower for distribution.

We are responsible for balancing the system, managing generation output to ensure that it matches demand second by second throughout the day, to ensure that voltage and frequency are kept within acceptable limits.

Generators, distribution network operators and suppliers pay us for the right to connect their assets to the NETS and to use the system to transport electricity on their behalf. These connection and use of system charges reflect the costs of providing, maintaining and operating connection assets and are reviewed annually.

Generators, distribution network operators and suppliers also pay us for procuring balancing services to ensure the electricity system is kept in balance.

Finally, the transmission network use of system charge, paid by generators and suppliers, allows us to recover the costs of installing, operating and maintaining the NETS.

## Distribution

Electricity is carried at 132 kV and lower voltages in 14 electricity distribution networks, owned and operated by seven distribution network operators.

The distribution systems typically comprise the assets from the connection to the step down transformer on the NETS either to the meter in a consumer's premises or, for larger users, to their own step down transformer.

We do not own or operate electricity distribution networks.

Suppliers pay distribution network operators for the right to connect to and use their distribution networks. Those costs are passed on by the suppliers to their end user customers.

Each of the 14 distribution networks are regional monopolies and Ofgem regulates their revenues through price controls.

## Supply

Heavy and medium industrial consumers, towns and villages are typically supplied by a variety of voltages from 132 kV to 11 kV. For most consumers, the voltage is reduced through transformers and is ultimately provided to users at 230 V.

We do not sell electricity to end users.

End users contract with electricity supply companies to provide electricity. The supply companies in turn purchase electricity from generators which is transported to the end user along the transmission and distribution systems.

Suppliers also contract with metering companies, for the provision of meters and metering services.

Of the average residential electricity bill, transmission charges represent approximately 4% and distribution charges approximately 17%. The majority of the bill is the cost of the electricity itself.

# Management structure

## Management Structure

National Grid Electricity Transmission plc is a subsidiary of National Grid plc (National Grid).

The performance of our principal businesses is reported by segment, reflecting the management responsibilities and economic characteristics of each activity. Throughout the year ended 31 March 2011, the management structure of National Grid was via global lines of business. The Electricity Transmission segment of National Grid Electricity Transmission plc formed part of the global Transmission business of National Grid.

The overall management and governance of National Grid Electricity Transmission is the responsibility of its Board of Directors. The Board of Directors has established a number of committees and sub-committees of the Board that assist it in its activities. These include the Transmission Executive Committee.

The day-to-day management of our Electricity Transmission business is carried on by the Transmission Executive Committee. This committee is chaired by Nick Winsor, who is a Director of National Grid Electricity Transmission, and who also sits on the Board and Executive Committee of National Grid and was the National Grid Executive Director responsible for the global Transmission business.

In addition to its own governance processes, National Grid Electricity Transmission participates in the governance process of National Grid which is subject to the Combined Code on Corporate Governance.

## New management structure from 4 April 2011

Four years ago National Grid introduced the common operating model, consisting of global lines of business, in order to promote common standards and ways of working. Following a strategic review this year, and in response to feedback received from customers, regulators and other stakeholders, National Grid announced on 31 January 2011 substantial changes to the way in which it is organised. With effect from 4 April 2011, National Grid moved to a management structure more closely aligned with local responsibilities.

Certain functions will continue to have global responsibilities; these include finance, human resources, information systems and security, and procurement. There will also be regional functions, including regulation, safety and construction. There will be two UK businesses, UK Gas Distribution and UK Transmission. Our Electricity Transmission business forms part of the UK Transmission business of National Grid.

More information on the management structure of National Grid can be found in the National Grid Annual Report and Accounts 2010/11 and on National Grid's website at [www.nationalgrid.com](http://www.nationalgrid.com).

## Review of the year

On 16 November 2010, we signed our largest ever connection contract, with East Anglia Offshore Wind Ltd, for the full 7.2 GW of its capacity. The project will commission wind turbines in 10 stages between 2015 and 2021, delivering 6.6 GW before 2020, and connects to existing substations at Bramford and Norwich along with a new site to be developed in the area.

By November 2010, the number of contracted generation agreements had met a significant milestone. Enough transmission-connected renewable generation had been contracted to meet our plans for achieving the government's 2020 renewable energy targets (32 GW contracted against a target of approximately 29 GW).

We have funded an independent report on the costs of undergrounding electric cables compared with the use of overhead lines. The work is being conducted by Kema, and will be endorsed and published by the Institution of Engineering and Technology. We have also launched a public consultation on our approach to undergrounding new electricity transmission lines.

## Operating environment

National Grid Electricity Transmission, in common with all UK companies, operates in a complex environment with a number of external factors affecting our operations.

### UK and European energy policy

This is a crucial time for energy policy decisions, with the focus of debate being on the electricity market and the network regulatory reviews. The government is determined to drive the low carbon agenda. In December 2010, the Department of Energy and Climate Change launched its consultation on electricity market reform, which is designed to enable the UK to meet its climate goals by encouraging low carbon generation, and also to ensure the UK has a secure, affordable supply of electricity in the long term. It is vital that the electricity market frameworks provide the right incentives for investors.

In the UK, there is now a strong political focus on delivering a low carbon economy. The Climate Change Act requires the UK to cut greenhouse gas emissions by 80% from the 1990 levels by 2050 and by 34% by 2020. Dramatic changes in the way we produce and use our energy will be required. We must become less dependent on fossil fuels, use our energy more efficiently and integrate greater use of electric vehicles and electric heating in homes. If we are to meet our 2020 renewable energy target, 15% of our energy for electricity, heat and transport will need to come from renewable sources by 2020. It is estimated that 30% of electricity would need to be from renewables to meet this target. If developed, a North Sea grid could deliver

significant benefits by connecting wind generation to the grid and providing greater interconnection with the rest of Europe.

Creating the appropriate, joined up policies to deliver an affordable and secure, low carbon energy system presents an enormous challenge for the UK government. However, the move to a low carbon economy also represents a great opportunity for the UK in terms of new jobs and economic growth. We have a privileged perspective. We operate the grid to which the different energy sources are connected. So we sit at the heart of the energy transformation and we are working closely with government and other stakeholders to ensure the UK can seize the opportunities it presents.

### Economic environment

Since the financial crisis in 2008/09, there has been a significant recovery. The UK, Europe and the US have emerged from recession and stock markets have risen during 2010/11.

In the UK, inflation has returned after a period of deflation, the retail price index having risen by 5.3% during 2010/11. Our UK regulated revenues are linked to inflation (see pages 3 and 4 for an explanation of the UK regulatory regime), so higher inflation leads to higher revenue. We also have a significant quantity of index-linked debt, so our financing costs increase as inflation rises, providing an economic offset. However, revenues and financing costs are both based on lagged measures of inflation, and the time lags are not the same, so the economic offset is not perfect.

### Corporate responsibility

Our reputation depends on our stakeholders being able to trust us and be confident in us. We can only retain our right to operate by working to the highest standards, by trusting our employees to do the right thing and by running our Company responsibly and sustainably.

National Grid's Framework for Responsible Business, revised and relaunched in June 2010, provides a clear line of sight from our vision to how we manage our business and our day-to-day dealings with our stakeholders. National Grid's Company wide policies and position statements, available on its website, underpin the Framework.

More information on the corporate responsibility of National Grid can be found in the National Grid Annual Report and Accounts 2010/11 and on National Grid's website at [www.nationalgrid.com](http://www.nationalgrid.com).

### Business conduct

This year, National Grid amended and reissued 'Doing the Right Thing – Our Standards of Ethical Business Conduct'. Doing the Right Thing provides a common set of practical guidelines to help ensure our behaviours are lawful, comply with our policies and licences, and follow the values set out in the Framework and National Grid's core values. We undertake face to face training of new starters and are making available online training for employees annually to ensure they understand the Standards.

We have taken steps to prepare for the implementation of the Bribery Act 2010 which came into force in the UK in July 2011. This has included undertaking a risk assessment, review of Company policies (including Doing the Right Thing mentioned above) and an extensive training and awareness programme that will include eLearning for all employees.

More information on the business conduct of National Grid can be found in the National Grid Annual Report and Accounts 2010/11 and on National Grid's website at [www.nationalgrid.com](http://www.nationalgrid.com).

## Regulatory environment – UK regulation

### Regulatory framework

In the UK, energy networks are regulated by the Office of Gas and Electricity Markets (Ofgem). Ofgem operates under the direction of governance of the Gas and Electricity Markets Authority (GEMA) and has established price control mechanisms that restrict the amount of revenue that can be earned by regulated businesses.

Ofgem's main priority is to protect the interests of consumers. It does this by regulating monopoly activities such as the companies that run the electricity networks and by promoting competitive electricity markets.

The Electricity Act 1989, as amended (the Act), provides the fundamental legal framework for electricity companies. The Act establishes the licences for electricity transmission.

### Regulatory licences

We hold an electricity transmission licence.

Our licence established under the Act requires the business activity to develop, maintain and operate an economic and efficient network and to facilitate competition in the supply of electricity in Great Britain. The Act also provides the licensed business statutory powers such as the right to bury our pipes or cables under public highways and the ability to purchase land compulsorily in order to facilitate the conduct of our business.

To ensure that our licensed business is operating efficiently, and that consumers are protected, we operate under two price controls, one covering our role as transmission owner (TO) and the other for our role as system operator (SO).

### Price control mechanism

Because price control mechanisms restrict revenues, not profits, they encourage efficiencies within our regulated business. Savings that are made can be retained for the remainder of the price control period, but the higher level of efficiency that led to these savings is then used to inform a new baseline level for the next price control period.

Price control regulation is designed to ensure that, as a monopoly, we charge reasonable prices, and to provide us with a future level of revenue sufficient to enable us to meet our statutory duties and licence obligations. It also provides financial incentives to manage and operate our networks in an

economic, efficient and coordinated manner in accordance with our legal and licence obligations, offer good quality of service to network users and invest in our networks in a timely and efficient manner to help ensure long-term security of supply is maintained.

During each price control review period, the amount of money that can be earned by our regulated business is restricted by what is referred to as an RPI-X price control, which is normally reviewed every five years by Ofgem. The RPI-X allowance is based upon Ofgem's estimates of efficient operating expenditure (opex) and capital expenditure (capex), together with an allowance for depreciation and an allowed rate of return on capital invested in our businesses. These are used, together with the regulatory asset base value (RAV) to calculate the allowed revenue. The RAV, which represents the value ascribed by Ofgem to the capital employed in our regulated businesses, is adjusted to reflect asset additions, removals, depreciation and the rate of inflation.

The RPI-X price control takes the retail price index as its benchmark and subtracts X, an efficiency factor, from it. For example, at a time when annual inflation was 3%, a value for X of 2% would allow our regulatory businesses to raise prices by no more than 1%. Price controls also include incentive mechanisms to encourage us to improve our performance in particular areas.

The price control provides our regulated business with a level of revenue that is sufficient to finance the business if they are efficiently run. The revenue allowance is based on an estimate of the costs an efficient company would face in running its regulated businesses and includes operating expenditure, capital expenditure, financing costs including both debt and equity, and taxation.

### Current price controls

The key elements of the current price controls for electricity transmission are that we are allowed to earn a 4.4% post-tax real return on our RAV, equivalent to a 5.05% vanilla return, with a £3.5 billion baseline five year capex allowance and a £0.9 billion five year controllable opex allowance.

In addition, we are subject to a number of incentives that can adjust our transmission network revenue. These include incentives for network reliability, sulphur hexafluoride losses, efficiency and balancing services.

Our RAV currently stands at £8,388m, our actual vanilla return is 6.4% and return on equity is 13.6%.

### Ofgem's review of price controls: RPI-X@20

Since privatisation, the RPI-X mechanism has provided the industry with strong incentives to be more efficient. The level of opex costs has decreased over the years, transforming previously inefficient nationalised industries. However, over the past few years, new challenges, such as Great Britain's transition to lower carbon emissions and the requirement to renew ageing networks, have caused Ofgem to review the continuing appropriateness of the RPI-X approach.

In March 2008, Ofgem announced the RPI-X@20 review, which was a two year project to review the workings of the current approach to regulating Great Britain's energy networks and develop future policy recommendations.

Ofgem's RPI-X@20 review aims were to: drive improvements in quality of service and efficiency; ensure that the regulatory framework is flexible to adapt to structural changes in the energy industry; and enable efficient network companies to finance themselves efficiently.

To allow the lessons of the review to be accommodated in full, Ofgem extended the current transmission price control from its scheduled end in March 2012 by one year to March 2013.

Following the RPI-X@20 review, Ofgem has identified a modified price control approach, designated as RIIO, to deliver and meet the changing future needs of the energy market.

#### **The RIIO model**

Ofgem's revised RIIO regulatory framework will be implemented in the next round of electricity transmission price controls, which will start in April 2013.

RIIO refers to the formula:

Revenue = Incentives + Innovation + Outputs

To attract the efficient investment needed for the industry, Ofgem's RIIO model is intended to incentivise network companies to deliver the outputs demanded by consumers and network users in an efficient and innovative way.

The key features of the RIIO model are:

- a longer price control, lasting eight years, to provide stronger incentives for networks to manage costs;
- encouraging network companies to work more closely with stakeholders to identify what they want from energy network companies. This should help networks to identify, and so better meet, the developing needs of the energy market;
- rewarding network companies with higher returns where they meet the needs of the network users and consumers in innovative and efficient ways. However, network companies that perform poorly can expect to receive lower returns;
- encouraging network companies to become actively involved in delivering a sustainable energy sector;
- supporting the development and delivery of a network service that provides long-term value for money to existing and future consumers; and
- providing clarity to future investors to ensure that network companies can raise the finance needed in a timely manner and at a reasonable cost to consumers.

#### **Impact on National Grid Electricity Transmission**

The RIIO model will not only reward us for increased efficiency, but also encourage us to engage more openly and effectively with our stakeholders. This will allow us to develop more robust commercial relationships with current and future network users to help us fulfil our vital role in the delivery of a sustainable

future energy sector. It will also help us to respond and adapt our delivery plans to provide long-term value for money to network users.

Output measures in future price controls will give stakeholders a clear understanding of what we will deliver in return for the revenue that we receive from our customers. The proposed output categories are: customer satisfaction; reliability and availability; safe network services; connection terms; environmental impact; and social obligations. These outputs will cover both primary and secondary deliverables. We will be required to demonstrate in price controls that the primary outputs are material, controllable, measurable, comparable and legally compliant. The secondary deliverables will be evidenced through our business plans to demonstrate the costs required to deliver the primary outputs. Four years into the eight year price control, there will be an interim review of the outputs that we were required to deliver, to ensure that they remain relevant.

As the energy landscape evolves, Ofgem's RIIO model should encourage us to play a full part in the delivery of a sustainable energy sector and to deliver network services offering long-term value for money to existing and future consumers.

## **Business drivers, principal risks and opportunities**

### **Business drivers**

There are many factors that influence the success of our business and the financial returns we obtain. We consider the factors described here to be our principal business drivers.

#### **Price controls**

The prices we charge for the use of our electricity transmission network are determined in accordance with regulatory approved price controls. These arrangements include incentive and/or penalty arrangements. The terms of these arrangements have a significant impact on our revenues.

#### **People**

The skills and talents of our employees, along with succession planning and the development of future leaders, are critical to our success. We believe that business success will be delivered through the performance of all current and future employees, and enhanced by having a workforce that is diverse in its cultural, religious and community influences.

#### **Capital investment**

Capital investment is a significant driver for organic growth. In our regulated electricity transmission networks, the prices we charge include an allowed return for capital investment determined in accordance with our price controls.

#### **Safety, reliability and efficiency**

Our ability to operate safely and reliably is of paramount importance to us, our employees, our contractors, our customers, our regulator and the communities we serve. Our financial performance is affected by our performance in these areas. Operating efficiently allows us to minimise prices to our customers and improve our own financial performance.



### Relationships and responsibility

Our reputation is vitally important to us. We only earn the trust and confidence of our stakeholders by conducting business in a responsible manner. Our reputation depends on our behaviours being lawful and ethical, on complying with our policies and licences, and on living up to our core values.

### Principal risks and opportunities

There are a number of risks that might cause us to fail to achieve National Grid's vision or to deliver growth in its shareholder value. We can mitigate many of these risks by acting appropriately in response to the factors driving our business.

### Regulatory settlements and long-term contracts

Our ability to obtain appropriate recovery of costs and rates of return on investment is of vital importance to the sustainability of our business. We have an opportunity to help shape the future of the regulatory environment. If we fail to take these opportunities, we risk failing to achieve satisfactory returns.

### Financial performance

Financial performance and operating cash flows are the basis for funding our future capital investment programmes, for servicing our borrowings and paying dividends. Failure to achieve satisfactory performance could affect our ability to deliver the returns we and our stakeholders expect.

### Talent and skills

Harnessing and developing the skills and talent of our existing employees, and recruiting, retaining and developing the best new talent, will enable us to improve our capabilities. Failure to engage and develop our existing employees or to attract and retain talented employees could hamper our ability to deliver in the future.

### Investment in our networks

Our future organic growth is dependent on the delivery of our capital investment plans. In order to deliver sustainable growth with superior financial performance we will need to finance our investment plans. Instability in the financial markets, loss of confidence by investors, or inadequate returns on our investment may restrict our ability to raise finance.

### Safety, reliability and customer service

The returns we generate are dependent on operating safely and reliably, and providing a quality service to customers. If we fail to meet our regulatory targets or the high standards we set ourselves, we risk loss of reputation as well as financial penalties imposed by regulators.

### Efficiency

Simplifying and standardising our systems and processes will drive efficiency and reduce costs. Transforming our operating model should enable us to deliver increased value to shareholders. If we do not achieve the expected benefits in efficiency, then shareholder value will not grow as we hope or will diminish.

### Sustainability and climate change

Safeguarding our global environment for future generations is dependent on integrating sustainability and climate change considerations into our business decisions, influencing legislators and regulators, employees, customers and suppliers to address climate issues and become more environmentally responsible.

## Vision, strategy and objectives

As a subsidiary company of National Grid, National Grid Electricity Transmission participates in the National Grid vision and strategy, as described below.

### Vision

The vision is the long term aspiration for National Grid – what we want to be in the future. The vision statement has remained unchanged since it was first published in 2007:

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

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

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### Strategy

Our strategy is a medium term step in the journey to achieve the vision – what we will be doing over the next few years. It is also the over arching principle that provides commercial context to each of the objectives and actions.

Our strategy is designed to ensure that the objectives remain aligned with the factors that drive our business. For the last three years, our strategy has been expressed in these terms:

**We will build on our core regulated business base and financial discipline to deliver sustainable growth and superior financial performance.**

We will operate and grow our business to deliver consistently superior financial returns by:

- Delivering excellent levels of safety, reliability, security, customer service and environmental performance
- Using consistent and cost effective ways of working, putting into practice shared processes and systems
- Driving an inclusive, high performance culture by engaging and developing our employees
- Helping to shape UK energy policies through working with our external stakeholders and customers

## Objectives

To guide leaders, managers and individuals in our business and help deliver the strategy, we set out seven Company objectives:

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

These are the objectives against which our performance has been measured this year. A detailed discussion of our performance against each of the objectives can be found on pages 10 to 13.

## Line of sight

In a number of places in this report, we refer to the principle of line of sight. What we mean by this principle is that the individual objectives of every employee should be set by reference to the Company objectives, strategy and vision, ensuring that every individual is encouraged and incentivised to contribute to the same collective goals. Consequently, the actions required to deliver the strategy are allocated and aligned with employee responsibilities.

## Performance for growth

Our performance, talent and reward management process for managers is known as performance for growth (P4G). Formal annual P4G performance appraisals are carried out for every manager against their individual objectives and against the National Grid leadership qualities. The appraisal assesses both what the individual has achieved during the year and how those outcomes have been achieved. Our staff performance and reward framework for non-managerial grades, delivering performance, applies the same principles in aligning individual objectives with those of the Company.

## Strategy for 2011/12

National Grid has updated the line of sight framework and this refreshed framework reflects the new organisational arrangement, namely moving from a line of business structure to a regional structure, as explained on page 3. In addition, we have increased the level of transparency of our strategic actions. This change will improve the connection between individual actions and the achievements the organisation needs to make in the year.

National Grid's 2011/12 strategic actions which are relevant to us are:

- Improve our customer experience
- Deliver key employee and performance programmes that underpin 2011/12 objectives

- Deliver cost reductions by further leveraging support activity efficiencies, improve the buying experience and increase transparency of procurement savings
- Deliver common key processes and execute on best practice initiatives
- Work with Ofgem and other stakeholders to implement a successful rollover for TPCR4 (1 year extension of the current price control for transmission to March 2013) and submit final proposals for RIOT1 plans (to start in April 2013).
- Ensure successful delivery of the core investment programme.

We have worked hard to ensure that future UK price controls reflect the need for substantial and timely investments to ensure climate change targets and security of supply requirements are met, while delivering acceptable and timely returns.

## Key performance indicators (KPIs)

Our performance and the progress we have made against our strategic aims and against the objectives we have set ourselves are described below and on the following pages.

We measure the achievement of our objectives both through the use of qualitative assessments and through the monitoring of quantitative indicators. To provide a full and rounded view of our business, we use non-financial as well as financial measures.

Although all these measures are important, some are considered to be of more significance than others, and these more significant measures are designated as KPIs. Our financial and non-financial KPIs are highlighted here. KPIs are used as our primary measures of whether we are achieving our principal strategic aims of sustainable growth and superior financial performance. We also use KPIs to measure our performance against our objectives; the relationships between the objectives and the KPIs are shown below.

### Financial KPI

Company Strategy and objectives	Financial KPI	Definition and performance	Target
Delivering strong sustainable regulatory and long-term contracts with good returns	Operational return	Electricity Transmission operational return against the target set by the regulator for the 5 year price control period (see page 14) <b>2010/11: 6.4%</b> 2009/10: 6.6%	Achieve or exceed regulatory vanilla return over 5 year price control period of 5.05%

### Non-financial KPIs

Company Strategy and objectives	Non-financial KPIs	Definition and performance	Target
Modernising and extending our transmission networks	Network reliability	Reliability of Electricity Transmission network as a percentage against the target set by our regulator (see page 11) <b>2010/11: 99.9999%</b> 2009/10: 99.9999%	99.9999%
Driving improvements in our safety, customer and operational performance	Employee lost time injury frequency rate	Injuries resulting in employees taking time off work per 100,000 hours worked on a 12 month basis (see page 10 and 11) <b>2010/11: 0.13</b> 2009/10: 0.18	Zero
Building trust, transparency, and an inclusive and engaged workforce	Employee engagement index	Employee engagement index calculated using responses to National Grid's annual employee survey (see page 12) Transmission business <b>2010/11: not measured</b> 2009/10: 77%	Year-on-year increase
Positively shaping the energy and climate change agenda	Greenhouse gas emissions (scope 1 and 2)	Percentage reduction in greenhouse gas emissions against 1990 baseline (see page 13) Year-on-year % change <b>2010/11: 16% increase</b> 2009/10: 3% reduction	Year-on-year reduction

## Performance against objectives

We use a number of detailed performance measures in addition to the key performance indicators shown on the previous page, reflecting the scale and complexity of our operations. We use qualitative assessments to judge progress against our objectives in areas where numerical measures are less relevant.

### Alignment of performance measures and strategy

Our strategy is stated on page 7. Our performance in implementing the key elements of the strategy is measured in the following ways.

#### **We will build on our core regulated business base...**

We invest in our existing business in order to improve efficiency and reliability.

Our KPI in this area is network reliability, as shown on the previous page, and other performance measures include capital investment (see page 11 and 12).

#### **...and financial discipline...**

We seek to control operating costs and to invest capital only where we expect to be able to obtain an acceptable return. We are committed to maintaining a single A range credit rating.

Our KPI in this area is operational return as shown on the previous page.

#### **...to deliver sustainable growth...**

There are a number of factors that determine the extent to which growth is sustainable. We believe that operational excellence will help us to build and maintain good relationships with our customers and regulators. Managing the skills and talents of our employees helps us to recruit, retain and develop the best possible talent, creating a diverse and motivated workforce and positioning ourselves to take advantage of present and future opportunities.

Our KPIs in this area, as shown on the previous page, are employee lost time injury frequency rate, employee engagement and greenhouse gas emissions. Other performance measures include measures of gender and ethnic mix.

### **Financial performance**

#### **...and superior financial performance**

We aim to deliver superior returns to National Grid.

Our performance measures include adjusted operating profit for the year (see pages 14 and 15) and operating cash flows (see page 16). A full disclosure of our financial performance can be found on pages 13 to 17.

### Future changes to performance measures

Following the adoption of the new Company objectives noted on page 8, we will be reviewing our KPIs and other performance measures and will report any changes in the 2011/12 Annual Report and Accounts.

## Driving improvements in safety, customer and operational performance

### **Safety**

Safety is critical both to business performance and to helping to define the culture of the Company for our employees. We recognise that our operations potentially give rise to risk and that some of our assets could have catastrophic consequences to surrounding communities if not properly controlled. We believe we can eliminate or minimise those risks to achieve zero injuries or harm and to safeguard members of the public. We further believe that everyone in the Company, collectively and individually, has a part to play in achieving this.

#### *Process safety*

Process safety has been in the headlines in recent years as a result of incidents affecting other companies, such as the Deepwater Horizon incident in the Gulf of Mexico, the Buncefield explosion in the UK and the San Bruno pipeline explosion in California. While we have not had any significant incidents, managing process safety risks is always at the front of our thoughts in the way we run our business. As well as ensuring we have effective management systems in place, we look to incidents at other companies to learn any lessons.

National Grid has continued to report process safety KPIs up to Executive level throughout the year and we have focused on the effectiveness of the action plans to address any issues. This has been reinforced by getting our leadership team out into the field to discuss process safety. We see this as a critical element to demonstrating both leadership commitment and that we listen to the views of our employees.

In 2010/11, National Grid continued to converge its approach to process safety management across the Group with the development of a Group level major accident hazard framework. We have an effective safety management system in place which is the product of UK legislation and specific asset management policies. While this has delivered compliance, the implementation of a Group framework will ensure greater consistency and support the drive for continual improvement. With elements covering risk assessment, control standards and overarching management requirements, implementation throughout 2011/12 will require us to demonstrate that we have adequate controls in place. This will be supported by a cross group peer review process to provide assurance and facilitate the sharing of good practice.

#### *Occupational safety*

We report our employee lost time injury frequency rate, expressed as lost time injuries per 100,000 hours worked, as a key measure that can be compared with other companies. This takes into account the number of employees and the hours worked. As well as reporting our lost time injury frequency rate, we also report the number of lost time injuries.

During 2010/11 there were 6 lost time injuries compared with 8 in 2009/10. The lost time injury frequency rate was 0.13 in 2010/11 compared with 0.18 in 2009/10. Definitions for lost time

injury and lost time injury frequency rate are included in the glossary on page 97.

At the same time, we have seen significant improvement in the lost time injury performance of our contract partners' workforce. In 2010/11, there were 17 contractor lost time injuries compared with 30 in 2009/10. When developing safety improvement programmes, we ensure our contract partners are actively involved and we believe there is a mutual benefit in sharing good practice and learning.

The principal causes of lost time injuries were road traffic collisions, musculoskeletal injuries and slips, trips and falls. This year has seen a range of programmes implemented to improve performance in these areas.

However, lost time injury frequency rate only shows part of the picture and we measure a range of other KPIs internally to ensure we control our safety risks. This year has seen particular emphasis on high potential incidents. These are typically the near misses that do not result in harm, but have the potential for serious injuries. Examples include: dropped loads, vehicles overturning, contact with overhead electrical conductors and damaging underground cables. Distinguishing these incidents in terms of potential severity has allowed us to use novel ways to communicate learning to our workforce, such as publishing a 'red top' style newspaper featuring the stories of people involved in the incidents. It also provides the focus on developing campaigns to improve performance before people get hurt.

#### *Public safety*

The safety of the public in the communities we serve is of prime importance to us. In 2010/11 and 2009/10, no members of the public were injured as a result of our activities.

#### **Customer service**

Electricity Transmission is facing a period of unprecedented change within the energy sector. To deliver our part in meeting the government targets we will need to be a flexible organisation that is in tune with the market environment and with our customers.

Our growing list of customers includes new developers, (from nuclear to wind, both on and offshore, wave and tidal power), and our more conventional electricity customer connections. These new entrants will need our help in understanding our business and its complexity. We should not forget that we have a significant existing customer group who rightly expect us to deliver great customer service too. As customers ourselves, this is something we can and do expect.

Using information we have gathered from our customers and our employees, we are on our way to making the cultural shift in the way we behave and the way in which we do things. We are reviewing our internal interactions to assess their impact on our service provision, we are looking to ensure our website is a valued information resource, we will communicate the service level our customers can expect and are supporting our employees in developing their customer service skills.

We will continue to listen and respond to our customers and act upon their feedback. It is important to us that our customers recognise us as a company that is good to do business with and one that listens.

#### **Reliability**

We continue to maintain a world class standard of transmission network reliability, with a reliability score of 99.9999%. Network availability, which is affected by asset replacement activity, was 93.6% on average (2009/10: 94.76%), increasing to 96.95% (2009/10: 97.55%) for the winter peak demand.

### **Delivering strong, sustainable regulatory contracts with good regulatory returns**

#### **Regulation**

For a full description of regulation including the key elements of current price control and developments in the year see pages 5 and 6.

### **Modernising and extending the transmission network**

The principal measure we use to monitor organic investment is capital expenditure, including investment in property, plant and equipment, and software.

Ageing equipment and carbon reduction targets are leading to the retirement of existing generating capacity and demands to connect low carbon and renewable generation. Our role is to ensure that these new sources of energy can be delivered to areas of demand: a critical role in meeting the UK government's climate change agenda and achieving the associated CO<sub>2</sub> reduction targets by 2020. We continue to expect this to drive further growth in capital investment in coming years.

Over the past year we saw further increases in demand for connections of renewable generation to the UK electricity transmission system. In 2010/11, the level of renewable generation already connected or with firm connection requests reached the level required to meet the UK renewable energy target of more than 30% of electricity being generated from renewable sources by 2020.

In October 2010, we awarded an eight year contract to Costain for the construction of two deep cable tunnels in London. The tunnel will house new 400 kV electricity cables that will help meet rising demand for electricity. These two tunnels will connect existing substations at Hackney, St Johns Wood, Willesden and Wimbledon. A major milestone in the Thames Estuary strategy was achieved in October, with the establishment of a new double circuit connection between Tilbury and Littlebrook in the southeast of England – delivered ahead of schedule. The interdependent schemes, with a total investment of £450m, include connection assets for a combined cycle gas turbine (CCGT) power station at Grain and a new 400 kV substation with gas insulated switchgear.

We ensure, before any investment is undertaken, that we are clear how and when it will be remunerated and we only look to invest capital where we expect to be able to earn an acceptable

return consistently with our licence and statutory obligations. Combined with procurement efficiencies this disciplined approach to capital investment has restricted the level of increase in our capital expenditure to £104 million compared with last year.

Capital investment of £1,126 million in 2010/11 (2009/10: £1,022 million) included investment to facilitate connection of renewable generation, the Thames Estuary reinforcement and our London cable tunnels project. It also included £17 million with respect to intangible assets, principally software applications (2009/10: £8 million).

## Becoming more efficient through transforming our operating model and increasingly aligning our processes

### Information services (IS) transformation

The IS transformation programme establishes a global IS function for National Grid delivering services and new solutions to all parts of National Grid.

The transformation programme is underpinned by establishing a number of contracts for services that National Grid can leverage from the broader IT marketplace where such commodities (eg email and virtualisation services) can deliver excellence with economy of scale pricing. Some of the key contracts have been put in place this year with the remainder planned for next year. Sourcing decisions are taken with full consultation with the appropriate bodies and sympathetic consideration of the impact on employees.

An essential component of the transformation programme is to ensure that the structure of the IS department and its commercial arrangements are consistent with the overall National Grid strategy and specific line of business objectives, including our Electricity Transmission business. The IS strategy and associated architecture plans are well developed to deliver efficiencies in the existing IT services through consolidation and rationalisation but also to invest in the new capabilities necessary to meet the challenges ahead.

The IS leadership team is well established and the overall organisational structure is evolving as the commercial contracts are put in place. Key functions that are critical to IS delivery are being developed to ensure we have the right internal capabilities in areas such as business relationships, security, architecture and strategy.

The next stages for the transformation are the completion of the contract placements, the transitioning activities necessary to establish the new arrangements and ensuring the delivery of the benefits.

### Business process outsourcing

The outsourcing to an external service provider in India, of some of National Grid's UK shared services activities which we utilise, was undertaken during the year. This should deliver both financial and process benefits over the next five years.

## Building trust, transparency and an inclusive and engaged workforce

### Employees

We employ over 2,700 people. Communication is a key theme both at a corporate and business level. Multiple communication channels are used, including the use of intranets, which we continue to develop to ensure the timely passing of information to employees.

Employee engagement continues to be a key focus. 2010 saw an unprecedented employee survey response rate of 97% across National Grid. This response rate generated an extremely large amount of data and feedback to review.

As always, we have worked to engage teams throughout the business in creating action plans to address survey feedback. We also regularly seek feedback about the survey process, and teams have consistently expressed a desire to have more time to ensure their actions translate into meaningful results. Therefore, National Grid decided to postpone the 2011 survey to enable us to work more deeply on action planning and other key engagement activities.

We are working to ensure we create visible links between performance and engagement, as we feel the two are interconnected and vital to our success. Throughout 2011, we will be working on reinforcing the link between performance and engagement, and supporting our survey champions as we prepare to launch the 2012 employee survey.

### Inclusion and diversity

Measures such as the percentages of female and ethnic minority employees continue to be reviewed regularly at National Grid Executive Committee level. At 31 March 2011, 13.6% of our employees were female and 11.0% were from ethnic minority groups, compared with 13.7% and 10.1% respectively at 31 March 2010.

We aim to ensure equal opportunity in recruitment, career development, promotion, training and reward for all employees, including those with disabilities. Where existing employees become disabled, our policy is to provide continuing employment and training wherever practical.

Following the decision not to undertake a full employee survey in 2011, we are using an external partner to conduct a number of focus groups with a cross section of employees. These focus groups, in conjunction with interviews with senior management, will provide us with valuable insight into how inclusion and diversity are perceived within the Company.

Our employee resource groups, which cover areas including gender, ethnicity, disability, faith, sexual orientation and new employees, continue to deliver results in three areas: providing professional development opportunities for members through workshops and programmes; supporting the Company's community relations activities through fundraising, volunteering, and providing support to organisations; and working to increase broader understanding of inclusion through workshops, presentations and other educational events.

## Developing talent, leadership skills and capabilities

Talent development continues to be a critical lever for successful business performance. During the past year, we completed the development of our leadership transitions strategy. In 2008, developing future leaders was created by National Grid for senior leaders; in 2009, Foundations of Leadership was created for front line or first time leaders and in 2010, we launched two programmes targeted at middle level leaders focused on their leadership style and business acumen.

To support the development needs of the broader management population, a comprehensive portfolio of classroom based and eLearning solutions was introduced covering the areas of communication, performance management, business acumen and general management. More will be added as further business needs are identified.

Our apprenticeship training programmes enjoy Ofsted outstanding ratings on all criteria and were awarded the East Midlands National Training Award for our advanced apprenticeship model.

To accommodate year on year growth in technical training needs, significant investments have been made in expanding the Eakring and Nottinghamshire learning centres.

## Positively shaping the energy and climate change agenda with external stakeholders

We aim to take the lead on the energy and climate change issues facing society. We will not simply react to the initiatives of other relevant bodies. Instead, we will be proactive in leading the agenda to make sure we help to safeguard the environment.

### Climate change

We have continued with our climate change strategy and energy efficiency programmes, focusing on initiatives that are cost effective and regulated. We remain committed to National Grid's 45% by 2020 and 80% by 2050 greenhouse gas emissions reduction targets for our Scope 1 and 2 emissions.

During 2010/11, we worked to deliver our targets under year one of National Grid's first five year plan for greenhouse gas reduction. The plan established a trajectory to 2015 as the half way point to the 2020 target. Performance against the plan is linked to the executive compensation scheme. A more detailed breakdown of emissions and performance against the plan can be found on National Grid's website.

A significant part of our investment in infrastructure is associated with modernising our networks and building connections to low carbon sources of energy. As a consequence, we expect our Scope 3 emissions due to this to increase in the short term as we play our part in decarbonising the economy. We then anticipate a reduction in our reported transmission losses as the grid average carbon intensity decreases.

We believe that a strong carbon price signal in the economy is essential to driving the right behaviours and to the delivery of a low carbon society. During 2010/11, we introduced a carbon price of £52 per tonne into our investment appraisals in order to challenge our designs and better understand where our opportunities for decarbonisation exist. As a regulated utility, we recognise that we will not always be funded to invest on this basis under existing price control agreements and, in such circumstances, the information that we gather will be used to inform future discussions.

It is equally important we understand the impact of past global emissions on future climate change. We have been working with the UK Met Office to understand how these changes might affect our UK infrastructure and future energy demand.

During 2010, we were asked by Defra to represent the energy sector on a project to develop climate adaptation risk assessments for our regulated UK electricity business. Our assessment process used the government's latest available climate change scenarios to test the resilience of our networks to a range of future conditions. The feedback from the process showed that we have a good understanding of the risks posed by potential future climate change and a high degree of resilience already built into its networks. The ongoing monitoring and appropriate mitigation of the risks from a changing climate will be through our day-to-day business risk management processes. The full reports can be found on National Grid's website. In 2011/12, we will continue to work with our respective governmental and local agencies as this field of study and research evolves.

## Financial performance

### Measurement of financial performance

We report our financial results and position in accordance with International Financial Reporting Standards (IFRS).

### Use of adjusted profit measures

In considering the financial performance of our business and segments, we analyse each of our primary financial measures of operating profit, profit before tax and profit for the year into two components.

The first of these components is referred to as an adjusted profit measure, also known as a business performance measure. This is the principal measure used by management to assess the performance of the underlying business.

Adjusted results exclude exceptional items and remeasurements. These items are reported collectively as the second component of the financial measures.

The items comprising the second component are excluded from the adjusted profit measures used by management to monitor financial performance as they are considered to distort the comparability of our reported financial performance from year to year.

Accounting policy (Q) on page 35 explains in detail the items which are excluded from our adjusted profit measures.

Adjusted profit measures have limitations in their usefulness compared with the comparable total profit measures as they exclude important elements of our financial performance. However, we believe that by presenting our financial performance in two components it is easier to read and interpret financial performance between periods, as adjusted profit measures are made more comparable by removing the distorting effect of the excluded items, and those items are more clearly understood if separately identified and analysed. The presentation of these two components of financial performance is additional to, and not a substitute for, the comparable total profit measures presented.

Management uses adjusted profit measures as the basis for monitoring financial performance and in communicating financial performance to investors in external presentations and announcements of financial results. Internal financial reports, budgets and forecasts are primarily prepared on the basis of adjusted profit measures, although planned exceptional items, such as significant restructurings, and stranded cost recoveries are also reflected in budgets and forecasts. Management compensates for the limitations inherent in the use of adjusted profit measures through the separate monitoring and disclosure of the excluded items as a component of our overall financial performance.

#### Continuing and discontinued operations

The financial results of our business and segments and of our other activities (as described on pages 13 to 17) are presented within continuing operations. There were no discontinued operations in 2010/11 or in 2009/10.

#### Timing

Our profit for the year includes a number of timing differences, including an over-recovery of revenues compared to regulatory allowed revenues, of £56 million. These timing differences are, by their nature, unpredictable, but our current expectation is that they will not recur in 2011/12. The closing balance of over-recovery at 31 March 2011 was £9 million. All other things being equal, that balance should be returned to customers in 2011/12, which would lead to a variance of £65 million when comparing 2011/12 operating profit with 2010/11.

#### Key performance indicators (KPIs)

##### Operational return

We measure our performance in generating value from the investments we make by dividing the annual return of our Electricity Transmission business by our regulatory asset base. Annual return consists of adjusted earnings, amended for a number of items including regulatory timing differences and depreciation, net financing costs and a pension deficit adjustment. Our regulatory asset base consists of invested capital, which is the opening RAV inflated to mid-year using RPI inflation. This is equivalent to the vanilla return set out in our price controls.

For 2010/11, our operational return was 6.4% compared with 6.6% in 2009/10 and a regulatory allowed return (vanilla return) of 5.05%.

## Profit for the year

### Adjusted profit and adjusted earnings

Adjusted earnings and adjusted profit for year from continuing operations were £525 million in 2010/11 (2009/10: £468 million).

### Profit and earnings

Earnings and profit for year from continuing operations were £505 million in 2010/11 (2009/10: £465 million).

The increase in profit and adjusted profit, and earnings and adjusted earnings were a consequence of the changes in operating profit, net finance costs, exceptional finance costs and remeasurements, and taxation described in the following sections.

### Reconciliation of adjusted earnings to earnings

	Years ended 31 March	
	2011	2010
	£m	£m
Adjusted earnings	525	468
Exceptional items	(26)	(10)
Remeasurements	6	7
Earnings	505	465

### Revenue by operating segment

	Years ended 31 March	
	2011	2010
	£m	£m
Electricity Transmission	2,548	2,483
Other activities	1	1
Revenue	2,549	2,484

### Operating profit by segment

	Years ended 31 March	
	2011	2010
	£m	£m
Electricity Transmission	828	800
Other activities	(8)	(9)
Total operating profit	820	791

### Adjusted operating profit by segment

	Years ended 31 March	
	2011	2010
	£m	£m
Electricity Transmission	912	814
Other activities	(8)	(9)
Adjusted operating profit	904	805



### Analysis of operating profit and adjusted operating profit 2010/11 compared with 2009/10

Changes in revenue and other operating income, operating costs and operating profit for 2010/11 compared with 2009/10 are analysed by operating segment as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2009/10 operating profit	<b>2,484</b>	<b>(1,693)</b>	<b>791</b>
Add back 2009/10 exceptional items	-	<b>14</b>	<b>14</b>
2009/10 adjusted operating profit	<b>2,484</b>	<b>(1,679)</b>	<b>805</b>
Electricity Transmission	66	31	<b>97</b>
Other	-	2	<b>2</b>
2010/11 adjusted operating profit	<b>2,550</b>	<b>(1,646)</b>	<b>904</b>
2010/11 exceptional items	-	<b>(84)</b>	<b>(84)</b>
2010/11 operating profit	<b>2,550</b>	<b>(1,730)</b>	<b>820</b>

The results for the Electricity Transmission segment for the years ended 31 March 2011 and 2010 were as follows:

	Years ended 31 March	
	2011 £m	2010 £m
Revenue and other operating income	<b>2,548</b>	2,483
Operating costs excluding exceptional items	<b>(1,636)</b>	(1,669)
Adjusted operating profit	<b>912</b>	814
Exceptional items	<b>(84)</b>	(14)
Operating profit	<b>828</b>	800

2010/11 compared with 2009/10:

	Operating profit £m
2009/10 adjusted operating profit	<b>814</b>
Allowed revenues (1)	<b>37</b>
Timing of recoveries (2)	<b>91</b>
Depreciation and amortisation (3)	<b>(24)</b>
Other	<b>(6)</b>
2010/11 adjusted operating profit	<b>912</b>

- 1 - Increase in regulated revenues collectable under our price controls.
- 2 - Collection of allowed revenues not collected in the previous year.
- 3 - Increase reflects the charges arising from our ongoing capital investment programme.

### Reconciliation of adjusted operating profit to adjusted profit and adjusted earnings

	Years ended 31 March	
	2011 £m	2010 £m
Adjusted operating profit	<b>904</b>	805
Net finance costs excluding exceptional items and remeasurements	<b>(173)</b>	(153)
Adjusted profit before taxation	<b>731</b>	652
Taxation excluding tax on exceptional items and remeasurements	<b>(206)</b>	(184)
Adjusted profit and adjusted earnings	<b>525</b>	468

### Reconciliation of operating profit to profit and earnings

	Years ended 31 March	
	2011 £m	2010 £m
Operating profit	<b>820</b>	791
Net finance costs	<b>(176)</b>	(143)
Total profit before taxation	<b>644</b>	648
Taxation	<b>(139)</b>	(183)
Profit and earnings	<b>505</b>	465

### Reconciliation of adjusted operating profit to total operating profit

	Years ended 31 March	
	2011 £m	2010 £m
Adjusted operating profit	<b>904</b>	805
Exceptional items	<b>(84)</b>	(14)
Total operating profit	<b>820</b>	791

### Reconciliation of adjusted profit before taxation to total profit before taxation

	Years ended 31 March	
	2011 £m	2010 £m
Adjusted profit before taxation	<b>731</b>	652
Exceptional items	<b>(95)</b>	(14)
Remeasurements	<b>8</b>	10
Total profit before taxation	<b>644</b>	648

### Net finance costs

Net finance costs excluding exceptional items and remeasurements were £173 million in 2010/11, compared with £153 million in 2009/10. The increase in 2010/11 compared with 2009/10 primarily reflected higher accretions in index-linked debt following the return of inflation, partially offset by higher capitalised interest.

### Exceptional items and remeasurements

Exceptional charges of £84 million in 2010/11 consisted of environmental charges of £69 million and restructuring costs of £15 million.

Exceptional charges of £14 million in 2009/10 consisted of restructuring charges.

There were £11 million of exceptional finance costs during 2010/11 (2009/10: £nil) relating to the early redemption of debt following the rights issue by National Grid in June 2010.

Financial remeasurements relate to net gains on derivative financial instruments of £8 million (2009/10: £10 million net gains).

### Taxation

The net tax charge of £139 million in 2010/11 comprised a £206 million charge on adjusted profit before tax and a £67 million credit on exceptional items and remeasurements, £62 million of which is due to the reduction in the UK corporation tax rate to 26% from 1 April 2011. This compares with a net charge of £183 million in 2009/10, comprising a £184 million charge on adjusted profit before tax and a £1 million credit on exceptional items and remeasurements.

The effective tax rate before and after exceptional items and remeasurements was 28% and 22% respectively (2009/10: 28% for both cases), compared with a standard UK corporation tax rate of 28% in both years.

### Cash flows

#### *Cash flows from operating activities*

Cash generated from continuing operations was £1,065 million in 2010/11 compared with £986 million in 2009/10. This included cash outflows relating to exceptional items of £5 million in 2010/11 and £2 million in 2009/10.

The net cash inflow from operating activities after taxation was £953 million in 2010/11, compared with £896 million in 2009/10. This included a net corporate tax payment in 2010/11 of £112 million compared with a payment of £90 million in 2009/10.

#### *Cash flows from investing activities*

Cash outflows from investing activities were £839 million in 2010/11 compared with £641 million in 2009/10. Cash outflows to purchase property, plant and equipment and intangible fixed assets, net of disposal proceeds, were £904 million in 2010/11 compared with £939 million in 2009/10. Interest received was £2 million in 2010/11 compared with £5 million in 2009/10. Net cash inflows from sale of financial investments were £63 million in 2010/11 compared with net inflows of £293 million in 2009/10.

#### *Cash flows from financing activities*

The net cash outflow from financing activities was £435 million in 2010/11 compared with £325 million in 2009/10. This reflected net repayment of loans of £104 million (2009/10: £14 million net inflow) and net payments to providers of finance, in the form of interest and dividends, of £331 million (2009/10: £339 million).

Interest payments decreased from £189 million in 2009/10 to £181 million in 2010/11.

Dividends paid to shareholders were £150 million in both years.

## Transmission business profit for the year

### Adjusted profit and adjusted earnings

Adjusted profit for year from continuing operations was £519 million in 2010/11 (2009/10: £464 million).

### Profit

Profit for year from continuing operations was £499 million in 2010/11 (2009/10: £461 million).

The increase in profit and adjusted profit was a consequence of the changes in operating profit, net finance costs, exceptional finance costs and remeasurements, and taxation described in the following sections.

### Reconciliation of adjusted profit to profit

	Years ended 31 March	
	2011	2010
	£m	£m
Adjusted profit	519	464
Exceptional items	(25)	(10)
Remeasurements	5	7
Profit	499	461

### Analysis of operating profit and adjusted operating profit

#### *2010/11 compared with 2009/10*

The results for the Transmission business for the year were as follows:

	Years ended 31 March	
	2011	2010
	£m	£m
Revenue	2,477	2,437
Operating costs excluding exceptional items	(1,582)	(1,635)
Adjusted operating profit	895	802
Exceptional items	(84)	(14)
Total operating profit	811	788

The principal movements in adjusted operating profit between 2009/10 and 2010/11 were as follows:

	Years ended 31 March	
	2010	2010
	£m	£m
2009/10 adjusted operating profit	802	
Allowed revenues (1)	37	
Timing of recoveries (2)	91	
Depreciation and amortisation (3)	(24)	
Other	(11)	
2010/11 adjusted operating profit	895	

- 1 - Increase in regulated revenues collectable under our price controls.
- 2 - Collection of allowed revenues not collected in the previous year.
- 3 - Increase reflects the charges arising from our ongoing capital investment programme.

**Reconciliation of adjusted operating profit to adjusted profit**

	Years ended 31 March	
	2011	2010
	£m	£m
Adjusted operating profit	895	802
Net finance costs excluding exceptional items and remeasurements	(173)	(153)
Adjusted profit before taxation	722	649
Taxation excluding tax on exceptional items and remeasurements	(203)	(185)
Adjusted profit	519	464

**Reconciliation of operating profit to profit**

	Years ended 31 March	
	2011	2010
	£m	£m
Operating profit	811	788
Net finance costs	(176)	(143)
Total profit before taxation	635	645
Taxation	(136)	(184)
Profit	499	461

**Reconciliation of adjusted operating profit to total operating profit**

	Years ended 31 March	
	2011	2010
	£m	£m
Adjusted operating profit	895	802
Exceptional items	(84)	(14)
Total operating profit	811	788

**Reconciliation of adjusted profit before taxation to total profit before taxation**

	Years ended 31 March	
	2011	2010
	£m	£m
Adjusted profit before taxation	722	649
Exceptional items	(95)	(14)
Remeasurements	8	10
Total profit before taxation	635	645

**Net finance costs**

Net finance costs excluding exceptional items and remeasurements were £173 million in 2010/11, compared with £153 million in 2009/10. The increase in 2010/11 compared with 2009/10 primarily reflected higher accretions in index-linked debt following the return of inflation, partially offset by higher capitalised interest.

**Exceptional items and remeasurements**

Exceptional charges of £84 million in 2010/11 consisted of environmental charges of £69 million and restructuring costs of £15 million.

Exceptional charges of £14 million in 2009/10 consisted of restructuring charges.

There were £11 million of exceptional finance costs during 2010/11 (2009/10: £nil) relating to the early redemption of debt following the rights issue by National Grid in June 2010.

Financial remeasurements relate to net gains on derivative financial instruments of £8 million (2009/10: £10 million net gains).

**Taxation**

The net tax charge of £136 million in 2010/11 comprised a £203 million charge on adjusted profit before tax and a £67 million credit on exceptional items and remeasurements. This compares with a net charge of £184 million in 2009/10, comprising a £185 million charge on adjusted profit before tax and a £1 million credit on exceptional items and remeasurements.

The effective tax rate before and after exceptional items and remeasurements was 28% and 21% respectively (2009/10: 29% for both cases), compared with a standard UK corporation tax rate of 28% in both years.

**Cash flows***Cash flows from operating activities*

Cash generated from continuing operations was £1,060 million in 2010/11 compared with £986 million in 2009/10. This included cash outflows relating to exceptional items of £5 million in 2010/11 (2009/10: £nil).

The net cash inflow from operating activities after taxation was £949 million in 2010/11, compared with £898 million in 2009/10. This included a net corporate tax payment in 2010/11 of £111 million compared with a payment of £88 million in 2009/10.

*Cash flows from investing activities*

Cash outflows from investing activities were £840 million in 2010/11 compared with £640 million in 2009/10. Cash outflows to purchase property, plant and equipment and intangible fixed assets, net of disposal proceeds, were £905 million in 2010/11 compared with £938 million in 2009/10. Interest received was £2 million in 2010/11 compared with £5 million in 2009/10. Net cash inflows from sale of financial investments were £63 million in 2010/11 compared with net inflows of £293 million in 2009/10.

*Cash flows from financing activities*

The net cash outflow from financing activities was £430 million in 2010/11 compared with £328 million in 2009/10. This reflected net repayment of loans of £104 million (2009/10: £14 million net inflow) and net payments to providers of finance, in the form of interest and dividends, of £331 million (2009/10: £339 million).

Interest payments decreased from £189 million in 2009/10 to £181 million in 2010/11.

Dividends paid to shareholders were £150 million in both years.

## Financial position and financial management

### Going concern

Having made enquiries, the Directors consider that the Company and its subsidiary undertakings 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 consolidated and individual financial statements of the Company. More details of our liquidity position are provided under the heading Funding and liquidity management below and in note 27 to the consolidated financial statements.

### Financial position

#### Balance sheet for the Company

Our balance sheet at 31 March 2011 can be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment and non-current intangible assets	7,666	-	7,666
Current assets and liabilities	232	(742)	(510)
Other non-current liabilities	-	(334)	(334)
Pension obligations	-	(467)	(467)
Deferred tax	-	(761)	(761)
Total before net debt	7,898	(2,304)	5,594
Net debt	182	(4,752)	(4,570)
<b>Total as at 31 March 2011</b>	<b>8,080</b>	<b>(7,056)</b>	<b>1,024</b>
Total as at 31 March 2010	7,550	(6,885)	665

The £359 million increase in net assets from £665 million at 31 March 2010 to £1,024 million at 31 March 2011 resulted from the profit for the year of £505 million and other items totalling £4 million, offset by equity dividends paid of £150 million.

#### Balance sheet for the Transmission business

The balance sheet at 31 March 2011 for the regulated Transmission business can be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment and non-current intangible assets	7,663	-	7,663
Current assets and liabilities	201	(715)	(514)
Other non-current assets and liabilities	-	(334)	(334)
Pension obligations	-	(461)	(461)
Deferred tax	-	(760)	(760)
Total before net debt	7,864	(2,270)	5,594
Net debt	182	(4,752)	(4,570)
<b>Total as at 31 March 2011</b>	<b>8,046</b>	<b>(7,022)</b>	<b>1,024</b>
Total as at 31 March 2010	7,530	(6,861)	669

The £355 million increase in net assets from £669 million at 31 March 2010 to £1,024 million at 31 March 2011 resulted from the profit for the year from continuing operations of £499 million

and other items of £6 million, offset by equity dividends paid of £150 million.

#### Net debt

Net debt increased by £348 million from £4,222 million at 31 March 2010 to £4,570 million at 31 March 2011. Cash flows from operations of £953 million were offset by capital expenditure of £904 million, dividends paid of £150 million and net interest paid £179 million, together with fair value and other adjustments of £68 million.

At 31 March 2011, net debt comprised borrowings of £4,666 million including bank overdrafts of £8 million, less financial investments of £4 million and derivative financial instruments with a net carrying value of £92 million. At 31 March 2010, net debt comprised borrowings of £4,666 million, including bank overdrafts of £13 million, less financial investments of £67 million, derivative financial instruments with a net carrying value of £51 million and cash and equivalents of £326 million.

#### Capital structure

We monitor the regulatory asset value (RAV) gearing of the Electricity Transmission business. This is calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund the regulated business. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for regulated businesses, at around 60%.

RAV gearing as at 31 March 2011 was 54%, compared with 56% as at 31 March 2010.

#### Liquidity and treasury management

##### Treasury policy

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

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

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

### *Current condition of the financial markets*

The financial markets have essentially returned to normal for National Grid following the turmoil in the capital markets in 2008 and 2009. Following National Grid's rights issue, which completed in June 2010, our funding requirements were modest. We issued no new long-term debt, but repurchased £85 million (external) and did not refinance £216 million (external) of debt maturities. We remain confident of our ability to access the public debt markets in the future.

### *Cash flow and cash flow forecasting*

Cash flows from operations are largely stable annually and over a period of years. Our transmission operations are subject to multi-year price control agreements with our regulator, Ofgem.

Both short and long-term cash flow forecasts are produced regularly to assist the treasury function in identifying short-term liquidity and long-term funding requirements, and we seek to enhance our cash flow forecasting processes on an ongoing basis. Cash flow forecasts, supplemented by a financial headroom analysis, are monitored regularly to assess funding adequacy for at least a 12 month period.

As part of our regulatory arrangements, our operations are subject to a number of restrictions on the way we can operate. These include regulatory 'ring-fences' that requires us to maintain adequate financial resources and restricts our ability to undertake transactions with other National Grid subsidiary companies including paying dividends, lending cash or levying charges.

### *Funding and liquidity management*

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

At 31 March 2011, we had a \$1 billion US commercial paper programme (unutilised) and a €1 billion Euro commercial paper programme (unutilised). We also have a joint €15 billion Euro medium term note programme with National Grid plc (€2.9 billion issued by National Grid Electricity Transmission plc, €7.8 billion issued in total).

In addition, we have both committed and uncommitted bank borrowing facilities that are available for general corporate purposes to support our liquidity requirements. At 31 March 2011, the Company had £715 million of long term committed facilities (undrawn), expiring in April 2014.

To facilitate debt issuance into the capital and money markets, we maintain a credit rating. Details of our long-term senior unsecured debt and short-term debt credit ratings are given below under 'credit ratings'.

We invest surplus funds on the money markets, usually in the form of short-term fixed deposits and placements with money market funds that are invested in highly liquid instruments of high credit quality. Investment of surplus funds is subject to our counterparty risk management policy, and we continue to believe that our cash management and counterparty risk management policies provide appropriate liquidity and credit

risk management. Details relating to cash, short-term investments and other financial assets at 31 March 2011 are shown in notes 13 and 14 to the consolidated financial statements.

We believe that maturing amounts in respect of our contractual obligations can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

In line with our normal treasury practice we expect to continue to access the markets in order to manage actively our debt portfolio, optimise our finance costs and manage our refinancing risk.

### *Credit ratings*

It is a condition of the regulatory ring-fence around the Company that it uses reasonable endeavours to maintain an investment grade credit rating. As of 31 March 2011, the long-term senior unsecured debt and short-term debt credit ratings respectively provided by Moody's Investor Services, Standard & Poor's and Fitch were as follows (all with outlooks of stable):

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

### *Use of derivative financial instruments*

As part of our business operations, including our treasury activities, we are exposed to risks arising from fluctuations in interest rates and exchange rates. We use financial instruments, including financial derivatives, to manage exposures of this type. Our policy is not to use financial derivatives for trading purposes. More details on derivative financial instruments are provided in note 10 to the consolidated financial statements.

### *Refinancing risk management*

Refinancing risk is controlled mainly by limiting the amount of debt maturities arising on borrowings in any financial year.

Note 15 to the consolidated financial statements sets out the contractual maturities of our borrowings over the next five years, with total contracted borrowings maturing over 48 years. We expect to be able to refinance this debt through the capital and money markets as we have done during the year to 31 March 2011.

### *Interest rate risk management*

Our interest rate exposure arising from borrowings and deposits is managed by the use of fixed and floating rate debt and derivative financial instruments including; interest rate swaps, swaptions and forward rate agreements. The interest rate risk management policy followed is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints so that, even with an extreme movement in interest rates, neither the interest cost nor the total financing cost is expected to exceed preset limits with a high degree of certainty.

Some of our bonds in issue are inflation-linked, that is their cost is linked to changes in the UK Retail Prices Index (RPI). We believe that these bonds provide an appropriate hedge for revenues and our regulatory asset values that are also RPI linked under our price control formulas. The performance of the treasury function in interest rate risk management is measured by comparing the actual total financing costs of the National Grid debt portfolio with those of a passively managed benchmark portfolio with set ratios of fixed rate to floating rate debt, to identify the impact of actively managing National Grid's interest rate risk. This is monitored regularly by the Finance Committee of National Grid.

Within the constraints of our interest rate risk management policy, and as approved by the Finance Committee, we actively manage our interest rate exposure and therefore the interest rate profile will change over time.

In 2011/12, we expect our financing costs to continue to benefit from low short-term interest rates, some of which have already been locked in using short-term interest rate derivatives.

More information on the interest rate profile of our debt is included in note 27 to the consolidated financial statements.

#### *Foreign exchange risk management*

We have a policy of managing our foreign exchange transaction risk by hedging contractually committed foreign exchange transactions over a prescribed minimum size. This covers a minimum of 75% of such transactions occurring in the next six months and a minimum of 50% of transactions occurring six to twelve months in the future. Cover generally takes the form of forward sale or purchase of foreign currencies and must always relate to forecast underlying operational cash flows.

The result of this hedging activity is that our cash flow has limited exposure to foreign currencies.

Our capital expenditure programme over the next few years will result in material foreign currency exposures as we purchase raw materials and components from overseas suppliers. The treasury function will seek to manage these exposures through a range of hedging strategies and instruments.

In addition, we are exposed to currency exposures on borrowings in currencies other than sterling, principally the euro. This currency exposure is managed through the use of cross-currency swaps, so that post derivatives the currency profile is almost entirely sterling.

More details can be found in note 27(a) to the consolidated financial statements.

#### *Counterparty risk management*

Counterparty risk arises from the investment of surplus funds, from the use of derivative instruments, and from commercial contracts entered into by the business, including commodity contracts. The National Grid Finance Committee has agreed a policy for managing such risk on a portfolio basis across National Grid. This policy sets limits as to the exposure that National Grid can have with any one counterparty, based on that counterparty's credit rating from independent credit rating

agencies. National Grid's exposure to individual counterparties is monitored daily and counterparty limits are regularly updated for changes in credit ratings. The treasury function is responsible for managing the policy. Where contracts carrying credit risk are entered into outside the treasury function, part of the relevant counterparty limit can be allocated to the business area involved. This ensures that National Grid's overall exposure is managed within the appropriate limit.

Where multiple transactions are entered into with a single counterparty, a netting arrangement is usually put in place to reduce our exposure to credit risk of that counterparty. When transacting interest rate and exchange rate derivatives, we use market standard documentation, which provides for netting in respect of all transactions governed by a specific ISDA agreement with a counterparty.

Further information on the management of counterparty risk is provided in note 27(c) to the consolidated financial statements.

#### *Valuation and sensitivity analysis*

We calculate the fair value of debt and financial derivatives by discounting all future cash flows by the market yield curve at the balance sheet date, including the credit spread for debt, and in the case of financial derivatives taking into account the credit quality of both parties. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the case of instruments that include options, the Black's variation of the Black-Scholes model is used to calculate fair value.

For debt and derivative instruments held, we utilise a sensitivity analysis technique to evaluate the effect that changes in relevant rates or prices would have on the market value of such instruments.

As described in note 27(e) to the consolidated financial statements, movements in financial indices would have the following estimated impact on the financial statements as a consequence of changes in the value of financial instruments.

Years ended 31 March	2011		2010	
	Income statement £m	Other comprehensive income £m	Income statement £m	Other comprehensive income £m
UK Retail Prices Index $\pm$ 0.50%	7	-	7	-
UK interest rates $\pm$ 0.50%	5	14	3	19

### Commodity contracts

We have entered into electricity options, pursuant to the requirement to stabilise the electricity market in Great Britain through the operation of the British Electricity Trading and Transmission Arrangements. The contracts are for varying terms and have been entered into so that we have the ability to deliver electricity as required to meet our obligations under our electricity transmission licence. We have not and do not expect to enter into any significant derivatives in connection with our Great Britain national electricity transmission system operator role.

## Commitments and contingencies

Commitments and contingencies outstanding at 31 March 2011 and 2010 are summarised in the table below:

	2011 £m	2010 £m
Future capital expenditure contracted but not provided for	968	921
Total operating lease commitments	58	63
Other guarantees	11	12

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

We propose to meet all of our commitments from existing cash and investments, operating cash flows, existing credit facilities, future facilities and other financing that we reasonably expect to be able to secure in the future.

### Details of material litigation as at 31 March 2011

We were not party to litigation that we considered to be material as at 31 March 2011.

## Related party transactions

We provide services to and receive services from related parties, principally fellow subsidiaries of National Grid. In the year ended 31 March 2011, we charged £35 million and received charges of £2 million from related parties (other than Directors and key managers), compared with £24 million and £43 million respectively in 2009/10.

Further information relating to related party transactions is contained within note 24 to the consolidated financial statements. Details of key management compensation and amounts paid to Directors are included within note 3(c) and note 3(d) to the consolidated financial statements respectively.

## Retirement arrangements

The substantial majority of our employees are members of the National Grid Electricity Group of the Electricity Supply Pension Scheme or of the defined contributions section of the National Grid UK Pension Scheme. The Electricity Supply Pension Scheme is a defined benefit scheme and is closed to new members. New employees are offered membership of the defined contribution section of the National Grid UK Pension Scheme, which is operated by Lattice Group plc, a fellow subsidiary company of National Grid. We do not provide any other post-retirement benefits.

In September 2010 the UK government changed the basis for statutory pension increases from the retail price index (RPI) to the consumer price index (CPI). The scheme rules of our pension scheme specifically reference RPI. As a consequence, the impact of the Government's move to CPI was predominantly limited to our guaranteed minimum pensions and the financial consequence was an approximate £5 million reduction in plan liabilities.

## Net pension obligations

The following table summarises the pension obligations recorded in the consolidated financial statements:

	£m
As at 1 April 2010	(493)
Pension service cost	(27)
Interest less expected return	(9)
Actuarial gains and losses	
– on plan assets	(17)
– on plan liabilities	9
Employer contributions:	
– ordinary contributions	25
– additional contributions	45
<b>As at 31 March 2011</b>	<b>(467)</b>
	£m
Plan assets	1,598
Plan liabilities	(2,065)
Net plan liability	(467)

The amounts recorded in the balance sheet are based on International Accounting Standard 19, which requires pension obligations to be calculated on a different basis from that used by the actuaries to determine the funding we need to make.

Plan assets are measured at the bid market value at the balance sheet date. Plan liabilities are measured by discounting the best estimate of future cash flows to be paid out by the plans using the projected unit method. Estimated future cash flows are discounted at the current rate of return on high quality corporate bonds in UK debt markets of an equivalent term to the liability.

The principal movements in net obligations during the year arose as a consequence of additional employer contributions.

### UK funding valuation

A triennial valuation is carried out for the independent trustees of our UK defined benefit plan by professionally qualified actuaries, using the projected unit method. The purpose of the valuation is to design a funding plan to ensure that present and future contributions should be sufficient to meet future liabilities.

The last completed full actuarial valuation of National Grid Electricity Supply Pension Scheme was at 31 March 2010. This concluded that the pre-tax funding deficit was £507 million on the basis of the funding assumptions. Employer cash contributions for the ongoing cost of this plan will be made at a rate of 23.7% of pensionable payroll.

Following the 2010 actuarial valuation, National Grid and the Trustees agreed a recovery plan which will see the deficit paid off by March 2027. Under the Schedule of Contributions, a payment of £45m was made in 2010/11, a further payment of £45m will be made in 2011/12 and another of £38m in 2012/13. Thereafter, an annual payment of £38m will be made, rising in line with Retail Price Inflation.

**Plan assets**

Plan assets are invested in equities, corporate bonds, gilts, property and short-term investments. The National Grid Electricity Group of the Electricity Supply Pension Scheme plan is trustee administered and the trustees are responsible for setting the investment strategy and monitoring investment performance, consulting with us where appropriate.

Pension plan assets	2011
	%
Equities	41.9
Gilts	28.6
Corporate bonds	11.7
Hedge funds	7.3
Property	4.0
Cash (awaiting investment)	2.8
Other	3.7
Total	100.0

## Accounting policies

### Basis of accounting

The consolidated financial statements present the results of National Grid Electricity Transmission plc for the years ended 31 March 2011 and 2010 and financial position as at 31 March 2011 and 2010. They have been prepared using the accounting policies shown, in accordance with International Financial Reporting Standards (IFRS).

In complying with IFRS, we are also complying with the version of IFRS that has been endorsed by the European Union for use by listed companies.

### Choices permitted under IFRS

IFRS provides certain options available within accounting standards. Material choices we have made, and continue to make, include the following:

#### Presentation formats

We use the nature of expense method for our income statement and total our balance sheet to net assets and total equity.

In the income statement, we present subtotals of total operating profit, profit before tax and profit from continuing operations, together with additional subtotals excluding exceptional items and remeasurements. Exceptional items and remeasurements are presented on the face of the income statement.

#### Financial instruments

We normally opt to apply hedge accounting in most circumstances where this is permitted.

### Critical accounting policies

The application of accounting principles requires us to make estimates, judgments and assumptions that may affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the accounts. On an ongoing basis, we evaluate our estimates using historical experience, consultation with experts and other methods that we consider reasonable in the particular circumstances to ensure compliance with IFRS. Actual results may differ significantly from our estimates, the effect of which will be recognised in the period in which the facts that give rise to the revision become known.

Certain accounting policies, described below, have been identified as critical accounting policies, as these policies involve particularly complex or subjective decisions or assessments. The discussion of critical accounting policies below should be read in conjunction with the description of our accounting policies set out in our consolidated financial statements.

#### Revenue

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



Estimates of unbilled revenues amounted to £98 million at 31 March 2011 compared with £113 million at 31 March 2010.

### **Estimated economic lives of property, plant and equipment**

The reported amounts for depreciation of property, plant and equipment and amortisation of non-current intangible assets can be materially affected by the judgments exercised in determining their estimated economic lives.

### **Hedge accounting**

Derivative financial instruments are used to hedge certain economic exposures arising from movements in exchange and interest rates or other factors that could affect either the value of the Company's assets or liabilities or affect future cash flows.

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

### **Exceptional items and remeasurements**

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

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, material changes in environmental provisions, gains or losses on disposals of businesses or investments and debt redemption costs.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of derivative financial instruments. These fair values increase or decrease as a consequence of changes in financial indices and prices over which the Company has no control.

### **Tax estimates**

The tax charge is based on the profit for the year and tax rates in effect. The determination of appropriate provisions for taxation requires us to take into account anticipated decisions of tax authorities and estimate our ability to utilise tax benefits through future earnings and tax planning.

### **Carrying value of assets and potential for impairments**

The carrying value of assets recorded in the consolidated balance sheet could be materially reduced if an impairment were to be assessed as being required. Impairment reviews are carried out when a change in circumstance is identified that indicates an asset might be impaired. An impairment review involves calculating either or both of the fair value or the value-

in-use of an asset or group of assets and comparing with the carrying value in the balance sheet.

These calculations involve the use of assumptions as to the price that could be obtained for, or the future cash flows that will be generated by, an asset or group of assets, together with an appropriate discount rate to apply to those cash flows.

### **Assets and liabilities carried at fair value**

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

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

### **Provisions**

Provisions are made for liabilities the timing and amount of which is uncertain. These include provisions for the cost of environmental restoration and remediation, restructuring and employer and public liability claims.

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

### **Pensions**

Pension obligations recorded in the balance sheet are calculated actuarially using a number of assumptions about the future, including inflation, salary increases, length of service and pension and investment returns, together with the use of a discount rate to calculate the present value of the obligation. These assumptions can have a significant impact on both the pension obligation recorded in the balance sheet and on the net charge recorded in the income statement.

### **Sensitivities**

In order to illustrate the impact that changes in assumptions could have on our results and financial position, the following sensitivities are presented:

#### **Revenue accruals**

A 10% change in our estimate of unbilled revenues at 31 March 2011 would result in an increase or decrease in our recorded net assets and profit for the year by approximately £10 million net of tax.

#### **Asset useful lives**

An increase in the useful economic lives of assets of one year on average would reduce our annual depreciation charge on property, plant and equipment by £7 million (pre-tax) and our annual amortisation charge on intangible assets by £1 million (pre-tax).

### **Hedge accounting**

If using our derivative financial instruments, hedge accounting had not been achieved during the year ended 31 March 2011 then the profit for the year would have been £18 million higher than that reported net of tax, and net assets would have been £8 million higher.

### **Assets carried at fair value**

A 10% change in assets and liabilities carried at fair value would result in an increase or decrease in the carrying value of derivative financial instruments of £9 million.

### **Provisions**

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

### **Pension obligations**

The Company's pension and post-retirement obligations are sensitive to the actuarial assumptions used. A 0.1% increase in the discount rate, a 0.5% increase in the rate of salary increases or an increase of one year in life expectancy would result in a change in the net obligation of £31 million, £30 million and £55 million and a change in the annual pension cost of £1 million, £1 million and £1 million respectively.

## **Accounting developments**

### **Accounting standards, amendments to standards and interpretations adopted in 2010/11**

In preparing our consolidated financial statements we have complied with International Financial Reporting Standards, International Accounting Standards and interpretations applicable for 2010/11. The standards, amendments to standards and interpretations adopted during 2010/11 are discussed in the financial statements on page 37. None of these resulted in a material change to our consolidated results, assets or liabilities in 2010/11 or in those of previous periods.

### **Accounting standards, amendments to standards and interpretations not yet adopted**

New accounting standards, amendments to standards and interpretations which have been issued but not yet adopted by National Grid are discussed in the financial statements on page 37.

# Corporate governance statement

The Company is required to include within its regulatory accounting statements a corporate governance statement which describes how the principles of good corporate governance have been applied and which has the same content as the statement a quoted company is required to prepare.

As a wholly owned subsidiary of National Grid plc, the company is not subject to the Combined Code on Corporate Governance, but operates within National Grid's corporate governance framework. The following statement sets out how this governance framework has been applied to the electricity transmission business.

National Grid's corporate governance policies are described in its annual report and accounts. Its Board considers that it complied in full with the Combined Code during 2010/11.

## Governance framework

The Board of the Company is responsible for its overall management and governance, and for ensuring that it complies with all relevant laws and regulations, including compliance with its Electricity Transmission Licence. The operational and financial management of the Company's businesses is undertaken by committees, in compliance with business separation obligations.

The Board meets at least 6 times a year on a bi-monthly basis. There are no non-executive or independent directors. The Board does not have an independent Chairman and meetings are normally chaired by Nick Winser.

### Attendance

Attendance at Board meetings during 2010/11, expressed as number of meetings attended out of number eligible to attend, is set out below.

	Attendance
Nick Winser (chair)	6 of 8
Malcolm Cooper	6 of 8
Mark Fairbairn	7 of 8
Stuart Humphreys	7 of 8
Paul Whittaker	6 of 8

Board members are required to attend meetings regularly in order to ensure they are kept up to date with the business and accordingly can contribute to meetings. Directors are informed of proposed meeting dates well in advance. Directors are sent papers for meetings of the Board and for those committees of which they are a member. Guidelines are in place concerning the content, timeliness and preferred presentation of papers to ensure Directors are briefed appropriately.

### Board performance evaluation

The Board of the Company instigated a review of its performance over the year to 31 December 2010.

The 2010 process, led by Nick Winser was a formal and rigorous evaluation of the performance of the Board and the Directors.

A positive set of results was recorded across the survey indicating the Board is working effectively.

The Directors agreed that Nick Winser, as chair, demonstrates effective leadership and performs his responsibilities well, that the Board composition is appropriate and that the operation of the Board, in terms of length and frequency of board meetings and the information provided is appropriate.

## Committees

The Board has established a number of committees and sub-committees which assist it in its activities. These include the Transmission Executive Committee and the Finance Committee. It does not have Nomination, Remuneration or Audit Committees. These functions are provided by National Grid and their roles relevant to the Company are explained below. See the annual report and accounts of National Grid plc for further information about these committees.

### Board composition and continuity

The Board of the Company will make further appointments in consultation with its shareholder as appropriate.

### Board Remuneration

The Directors of the Company are not separately remunerated in that capacity. The remuneration of any Director, who is also a member of the Board of National Grid plc, is determined by the Remuneration Committee of the Board of National Grid plc, as set out in its annual report and accounts. The remuneration of other Directors is determined in accordance with National Grid's remuneration policies for employees.

### Audit Committee of National Grid plc

The Audit Committee of the Board of National Grid plc is responsible for reviewing: the Company's financial reporting and internal controls and their effectiveness; the procedures for the identification, assessment and reporting of risks; the appropriateness of auditors in carrying out certain non-audit work; and the level of audit and non-audit fees paid to auditors.

The Audit Committee is comprised of independent Non-executive Directors of National Grid plc, meets at least 4 times annually and considers that both management of National Grid plc and external auditors should attend meetings where possible.

### Transmission Executive Committee

The Transmission Executive Committee acts within National Grid's overall corporate governance framework and delegated authorities and is responsible for the operational and financial management of the transmission businesses. Membership of

this committee and attendance at meetings during 2010/11 is set out below. Attendance is expressed as number of meetings attended out of number eligible to attend, and includes attendance by a nominated deputy.

		Attendance
Nick Winser (Chair)	Executive Director of National Grid	5 of 5
Jonathan Munsey	Acting UK General Counsel & Company Secretary	4 of 4
Karen Clayton	UK General Counsel & Company Secretary	1 of 1
Peter Boreham	Director of UK LNG	5 of 5
Bill Russell	Director of Britned	5 of 5
Mike Calviou	Director of Asset Management – UK Transmission	4 of 5
Stuart Humphreys	Finance Director - Transmission	4 of 5
Alison Kay	Commercial Director - Transmission	5 of 5
Edward Syson	Director of Safety, Health, Environment and Security	5 of 5
Paul Renaud	Manager of Transmission Asset Strategy	5 of 5
Michael Dyke	Director of UK Construction	5 of 5
Ellen Smith	Director of US Transmission	4 of 5
Mary Ellen Paravalos	Vice President for US Transmission Regulation and Commercial	3 of 5
Chris Train	Director of Network Operations - UK Transmission	5 of 5
Paul Whittaker	UK Director of Regulation	3 of 5

The Transmission Executive Committee has a number of sub-committees dealing with matters such as investment governance and coordination of operations.

#### Finance committee

The Finance Committee of the Board is responsible for setting policy and grants authority for financing decisions, bank accounts, credit exposure, control mechanisms for hedging and foreign exchange transactions, guarantees and indemnities and approves, or if appropriate, recommends to the Board other treasury, tax, pensions and insurance strategies.

#### Group holding company

During the year, two of the Directors, Nick Winser, and Mark Fairbairn, until his resignation in March 2011, were also Executive Directors of National Grid plc. Through participation of these Directors at the Board of both companies, the Board of National Grid Electricity Transmission is well placed to identify and facilitate understanding of the views of its shareholder.

#### Risk management and internal control

The Board of National Grid plc takes overall responsibility for internal control throughout its group operations and in particular in monitoring its effectiveness within its subsidiary companies.

The system of internal control, and in particular our risk management policies, has been designed to manage rather than eliminate risks to the achievement of our strategic and business objectives.

During the year, the Board of National Grid plc has undertaken a review of the internal control processes, including those of the Company, and their effectiveness.

#### Risk management

The Company has embedded risk management into its business decision making process. This risk management process continues to be based on both bottom-up and top-down assessments of operational, including safety, financial and other business or project risks. From the bottom-up, business units prepare and maintain risk registers that capture their key risks and the actions being taken to manage them. These risk registers are regularly reviewed and discussed by the executive committees for those business units. Directors and other senior management are involved at critical stages in the review process. Their review and debate of the outputs of the bottom-up assessment against their top-down views produce an overall evaluation of the risks that are faced by the Company. In addition, the Executive, the Risk & Responsibility and the Audit Committees of National Grid plc review National Grid's overall risk profile and any changes. The Audit Committee also reviews the overall risk management process.

#### Compliance management

Compliance management is undertaken on a National Grid wide basis. This process provides assurance to Directors and senior management on the effectiveness of control frameworks to manage key internal and external obligations and also highlights instances of significant non-compliance with these obligations. External obligations are driven primarily by key legal and regulatory requirements whereas internal obligations focus more on compliance with National Grid's own corporate policies and procedures, which include regulatory compliance policies. The compliance management process is consistent with and complementary to the risk management process.

#### Internal audit

The Company does not have a separate internal audit function. This function is provided by National Grid's corporate audit function.

# Directors' Report

for the year ended 31 March 2011

The information in this Directors' Report does not comprise a Directors' Report within the meaning of the Companies Acts and UK Listing Authority's Listing, Disclosure and Transparency Rules. Such a report for National Grid Electricity Transmission plc is included within that company's annual report and accounts.

As the transmission business reported on within these regulatory accounting statements does not comprise a legal entity, the following information is provided for the Company as a whole.

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

## Directors

The Directors serving during the year or subsequently were:

Malcolm Cooper	Appointed July 2007
Mark Fairbairn	Resigned March 2011
Stuart Humphreys	Appointed July 2008
Paul Whittaker	Appointed July 2007
Nick Winsor	Appointed April 2003

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

## Principal activities and business review

A full description of the Company's principal activities, business and principal risks and uncertainties is contained in the Operating and Financial Review on pages 2 to 24, which are incorporated by reference into this report.

## Material interests in shares

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

## Dividends

An interim dividend of £150 million was paid during the year (2009/10: £150 million interim dividend). The Directors have not proposed a final dividend.

## Donations

During 2010/11, some £1.6 million (2009/10: £1.6 million) was invested in support of community initiatives and relationships in the UK. There were no direct charitable donations for 2010/11 (2009/10: £nil million).

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

## Research and development

Expenditure on research and development was £6 million during the year (2009/10: £6 million).

## Financial instruments

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

## Future developments

Details of future developments are contained in the Operating and Financial Review.

## Employee involvement

As a part of National Grid, we have well established and effective arrangements through electronic mail, intranet and in-house publications and briefing meetings, at each business location and company wide, for communication and consultation with both employees and trade union representatives, and for communication of performance, strategy and operating model, together with significant business issues. We recognise the importance of aligning employee and shareholder interests, and are committed to employee share ownership through the National Grid plc Share Incentive Plan and Sharesave Scheme, which are open to all employees.

## Policy and practice on payment of creditors

It is our policy to include in contracts or other agreements, terms of payment with suppliers. Once agreed, we aim to abide by these terms of payment. The average creditor payment period at 31 March 2011 was 18 days (9 days at 31 March 2010).

## Audit information

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

## Annual General Meeting

Notice of the Company's Annual General Meeting for 2011 will be issued separately to shareholders.

On behalf of the Board

## Stuart Humphreys

Director

27 July 2011

National Grid Electricity Transmission plc  
1-3 Strand, London WC2N 5EH  
Registered in England and Wales Number 2366977

# Statement of Directors' responsibilities

The Directors of National Grid Electricity Transmission plc are required by Condition B1 of the Transmission Licence granted under section 6(1)(b) of the Electricity Act 1989 to prepare regulatory accounting statements for each financial year which comply with the requirements set out in that condition.

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

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

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

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

The Directors have responsibility to ensure that, so far as reasonably practicable, the regulatory accounting statements have the same form and content in respect of the business to which they relate as the equivalent statutory accounts of National Grid Electricity Transmission plc, and that they comply in all material respects with all relevant accounting standards currently in force which have been issued or adopted by the International Accounting Standards Board.

The Directors have responsibility to ensure that the regulatory accounting statements include an income statement, a statement of changes in equity and, if appropriate, a statement of recognised income and expense, a balance sheet and a cash flow statement, including notes thereto. The Directors also have responsibility to ensure that the regulatory accounting statements include a statement of accounting policies adopted, a corporate governance statement, a directors' report and an operating and financial review.

The Directors have responsibility to ensure that the regulatory accounting statements show separately and in appropriate

detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions that have been charged from or to any other business of National Grid, or that have been determined by apportionment, where they relate to goods or services received or supplied for the purposes of the regulated business.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and to detect fraud and irregularities.

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

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

On behalf of the Board

**Stuart Humphreys**  
Director  
27 July 2011

# Independent Auditors' report to the Gas and Electricity Markets Authority and to the Directors of National Grid Electricity Transmission plc

We have audited the regulatory accounting statements of National Grid Electricity Transmission plc (the Company) for the year ended 31 March 2011, which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated cash flow statement, Accounting policies, Adoption of new accounting standards, notes 1 to 30 to the consolidated financial statements, the Supplementary analysis of the consolidated financial statements by regulatory business contained in appendix 1, the Unpublished information contained in appendix 2 and the Supplementary analysis of the regulatory business by activity contained in appendix 3. These regulatory accounting statements have been prepared in accordance with the basis of preparation and accounting policies set out on pages 31 to 36.

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

As explained more fully in the Statement of Directors' responsibilities set out on page 28, the Directors are responsible for the preparation of the regulatory accounting statements and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the regulatory accounting statements in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the regulatory accounting statements' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made, on terms that have been agreed, solely to the Company and the Gas and Electricity Markets Authority ('the Authority') in order to meet the requirements of Standard Special Condition B1 ('the Condition') of the Company's Regulatory Licence. Our audit work has been undertaken so that we might state to the Company and the Authority those matters we have agreed to state to them in our report, in order to: (a) assist the Company to meet its obligations under the Regulatory Licence to procure such a report; and (b) facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other

than the Company and the Regulator for our audit work, for this report or the opinions we have formed.

## **Scope of the audit of the regulatory accounting statements**

An audit involves obtaining evidence about the amounts and disclosures in the regulatory accounting statements sufficient to give reasonable assurance that the regulatory accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the regulatory accounting statements. However, we have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are specified by the Regulatory Licence. Where the Regulatory Licence does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the regulatory accounting statements are consistent with those used in the preparation of the statutory financial statements of National Grid Electricity Transmission plc. Furthermore, as the nature, form and content of regulatory accounting statements are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

## **Opinion on the regulatory accounting statements**

In our opinion the regulatory accounting statements:

- fairly present, in accordance with the Condition of the Company's Regulatory Licence and the accounting policies set out on pages 31 to 36, the state of the affairs for the Company's Transmission business, Transmission owner, System operator and other activities at 31 March 2011 and their profit and cash flows for the year then ended; and
- have been properly prepared in accordance with the Condition of the Regulatory Licence and the accounting policies.

### **Opinion on other matters prescribed by the Regulatory Licence**

The Condition requires the regulatory accounting statements to include a Directors report. Under the terms of our contract we have assumed responsibility to provide the opinion that would be provided if this was the statutory annual report of the Company, in accordance with the Companies Act 2006.

In our opinion the information given in the Directors' Report for the financial year for which the regulatory accounting statements are prepared is consistent with the regulatory accounting statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where, under the Condition of the Company's Regulatory Licence, we have agreed under the terms of our contract to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us;
- the regulatory accounting statements are not in agreement with the accounting records and returns; and
- we have not received all the information and explanations we require for our audit.

### **Other matters**

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

Our opinion on the regulatory accounting statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2011 on which we reported on 20 July 2011, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham

27 July 2011

*1. The maintenance and integrity of the National Grid plc web site, on which these regulatory accounting statements are published, is the responsibility of the Company's Directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the regulatory accounting statements since they were initially presented on the web sites.*

*2. Legislation in the United Kingdom governing the preparation and dissemination of statutory financial statements and regulatory accounting statements may differ from legislation in other jurisdictions.*



# Accounting policies

for the year ended 31 March 2011

## A. Basis of preparation of consolidated regulatory financial statements under IFRS

National Grid Electricity Transmission's principal activities involve the ownership and operation of the regulated electricity transmission networks within Great Britain. The Company is a public limited company incorporated and domiciled in England with its registered office at 1-3 Strand, London WC2N 5EH.

These regulatory accounting statements were approved for issue by the Board of Directors on 27 July 2011.

These regulatory accounting statements have been prepared in accordance with Standard Condition B1 of National Grid Electricity Transmission plc's Electricity Transmission Licence granted under the Utilities Act 2000 (the licence) and in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and as adopted by the European Union. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ending 31 March 2011 and in accordance with Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the European Union IAS regulation. The 2010 comparative financial information has also been prepared on this basis.

The regulatory accounting statements have been prepared on a historical cost basis, except for the revaluation of derivative financial instruments and investments classified as available for sale.

These regulatory accounting statements are presented in pounds sterling, which is the functional currency of the Company.

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

### Attribution of revenues, costs, assets, liabilities and equity

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

### Related items

Related items comprise all those revenues, costs, assets and liabilities of the Company which are not directly attributable to a

specific business or activity, but where there is a reasonable basis for apportioning those revenues, costs, assets or liabilities between the regulatory businesses. These items comprise shared services and certain business services.

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

### Unrelated items

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

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

- Corporate costs charged to the Company by National Grid are apportioned using the same metrics as National Grid uses to determine the allocated charge to the Company. These metrics take into account relative revenue, operating profit, employees and net assets.
- Net debt, which comprises borrowings and bank overdrafts, less cash, cash equivalents and financial investments at that date, is allocated to the Transmission business and then apportioned by Regulatory Asset Value (RAV) at the balance sheet date. No amounts were apportioned to other activities.
- Interest is allocated to the Transmission business and then apportioned in the ratio of the RAV at the balance sheet date. Pension interest is allocated according to the licensee's final proposals, as agreed in the Transmission Price Control Review (TPCR) 4 in 2006.
- Inter-company balances are apportioned to the Transmission business relative to the property, plant and equipment carrying value at the balance sheet date and then apportioned in the ratio of the RAV at the balance sheet date.
- Current and deferred taxation are apportioned relative to the results of undertaking notional current and deferred tax computations for each business and activity.
- Pension obligations are allocated according to the licensee's final proposals, as agreed in the TPCR4 in 2006.
- Equity dividends are allocated to the Transmission business and then apportioned in the ratio of the RAV at the balance sheet date.

- The apportionment of the total equity of the Company, comprising called up share capital, share premium account, retained profits and other reserves is determined as a balancing item.

## B. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to bring the accounting policies used under UK generally accepted accounting principles (UK GAAP) used in the individual financial statements of the Company and its subsidiaries into line with those used by the Company in its consolidated financial statements under IFRS. Inter-company transactions are eliminated.

## C. Foreign currencies

Transactions in currencies other than the functional currency of the Company or subsidiary concerned are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Other non-monetary assets are not retranslated unless they are carried at fair value.

Gains and losses arising on retranslation of monetary assets and liabilities are included in the income statement.

## D. Intangible assets

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment.

Internally generated intangible fixed assets, such as software, are recognised only if an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and that the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

Intangible assets under development are not amortised. Other non-current intangible assets are amortised on a straight-line basis over their estimated useful economic lives. The principal amortisation periods for categories of intangible assets are:

Amortisation periods	Years
Software	3 to 5

## E. Property, plant and equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation and any impairment losses.

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

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

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

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

Contributions received prior to 1 July 2009 towards the cost of property, plant and equipment are included in trade and other payables as deferred income and credited on a straight-line basis to the income statement over the estimated economic useful lives of the assets to which they relate.

Contributions received post 1 July 2009 are recognised in revenue immediately, except where the contributions are consideration for a future service, in which case they are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided.

Depreciation is not provided on freehold land or assets in the course of construction. Other property, plant and equipment are depreciated on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods	Years
Freehold and leasehold buildings	up to 40
Plant and machinery	
– towers	40 to 60
– substation plant, overhead lines and cables	40 to 50
– protection, control and communications equipment	15 to 25
Motor vehicles and office equipment	up to 5

## F. Impairment of assets

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value in use at the date the impairment review is undertaken.

Value in use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Tests for impairment are carried out only if there is some indication that the carrying value of the assets may have been impaired.

Impairments are recognised in the income statement and, where material, are disclosed separately.

## G. Taxation

### Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current tax is charged or credited to the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases the tax is also recognised in other comprehensive income or directly in equity, respectively. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

### Deferred tax

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

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

## H. Inventories

Inventories, which comprise raw materials and consumables, are stated at cost less provision for damage and obsolescence. Cost comprises direct materials and those costs that have been incurred in bringing the inventories to their present location and condition.

## I. Environmental costs

Provision is made for environmental costs (arising from past operations), based on future estimated expenditures, discounted to present values.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures are recognised in the income statement.

The unwinding of the discount is included within the income statement as a financing charge.

## J. Revenue

Revenue represents the sales value derived from the transmission of electricity and the provision of related services during the year and excludes value added tax and intra-group sales.

The sales value for the transmission of electricity is largely determined from the amount of electricity transmitted in the year and system capacity sold for the year, evaluated at contractually determined prices or recovery rates. Where revenue for the year exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery, a liability for the over-recovery is not recognised as such an adjustment to future prices relates to the provision of future services. Similarly, an asset is not recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

Income arising from the sale of properties as a result of our property management activities is reported as other operating income.

## K. Segmental information

Segmental information is based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between operating segments. The Board of Directors is deemed to be the chief operating decision-maker and assesses the performance of operations principally on the basis of operating profit or loss before exceptionals and remeasurements.

## L. Pensions

For defined benefit retirement schemes, the cost of providing benefits is determined using the projected unit method, with actuarial valuations being carried out at each balance sheet date.

Current service cost is recognised in operating costs in the period in which the defined benefit obligation increases as a result of employee services.

Actuarial gains and losses are recognised in full in the period in which they occur in the statement of other comprehensive income.

Past service costs are recognised immediately to the extent that benefits are already vested. Otherwise such costs are amortised on a straight-line basis over the period until the benefits vest.

Settlements are recognised when a transaction is entered into that eliminates all further legal or constructive obligations for benefits under a scheme.

Curtailments are recognised when a commitment is made to a material reduction in the number of employees covered by a scheme.

The pension obligations recognised in the balance sheet represent the present value of the defined benefit obligations, as reduced by the fair value of scheme assets and any unrecognised past service cost.

The expected return on scheme assets and the unwinding of the discount on defined benefit obligations are recognised within interest income and expense respectively.

## M. Leases

Rentals under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

## N. Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected. Indications that the trade receivable may become irrecoverable would include financial difficulties of the debtor, likelihood of the debtor's insolvency, and default or significant failure of payment. Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

Loans receivable and other receivables are carried at amortised cost using the effective interest rate method. Interest income,

together with gains and losses when the loans and receivables are derecognised or impaired, are recognised in the income statement.

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

Borrowings, which include interest-bearing loans, UK Retail Prices Index (RPI) linked debt and overdrafts, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently they are stated at amortised cost, using the effective interest rate method. Any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest rate method.

Borrowing costs directly attributable to the acquisition, or construction of assets that necessarily take a substantial period of time to prepare for their intended use, are added to their cost. Such additions cease when the assets are substantially ready for their intended use.

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

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are closely related to those instruments or contracts. In particular, interest payments on UK RPI debt are linked to movements in the UK retail price index. The link to RPI is considered to be an embedded derivative, which is closely related to the underlying debt instrument based on the view that there is a strong relationship between interest rates and inflation in the UK economy. Consequently these embedded derivatives are not accounted for separately from the debt instrument. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted for as a derivative financial instrument and recorded at fair value.

An equity instrument is any contract that evidences a residual interest in the consolidated assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for issued liabilities. When independent prices are not available, fair values are determined using valuation techniques which are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

## O. Hedge accounting

The Company enters into both derivative financial instruments (derivatives) and non-derivative financial instruments in order to manage interest rate and foreign currency exposures associated with underlying business activities and the financing of those activities.

Hedge accounting allows derivatives to be designated as a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility in the income statement of changes in fair value of the derivative instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. The Company uses two hedge accounting methods.

Firstly, changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows (cash flow hedges) are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the income statement in the same period in which the hedged item affects net profit or loss. Where a non-financial asset or a non-financial liability results from a forecasted transaction or firm commitment being hedged, the amounts deferred in equity are included in the initial measurement of that non-monetary asset or liability.

Secondly, fair value hedge accounting offsets the changes in the fair value of the hedging instrument against the change in the fair value of the hedged item in respect to the risk being hedged. These changes are recognised in the income statement to the extent the fair value hedge is effective. Adjustments made to the carrying amount of the hedged item for fair value hedges will be amortised over the remaining life, in line with the hedged item.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the income statement as they arise, within finance costs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative

gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement, in the same periods in which the previously hedged item affects net profit or loss. For fair value hedges, the cumulative adjustment recorded to the carrying value of the hedged item at the date hedge accounting is discontinued, is amortised to the income statement using the effective interest rate method.

If a hedged forecast transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement immediately.

## P. Share-based payments

National Grid issues equity-settled share-based payments to certain employees of the Company.

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

## Q. Business performance and exceptional items and remeasurements

Our financial performance is analysed into two components: business performance, which excludes exceptional items and remeasurements; and exceptional items and remeasurements. Business performance is used by management to monitor financial performance, as it is considered that it improves the comparability of our reported financial performance from year to year. Business performance subtotals, which exclude exceptional items and remeasurements, are presented on the face of the income statement or in the notes to the financial statements.

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

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, pension deficit payments, write-downs or impairments of non-current assets, significant changes in environmental provisions, and gains or losses on disposals of businesses or investments.

Costs arising from restructuring programmes primarily relate to redundancy costs. Redundancy costs are charged to the income statement in the year in which an irrevocable commitment is made to incur the costs and the main features of the restructuring plan have been announced to affected employees.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective.

## R. Cash and cash equivalents

Cash and cash equivalents include cash held at bank and in hand, together with short-term highly liquid investments with an original maturity of less than three months that are readily convertible to known amounts of cash and subject to an insignificant change in value. Net cash and cash equivalents reflected in the cash flow statement are net of bank overdrafts, which are reported in borrowings.

## S. Dividends

Interim dividends are recognised when they become payable to the Company's shareholders. Final dividends are recognised in the financial year in which they are approved.

## T. Areas of judgement and key sources of estimation uncertainty

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

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are:

- The categorisation of certain items as exceptional items and remeasurements and the definition of adjusted earnings – note 4.
- The exemptions adopted on transition to IFRS on 1 April 2004.
- Hedge accounting – accounting policy O.

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- Review of residual lives, carrying values and impairment charges for intangible assets and property, plant and equipment – accounting policies D, E and F.
- Estimation of liabilities for pension schemes – note 19.
- Valuation of financial instruments and derivatives – notes 10, 13 and 26.
- Revenue recognition and assessment of unbilled revenue – accounting policy J.
- Recoverability of deferred tax assets – accounting policy G and note 18.
- Environmental provisions – note 20.

# Adoption of new accounting standards

## New IFRS accounting standards and interpretations adopted in 2010/11

During the year ended 31 March 2011, the Company adopted the following International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) or amendments and interpretations by the IFRS Interpretations Committee. None of the pronouncements had a material impact on the Company's consolidated results or assets and liabilities.

- IFRS 3R on business combinations
- IAS 27R on consolidated and individual financial statements
- Amendment to IAS 39 Financial Instruments: Recognition and measurement on eligible hedged items
- Revised IFRS 1 on first time adoption of IFRS
- IFRIC 17 on distribution of non-cash assets to owners - Improvements to IFRS 2009
- Amendment to IFRS 2 on group cash-settled share-based payments
- Amendment to IFRS 1 on first time adoption of IFRS
- Amendment to IAS 32 on classification of rights issues

## New IFRS accounting standards and interpretations not yet adopted

The standards and interpretations listed below were not effective for the year ended 31 March 2011.

The Company enters into a significant number of transactions which fall within the scope of IFRS 9 on financial instruments. The International Accounting Standards Board is completing IFRS 9 on financial instruments in phases and the Company is evaluating the impact of the standard as it develops.

IFRS 10, 11, 12 and 13 and the consequent amendments to IAS 27 and IAS 28 were issued on 12 May 2011. The Company is evaluating the impact of these standards on the financial statements.

None of the other standards and interpretations listed below are expected to have a material impact on the Company's consolidated results or assets and liabilities.

- IFRS 9 on financial instruments
- Revised IAS 24 on related party disclosures
- IFRIC 19 on extinguishing financial liabilities with equity instruments
- Amendment to IFRIC 14 on prepayments of a minimum funding requirement
- Amendment to IFRS 1 on comparative IFRS 7 disclosures
- Improvements to IFRS 2010
- Amendment to IFRS 7 on disclosures for transfers of financial assets
- Amendment to IFRS 1 on severe hyperinflation and removal of fixed dates for first-time adoption
- Amendment to IAS 12 on deferred tax on recovery of underlying assets
- IFRS 10 on consolidated financial statements
- IFRS 11 on joint arrangements
- IFRS 12 on disclosures of interests in other entities
- IFRS 13 on fair value measurements
- IAS 27 on separate financial statements
- IAS 28 on investment in associates and joint ventures

# Consolidated income statement

for the years ended 31 March

	Notes	2011 £m	2011 £m	2010 £m	2010 £m
<b>Revenue</b>	1(a)		<b>2,549</b>		2,484
Other operating income	2		<b>1</b>		-
Operating costs	3		<b>(1,730)</b>		(1,693)
<b>Operating profit</b>					
Before exceptional items	1(b)	<b>904</b>		805	
Exceptional items	4	<b>(84)</b>		(14)	
<b>Total operating profit</b>	1(b)		<b>820</b>		791
Interest income and similar income	5		<b>105</b>		78
Interest expense and other finance costs					
Before exceptional items and remeasurements	5	<b>(278)</b>		(231)	
Exceptional items and remeasurements	4, 5	<b>(3)</b>		10	
	5		<b>(281)</b>		(221)
<b>Profit before taxation</b>					
Before exceptional items and remeasurements		<b>731</b>		652	
Exceptional items and remeasurements	4	<b>(87)</b>		(4)	
<b>Total profit before taxation</b>			<b>644</b>		648
Taxation					
Before exceptional items and remeasurements	6	<b>(206)</b>		(184)	
Exceptional items and remeasurements	4, 6	<b>67</b>		1	
Total taxation	6		<b>(139)</b>		(183)
<b>Profit after taxation</b>					
Before exceptional items and remeasurements		<b>525</b>		468	
Exceptional items and remeasurements	4	<b>(20)</b>		(3)	
<b>Profit for the year</b>			<b>505</b>		465

The notes on pages 43 to 70 form part of the consolidated financial statements.

The results reported above relate to continuing operations.



# Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2011 £m	2010 £m
<b>Profit for the year</b>		<b>505</b>	465
<b>Other comprehensive (loss)/income:</b>			
Actuarial net losses	19	(8)	(153)
Deferred tax on actuarial net gains and losses	6	(1)	43
Gain in respect of cash flow hedges		9	14
Transferred to profit or loss on cash flow hedges		4	-
Deferred tax on cashflow hedges	6	(4)	(4)
<b>Other comprehensive loss for the year</b>		-	(100)
<b>Total comprehensive income for the year</b>		<b>505</b>	365

# Consolidated balance sheet

at 31 March

	Notes	2011 £m	2010 £m
<b>Non-current assets</b>			
Intangible assets	8	50	43
Property, plant and equipment	9	7,616	6,769
Derivative financial assets	10	158	134
<b>Total non-current assets</b>		<b>7,824</b>	<b>6,946</b>
<b>Current assets</b>			
Inventories	11	28	33
Trade and other receivables	12	204	161
Financial investments	13	4	67
Derivative financial assets	10	20	17
Cash and cash equivalents	14	-	326
<b>Total current assets</b>		<b>256</b>	<b>604</b>
<b>Total assets</b>		<b>8,080</b>	<b>7,550</b>
<b>Current liabilities</b>			
Borrowings	15	(263)	(334)
Derivative financial liabilities	10	(10)	(11)
Trade and other payables	16	(729)	(604)
Provisions	20	(13)	(10)
<b>Total current liabilities</b>		<b>(1,015)</b>	<b>(959)</b>
<b>Non-current liabilities</b>			
Borrowings	15	(4,403)	(4,332)
Derivative financial liabilities	10	(76)	(89)
Other non-current liabilities	17	(251)	(246)
Deferred tax liabilities	18	(761)	(756)
Pension obligations	19	(467)	(493)
Provisions	20	(83)	(10)
<b>Total non-current liabilities</b>		<b>(6,041)</b>	<b>(5,926)</b>
<b>Total liabilities</b>		<b>(7,056)</b>	<b>(6,885)</b>
<b>Net assets</b>		<b>1,024</b>	<b>665</b>
<b>Equity</b>			
Called up share capital	21	44	44
Retained earnings		1,006	656
Cash flow hedge reserve		(26)	(35)
<b>Total shareholders' equity</b>		<b>1,024</b>	<b>665</b>

These regulatory accounting statements, comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, accounting policies, adoption of new accounting standards, notes to the accounting statements 1 to 30, supplementary analysis of the consolidated financial statements contained in appendix 1, the unpublished information contained in appendix 2 and the supplementary analysis of the regulatory business by activity contained in appendix 3, were approved by the Board of Directors of National Grid Electricity Transmission plc on 27 July 2011 and were signed on its behalf by:

Paul Whittaker **Director**

Stuart Humphreys **Director**

# Consolidated statement of changes in equity

for the years ended 31 March

	Called-up share capital £m	Retained earnings £m	Cash flow hedge reserve £m	Total equity £m
At 1 April 2009	44	446	(45)	445
Total recognised income and expense for the year	-	355	10	365
Equity dividends	-	(150)	-	(150)
Share-based payments	-	4	-	4
Tax on share-based payments	-	1	-	1
At 31 March 2010	44	656	(35)	665
Total recognised income and expense for the year	-	496	9	505
Equity dividends	-	(150)	-	(150)
Share-based payments	-	3	-	3
Tax on share-based payments	-	1	-	1
<b>At 31 March 2011</b>	<b>44</b>	<b>1,006</b>	<b>(26)</b>	<b>1,024</b>

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

Gains and losses recognised in the cash flow hedge reserve on interest rate swap contracts as of 31 March 2011 will be continuously transferred to the income statement until the borrowings are repaid (note 15).

The amount of the cash flow hedge reserve due to be released from reserves to the income statement within the next year is £4m, with the remaining amount of £22m due to be released with the same maturity profile as borrowings in note 15.

# Consolidated cash flow statement

for the years ended 31 March

	Notes	2011 £m	2010 £m
<b>Cash flows from operating activities</b>			
Total operating profit	1(b)	<b>820</b>	791
Adjustments for:			
Exceptional items	4	<b>84</b>	14
Depreciation and amortisation		<b>264</b>	240
Profit on sale of tangible and intangible assets		<b>3</b>	3
Share based payment charge		<b>3</b>	3
Changes in working capital		<b>(58)</b>	43
Changes in pension obligations		<b>(43)</b>	(98)
Changes in provisions		<b>(3)</b>	(8)
Cash flows relating to exceptional items		<b>(5)</b>	(2)
Cash flows generated from operations		<b>1,065</b>	986
Tax paid		<b>(112)</b>	(90)
<b>Net cash inflow from operating activities</b>		<b>953</b>	896
<b>Cash flows from investing activities</b>			
Purchases of intangible assets		<b>(17)</b>	(8)
Purchases of property, plant and equipment		<b>(892)</b>	(932)
Disposal of property, plant and equipment		<b>5</b>	1
Interest received		<b>2</b>	5
Purchases of financial investments		<b>-</b>	(64)
Disposal of financial investments		<b>63</b>	357
<b>Net cash flow used in investing activities</b>		<b>(839)</b>	(641)
<b>Cash flows from financing activities</b>			
Proceeds from loans received		<b>182</b>	34
Repayment of loans		<b>(311)</b>	(18)
Net movements in short-term borrowings and derivatives		<b>25</b>	(2)
Interest paid		<b>(181)</b>	(189)
Dividends paid to shareholders		<b>(150)</b>	(150)
<b>Net cash flow used in financing activities</b>		<b>(435)</b>	(325)
<b>Net decrease in cash and cash equivalents</b>	22(a)	<b>(321)</b>	(70)
Cash and cash equivalents at the start of the year (i)		<b>313</b>	383
<b>Net cash and cash equivalents at the end of the year (i)</b>	14	<b>(8)</b>	313

(i) Net of bank overdrafts of £8m (2010: £13m).

# Notes to the consolidated financial statements - analysis of items in the primary statements

## 1. Segmental analysis

The Board of Directors is National Grid Electricity Transmission plc's chief operating decision making body (as defined by IFRS 8 on operating segments). The segmental analysis is based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between segments. The performance of operating segments is assessed principally on the basis of operating profit before exceptional items. The following table describes the main activities for each operating segment:

Electricity Transmission	High-voltage electricity transmission networks in the UK
--------------------------	--

Other activities relate to other commercial operations not included within the above segment and corporate activities.

All of the Company's sales and operations take place within the UK.

### (a) Revenue

	Total sales 2011 £m	Total sales 2010 £m
Operating segment		
Electricity Transmission	2,548	2,483
Other activities	1	1
	2,549	2,484

All sales are to third parties.

Where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect the over-recovery, no liability is recognised. Similarly, no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. In the UK, there was an over-recovery of £9m as at 31 March 2011 (2010: £47m under-recovery balance).

### (b) Operating profit/(loss)

	Before exceptional items		After exceptional items	
	2011 £m	2010 £m	2011 £m	2010 £m
Operating segment - continuing operations				
Electricity Transmission	912	814	828	800
Other activities	(8)	(9)	(8)	(9)
	904	805	820	791

### (c) Capital expenditure and depreciation

	Capital expenditure		Depreciation and amortisation	
	2011 £m	2010 £m	2011 £m	2010 £m
Operating segment - continuing operations				
Electricity Transmission	1,126	1,022	264	240
By asset type				
Property, plant and equipment	1,109	1,014	254	225
Other non-current intangible assets	17	8	10	15
	1,126	1,022	264	240

## 2. Other operating income

Other operating income represents income on the disposal of property, principally as a result of property management activities.

## 3. Operating costs

	Before exceptional items		Exceptional items		Total	
	2011	2010	2011	2010	2011	2010
	£m	£m	£m	£m	£m	£m
Depreciation and amortisation	264	240	-	-	264	240
Payroll costs	112	97	5	5	117	102
Other operating charges:						
Rates	100	108	-	-	100	108
Balancing Service Incentive Scheme (BSIS)	581	691	-	-	581	691
Payments to Scottish transmission network owners	347	309	-	-	347	309
Other	242	234	79	9	321	243
	1,646	1,679	84	14	1,730	1,693
Operating costs include:						
Consumption of inventories					4	5
Research expenditure					6	6
Operating lease rentals					7	7
<b>(a) Payroll costs</b>					2011	2010
					£m	£m
Wages and salaries					133	108
Social security costs					12	12
Other pension costs					31	16
Share-based payments (note 28)					3	3
Severance costs (excluding pension costs)					2	3
					181	142
Less: payroll costs capitalised					(64)	(40)
					117	102

### 3. Operating costs continued

#### (b) Number of employees, including Directors

	31 March 2011 Number	Average 2011 Number	Average 2010 Number
UK			
Continuing operations	2,784	2,709	2,515

The vast majority of employees are either directly or indirectly employed in the transmission of electricity.

#### (c) Key management compensation

	2011 £m	2010 £m
Salaries and short-term employee benefits	2	3
Post-employment benefits	1	1
Share-based payments	2	1
	5	5

Key management comprises the Board of Directors of the Company together with those Executive Directors of National Grid plc who have managerial responsibility for any of the businesses of National Grid Electricity Transmission plc and who are not also Directors of the Company.

#### (d) Directors' emoluments

The aggregate amount of emoluments paid to Directors in respect of qualifying services for 2011 was £1,107,792 (2010: £1,124,670).

None of the directors exercised share options during 2011 (2010: highest paid director and four other Directors all exercised share options).

A number of the current Directors are also Directors and employees of National Grid plc or a subsidiary undertaking of that company and are paid by these companies.

As at 31 March, retirement benefits were accruing to five Directors under a defined benefit scheme (2010: five directors, under a defined benefit scheme).

The aggregate emoluments for the highest paid Director were £460,173 for 2011 (2010: £474,102); and total accrued annual pension at 31 March 2011 for the highest paid Director was £92,266 (2010: £82,522).

The aggregate amount of loss of office payments to Directors for 2011 was £1,224 (2010: £nil).

#### (e) Auditors' remuneration

	2011 £m	2010 £m
Audit services		
Audit fee of parent company and consolidated financial statements	0.2	0.2
Other services supplied pursuant to legislation		
Other services supplied	0.1	0.2

Other services supplied pursuant to legislation represents fees payable for services in relation to engagements which are required to be carried out by the auditor. In particular this includes fees for audit reports on regulatory returns and fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley).

#### 4. Exceptional items and remeasurements

	2011 £m	2010 £m
<b>Included within operating profit:</b>		
Exceptional items - restructuring costs (i)	(15)	(14)
Exceptional items - environmental charges (ii)	(69)	-
<b>Total exceptional items included within operating profit</b>	<b>(84)</b>	<b>(14)</b>
<b>Included within finance costs:</b>		
Exceptional items - debt redemption costs (iii)	(11)	-
Remeasurements - net gains on derivative financial instruments (iv)	8	10
<b>Total exceptional items and remeasurements included within finance costs</b>	<b>(3)</b>	<b>10</b>
<b>Total exceptional items and remeasurements before taxation</b>	<b>(87)</b>	<b>(4)</b>
<b>Included within taxation:</b>		
<i>Exceptional credits arising on items not included in profit before tax:</i>		
Deferred tax credit arising on the reduction in UK tax rate	62	-
Tax on exceptional items (i), (ii) and (iii)	8	4
Tax on remeasurements (iv)	(3)	(3)
<b>Tax on exceptional items and remeasurements</b>	<b>67</b>	<b>1</b>
<b>Total exceptional items and remeasurements after taxation</b>	<b>(20)</b>	<b>(3)</b>
 Total exceptional items after taxation	 (25)	 (10)
Total remeasurements after taxation	5	7
<b>Total exceptional items and remeasurements after taxation</b>	<b>(20)</b>	<b>(3)</b>

(i) Restructuring costs relate to planned cost reduction programmes.

(ii) Environmental charges relate to specific exposures.

(iii) Debt redemption costs represent costs arising from our debt repurchase programme, undertaken primarily in the first half of the year, to manage our cash resources efficiently following the rights issue by National Grid.

(iv) Remeasurements - net gains on derivative financial instruments comprise gains arising on derivative financial instruments reported in the income statement. These exclude gains for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt.

(v) The exceptional deferred tax credit arises as a result of the reduction in the main rate of corporation tax from 28% to 26% and enacted under the Provisional Collection of Taxes Act 1968 and applicable from 1 April 2011. This results in a reduction in deferred tax liabilities.



## 5. Finance income and costs

	2011 £m	2010 £m
<b>Interest income and similar income</b>		
Expected return on pension plan assets	103	74
Interest income on financial instruments:		
Bank deposits and other financial assets	2	4
Interest income and similar income	105	78
<b>Interest expense and other finance costs</b>		
Interest on pension plan obligations	(112)	(103)
Interest expense on finance liabilities held at amortised cost:		
Bank loans and overdrafts	(4)	(21)
Other borrowings	(278)	(161)
Derivatives	22	1
Less: interest capitalised (i)	94	53
Interest expense and other finance costs before exceptional items and remeasurements	(278)	(231)
<b>Exceptional items:</b>		
Exceptional debt redemption costs	(11)	-
<b>Remeasurements:</b>		
Net gains/(losses) on derivative financial instruments included in remeasurements (ii):		
Ineffectiveness on derivatives designated as fair value hedges (iii)	11	27
Ineffectiveness on derivatives designated as cash flow hedges	(2)	(11)
On derivatives not designated as hedges or ineligible for hedge accounting	(1)	(6)
	8	10
Exceptional items and remeasurements included within interest expense	(3)	10
Interest expense and other finance costs	(281)	(221)
<b>Net finance costs</b>	<b>(176)</b>	<b>(143)</b>

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 6.0% (2010: 3.6%).

(ii) Includes a net foreign exchange loss on financing activities of £4m (2010: £26m gain). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

(iii) Includes a net gain on instruments designated as fair value hedges of £21m (2010: £4m), offset by a net loss of £10m (2010: £23m gain) arising from the fair value adjustments to the carrying value of debt.

## 6. Taxation

### Taxation on items charged to the income statement

	Before exceptional items and remeasurements		Exceptional items and remeasurements		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Current tax						
Corporation tax at 28% (2010: 28%)	131	100	(4)	(1)	127	99
Corporation tax adjustment in respect of prior years	12	4	-	-	12	4
Total current tax	143	104	(4)	(1)	139	103
Deferred tax	74	84	(1)	-	73	84
Deferred tax impact from change in UK tax rate	-	-	(62)	-	(62)	-
Deferred tax adjustment in respect of prior years	(11)	(4)	-	-	(11)	(4)
Total deferred tax	63	80	(63)	-	-	80
<b>Income tax expense</b>	<b>206</b>	<b>184</b>	<b>(67)</b>	<b>(1)</b>	<b>139</b>	<b>183</b>

### Taxation on items charged/(credited) to other comprehensive income and equity

	2011 £m	2010 £m
Deferred tax charge on revaluation of cash flow hedges	4	4
Deferred tax charge/(credit) on actuarial gains/losses	1	(43)
Tax charge/(credit) recognised in statement of comprehensive income	5	(39)
Corporation tax credit on share-based payments recognised directly in equity	(1)	(1)
	4	(40)

The tax charge for the year after exceptional items and remeasurements is lower (2010: higher) than the standard rate of corporation tax in the UK of 28% (2010: 28%). The differences are explained below:

	Before exceptional items and remeasure- ments 2011 £m	After exceptional items and remeasure- ments 2011 £m	Before exceptional items and remeasure- ments 2010 £m	After exceptional items and remeasure- ments 2010 £m
Profit before taxation				
Before exceptional items and remeasurements	731	731	652	652
Exceptional items and remeasurements	-	(87)	-	(4)
Profit before taxation from continuing operations	731	644	652	648
Profit on continuing operations multiplied by the rate of corporation tax in the UK of 28% (2010: 28%)	204	180	183	182
Effects of:				
Adjustments in respect of previous years	1	1	-	-
Expenses not deductible for tax purposes	1	20	2	2
Impact of change in UK tax rate	-	(62)	-	-
Non-taxable income	-	-	(1)	(1)
Tax charge	206	139	184	183
	%	%	%	%
At the effective income tax rate	28.2	21.6	28.2	28.2

## 6. Taxation (continued)

### Factors that may affect future tax charges

A number of changes to the UK Corporation Tax system were announced in the 2011 Budget Report and have been enacted in the Finance Act 2011. These changes included a reduction in the corporation tax rate to 26% from 1 April 2011 which had been substantively enacted at the balance sheet date and, as such, deferred tax balances have been calculated at this rate.

Other changes announced included an additional reduction in the corporation tax rate to 25% from April 2012, with further 1% reductions to follow in each of the succeeding two years, resulting in a corporation tax rate of 23% from April 2014. Although the reduction in corporation tax rate to 25% from April 2012 has now been enacted, none of these changes had been substantively enacted as at the balance sheet date and have therefore not been reflected in these financial statements.

## 7. Dividends

The following table shows the dividends paid to equity shareholders:

	2011 pence (per ordinary share)	2011 £m	2010 pence (per ordinary share)	2010 £m
<b>Ordinary dividends</b>				
Interim dividend for the year ended 31 March 2011	34.30	150	-	-
Interim dividend for the year ended 31 March 2010	-	-	34.30	150

## 8. Intangible assets

	Software £m
<b>Non-current</b>	
Cost at 1 April 2009	169
Additions	8
Reclassifications (i)	(3)
Cost at 31 March 2010	174
Additions	17
Cost at 31 March 2011	191
Amortisation at 1 April 2009	(120)
Amortisation charge for the year	(15)
Reclassifications (i)	4
Amortisation at 31 March 2010	(131)
Amortisation charge for the year	(10)
Amortisation at 31 March 2011	(141)
<b>Net book value at 31 March 2011</b>	<b>50</b>
Net book value at 31 March 2010	43

(i) Represents reclassification with property, plant and equipment.

## 9. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2009	185	7,176	1,468	92	8,921
Additions	14	58	941	1	1,014
Disposals	-	(19)	(1)	(3)	(23)
Reclassifications (i)	19	747	(772)	9	3
Cost at 31 March 2010	218	7,962	1,636	99	9,915
Additions	53	83	969	4	1,109
Disposals	(1)	(48)	-	(3)	(52)
Reclassifications (i)	57	808	(868)	3	-
Cost at 31 March 2011	327	8,805	1,737	103	10,972
Depreciation at 1 April 2009	(32)	(2,845)	-	(59)	(2,936)
Depreciation charge for the year	(4)	(212)	-	(9)	(225)
Disposals	-	16	-	3	19
Reclassifications (i)	(1)	9	-	(12)	(4)
Depreciation at 31 March 2010	(37)	(3,032)	-	(77)	(3,146)
Depreciation charge for the year	(6)	(240)	-	(8)	(254)
Disposals	1	40	-	3	44
Reclassifications (i)	(1)	1	-	-	-
Depreciation at 31 March 2011	(43)	(3,231)	-	(82)	(3,356)
<b>Net book value at 31 March 2011</b>	<b>284</b>	<b>5,574</b>	<b>1,737</b>	<b>21</b>	<b>7,616</b>
Net book value at 31 March 2010	181	4,930	1,636	22	6,769

(i) Represents reclassification between categories and with intangible assets.

The net book value of land and buildings comprised:

	2011 £m	2010 £m
Freehold	227	140
Long leasehold (over 50 years)	3	3
Short leasehold (under 50 years)	54	38
	<b>284</b>	<b>181</b>

The cost of property, plant and equipment at 31 March 2011 included £738m (2010: £644m) relating to interest capitalised.

Included within trade and other payables and other non-current liabilities at 31 March 2011 are contributions to the cost of property, plant and equipment amounting to £7m (2010: £7m) and £224m (2010: £220m) respectively.

## 10. Derivative financial instruments

For further information and a detailed description of our derivative financial instruments and hedge type designations, refer to note 26. The fair value amounts by designated hedge type can be analysed as follows:

	2011			2010		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
<b>Fair value hedges</b>						
Interest rate swaps	32	(4)	28	47	(4)	43
Cross-currency interest rate swaps	64	-	64	59	-	59
	96	(4)	92	106	(4)	102
<b>Cash flow hedges</b>						
Interest rate swaps	6	(29)	(23)	2	(57)	(55)
Cross-currency interest rate swaps	21	-	21	17	-	17
Foreign exchange forward contracts	2	(1)	1			
	29	(30)	(1)	19	(57)	(38)
<b>Derivatives not in a formal hedge relationship</b>						
Interest rate swaps	51	(51)	-	14	(24)	(10)
Cross-currency interest rate swaps	2	-	2	4	-	4
Forward rate agreements	-	(1)	(1)	-	(7)	(7)
	53	(52)	1	18	(31)	(13)
	178	(86)	92	143	(92)	51
Hedge positions offset within derivative instruments	-	-	-	8	(8)	-
<b>Total</b>	<b>178</b>	<b>(86)</b>	<b>92</b>	<b>151</b>	<b>(100)</b>	<b>51</b>

The maturity of derivative financial instruments is as follows:

	2011			2010		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
<b>Current</b>	<b>20</b>	<b>(10)</b>	<b>10</b>	<b>17</b>	<b>(11)</b>	<b>6</b>
In 1 - 2 years	-	(11)	(11)	-	-	-
In 2 - 3 years	34	(6)	28	-	(16)	(16)
In 3 - 4 years	-	-	-	47	(7)	40
In 4 - 5 years	53	-	53	-	-	-
More than 5 years	71	(59)	12	87	(66)	21
<b>Non-current</b>	<b>158</b>	<b>(76)</b>	<b>82</b>	<b>134</b>	<b>(89)</b>	<b>45</b>
<b>Total</b>	<b>178</b>	<b>(86)</b>	<b>92</b>	<b>151</b>	<b>(100)</b>	<b>51</b>

For each class of derivative the notional contract amounts\* are as follows:

	2011 £m	2010 £m
Interest rate swaps	(4,041)	(2,143)
Cross-currency interest rate swaps	(702)	(700)
Foreign exchange forward contracts	(157)	(3)
Forward rate agreements	(1,250)	(940)
<b>Total</b>	<b>(6,150)</b>	<b>(3,786)</b>

\*The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the balance sheet date

**11. Inventories**

	2011 £m	2010 £m
Raw materials and consumables	28	33

The above table includes a £15m provision for obsolescence against raw materials and consumables at 31 March 2011 (2010: £12m).

**12. Trade and other receivables**

	2011 £m	2010 £m
Trade receivables	16	13
Amounts owed by fellow subsidiaries	29	17
Prepayments and accrued income	156	128
Other receivables	3	3
	204	161

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

**Provision for impairment of receivables**

	£m
At 31 March 2010 and 31 March 2011	1

As at 31 March 2011, trade receivables of £2m (2010: £nil) were past due but not impaired.

For further information about our wholesale credit risk, refer to note 27c).

**13. Financial investments**

	2011 £m	2010 £m
<b>Current</b>		
Loans and receivables - amounts due from fellow subsidiaries	4	3
Available-for-sale investments	-	64
Total financial and other investments	4	67

Available-for-sale investments are recorded at fair value. Due to their short maturities, the carrying value of loans and receivables approximates to their fair value.

**14. Cash and cash equivalents**

	2011 £m	2010 £m
Short-term deposits	-	326
Cash and cash equivalents excluding bank overdrafts	-	326
Bank overdrafts	(8)	(13)
Net cash and cash equivalents	(8)	313

The carrying amounts of cash and cash equivalents and bank overdrafts approximate to their fair value.

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

## 15. Borrowings

	2011 £m	2010 £m
<b>Current</b>		
Bank overdrafts	8	13
Bank loans	8	5
Bonds	42	300
Borrowings from fellow subsidiaries	205	16
	<b>263</b>	<b>334</b>
<b>Non-current</b>		
Bank loans	400	400
Bonds	4,003	3,932
	<b>4,403</b>	<b>4,332</b>
<b>Total borrowings</b>	<b>4,666</b>	<b>4,666</b>
Total borrowings are repayable as follows:		
	2011 £m	2010 £m
Less than 1 year	263	334
In 1 - 2 years	200	-
In 2 - 3 years	538	200
In 3 - 4 years	-	552
In 4 - 5 years	164	-
More than 5 years	3,501	3,580
	<b>4,666</b>	<b>4,666</b>

The fair value of borrowings at 31 March 2011 was £4,998m (2010: £5,068m). Market values, where available, have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

The notional amount outstanding of the debt portfolio as at 31 March 2011 was £4,564m (2010: £4,577m).

Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £8m (2010: £5m) in respect of cash received under collateral agreements.

As at 31 March 2011, the Company had committed credit facilities of £715m (2010: £425m) of which £715m was undrawn (2010: £425m undrawn). These undrawn facilities expire within three to four years.

All of the unused facilities at 31 March 2011 and at 31 March 2010 were held as back- to commercial paper and similar borrowings.

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

## 16. Trade and other payables

	2011 £m	2010 £m
Trade payables	468	362
Amounts owed to fellow subsidiaries	101	99
Deferred income	85	77
Social security and other taxes	43	39
Other payables	32	27
	<b>729</b>	<b>604</b>

Due to their short maturities, the fair value of trade and other payables (excluding deferred income) approximates to their book value. All trade and other payables are recorded at amortised cost.

## 17. Other non-current liabilities

	2011 £m	2010 £m
Deferred income	241	234
Other payables	10	12
	<b>251</b>	<b>246</b>

The fair value of other payables approximates to their book value. All other non-current liabilities are recorded at amortised cost.

## 18. Deferred tax assets and liabilities

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

	Accelerated tax depreciation £m	Share- based payments £m	Pensions £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2009	-	(5)	(113)	(17)	(8)	(143)
Deferred tax liabilities at 31 March 2009	858	-	-	-	-	858
At 1 April 2009	858	(5)	(113)	(17)	(8)	715
Charged to income statement	57	1	19	-	3	80
(Credited)/charged to equity	-	-	(44)	4	1	(39)
At 31 March 2010	915	(4)	(138)	(13)	(4)	756
Deferred tax assets at 31 March 2010	-	(4)	(138)	(13)	(4)	(159)
Deferred tax liabilities at 31 March 2010	915	-	-	-	-	915
At 1 April 2010	915	(4)	(138)	(13)	(4)	756
(Credited)/charged to income statement	(12)	(2)	16	-	(2)	-
Charged to equity	-	-	1	4	-	5
<b>At 31 March 2011</b>	<b>903</b>	<b>(6)</b>	<b>(121)</b>	<b>(9)</b>	<b>(6)</b>	<b>761</b>
Deferred tax assets at 31 March 2011	-	(6)	(121)	(9)	(6)	(142)
Deferred tax liabilities at 31 March 2011	903	-	-	-	-	903
	<b>903</b>	<b>(6)</b>	<b>(121)</b>	<b>(9)</b>	<b>(6)</b>	<b>761</b>

Deferred tax assets are all offset against deferred tax liabilities.

At the balance sheet date there were no material current deferred tax assets or liabilities (2010: £nil).



## 19. Pensions

Substantially all of National Grid Electricity Transmission employees are members of the National Grid section of the Electricity Supply Pension (ESP) Scheme which is a defined benefit pension scheme or of the defined contribution section of the National Grid UK pension scheme. The fair value of plan assets and present value of defined benefit obligations in respect of the ESP scheme are updated annually. For further details of the nature and terms of this scheme and the actuarial assumptions used to value the associated assets and pension obligations, refer to note 25.

### Amounts recognised in the income statement and statement of other comprehensive income:

	2011 £m	2010 £m
<b>Included within payroll costs</b>		
Defined contribution scheme costs	3	2
<i>Defined benefit scheme costs:</i>		
Current service cost	27	13
Contributions from other employers	(3)	(2)
Curtailement gains on redundancies	(1)	(1)
Cost of contractual termination on redundancies	3	3
Other augmentation	2	1
	<b>31</b>	<b>16</b>
<b>Included within finance income and costs</b>		
Interest cost	112	103
Expected return on plan assets	(103)	(74)
	<b>9</b>	<b>29</b>
<b>Included within other comprehensive income</b>		
Actuarial loss during the year	(8)	(153)
Cumulative actuarial loss	<b>(192)</b>	<b>(185)</b>

### Amounts recognised in the balance sheet

	2011 £m	2010 £m
Present value of funded obligations	(2,041)	(2,004)
Fair value of plan assets	1,598	1,531
	<b>(443)</b>	<b>(473)</b>
Present value of unfunded obligations	(24)	(20)
Net liability	<b>(467)</b>	<b>(493)</b>
<b>Changes in the present value of the defined benefit obligations (including unfunded obligations)</b>		
Opening defined benefit obligations	(2,024)	(1,553)
Current service cost	(27)	(13)
Interest cost	(112)	(103)
Actuarial gains/(losses)	9	(432)
Net increase in liabilities from redundancies	(2)	(3)
Employee contributions	(2)	(4)
Benefits paid	90	88
Net transfers	1	(3)
Other augmentations	2	(1)
Closing defined benefit obligation	<b>(2,065)</b>	<b>(2,024)</b>
<b>Changes in the fair value of plan assets</b>		
Opening fair value of plan assets	1,531	1,145
Expected return on plan assets	103	74
Actuarial (losses)/gains	(17)	279
Employer contributions	70	114
Employee contributions	2	4
Benefits paid	(90)	(88)
Net transfers	(1)	3
Closing fair value of plan assets	<b>1,598</b>	<b>1,531</b>
<b>Actual return on plan assets</b>	<b>86</b>	<b>353</b>
<b>Expected contributions to defined benefit plans in the following year</b>	<b>25</b>	<b>22</b>

## 20. Provisions

	Environmental £m	Other £m	Total provisions £m
At 1 April 2009	2	16	18
Additions	-	7	7
Utilised	(1)	(4)	(5)
At 31 March 2010	1	19	20
Additions	73	10	83
Utilised	(1)	(5)	(6)
Unused amounts reversed	-	(1)	(1)
<b>At 31 March 2011</b>	<b>73</b>	<b>23</b>	<b>96</b>

	2011 £m	2010 £m
Current	13	10
Non-current	83	10
	<b>96</b>	<b>20</b>

### Environmental provision

The environmental provision is calculated on an discounted basis and represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Company. Cashflows are expected to be incurred between 2011 and 2060. The undiscounted amount is £121m and the real discount rate is 2.0%.

### Other provisions

Other provisions include employer liability claims of £7m (2010: £7m). In accordance with insurance industry practice, these estimates are based on experience from previous years and there is therefore no identifiable payment date.

## 21. Share capital

	millions	£m
At 31 March 2010 and 2011 - ordinary shares of 10p each		
Allotted, called up and fully paid	437	44
Authorised	2,751	275

## 22. Consolidated cash flow statement

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

	2011 £m	2010 £m
Decrease in cash and cash equivalents	(321)	(70)
Decrease in financial investments	(63)	(293)
Decrease/(increase) in borrowings and derivatives	104	(14)
Net interest paid on the components of net debt	179	184
Change in net debt resulting from cash flows	(101)	(193)
Changes in fair value of financial assets and liabilities	22	24
Net interest charge on the components of net debt	(269)	(177)
Movement in net debt (net of related derivative financial instruments) in the year	(348)	(346)
Net debt (net of related derivative financial instruments) at start of year	(4,222)	(3,876)
Net debt (net of related derivative financial instruments) at end of year	(4,570)	(4,222)

### (b) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Total £m
At 1 April 2009	387	(4)	383	360	(4,708)	89	(3,876)
Cash flow	(61)	(9)	(70)	(297)	196	(22)	(193)
Fair value gains and losses	-	-	-	-	41	(17)	24
Interest charges	-	-	-	4	(182)	1	(177)
At 31 March 2010	326	(13)	313	67	(4,653)	51	(4,222)
Cash flow	(326)	5	(321)	(65)	303	(18)	(101)
Fair value gains and losses	-	-	-	-	(15)	37	22
Interest charges	-	-	-	2	(293)	22	(269)
At 31 March 2011	-	(8)	(8)	4	(4,658)	92	(4,570)
<b>Balances at 31 March 2011:</b>							
Non-current assets	-	-	-	-	-	158	158
Current assets	-	-	-	4	-	20	24
Current liabilities	-	(8)	(8)	-	(255)	(10)	(273)
Non-current liabilities	-	-	-	-	(4,403)	(76)	(4,479)
At 31 March 2011	-	(8)	(8)	4	(4,658)	92	(4,570)

## Notes to the consolidated financial statements - supplementary information

### 23. Commitments and contingencies

#### (a) Future capital expenditure

	2011 £m	2010 £m
Contracted for but not provided	968	921

#### (b) Operating lease commitments

	2011 £m	2010 £m
Amounts due:		
Less than 1 year	11	10
In 1 - 2 years	7	7
In 2 - 3 years	5	5
In 3 - 4 years	5	5
In 4 - 5 years	5	5
More than 5 years	25	31
	58	63

#### (c) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £4m (2010: £5m).

#### (d) Other commitments, contingencies and guarantees

Guarantees in respect of a former associate amounting to £14m (2010: £14m). These are open ended.

Guarantees in the normal course of business and entered into on normal commercial terms amounted to £11m (2010: £12m). These guarantees have various expiry dates.

## 24. Related party transactions

The following material transactions are with fellow subsidiaries of National Grid plc, a joint venture and a pension plan, and are in the normal course of business.

	Parent		Other related parties		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Income:						
Goods and services supplied	-	-	31	21	31	21
Interest received on advances to fellow subsidiaries	2	-	2	3	4	3
	2	-	33	24	35	24
Expenditure:						
Services received	-	-	8	(33)	8	(33)
Corporate services received	-	-	(9)	(9)	(9)	(9)
Interest paid on borrowings from fellow subsidiaries	-	-	(1)	(1)	(1)	(1)
	-	-	(2)	(43)	(2)	(43)
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:						
Amounts receivable	-	-	29	17	29	17
Amounts payable	-	-	(101)	(99)	(101)	(99)
Advances to fellow subsidiaries (amounts due within one year):						
At 1 April	1	-	2	21	3	21
Advances	1	1	-	-	1	1
Repayments	-	-	-	(19)	-	(19)
At 31 March	2	1	2	2	4	3
Borrowings payable to fellow subsidiaries (amounts due within one year):						
At 1 April	(5)	-	(11)	(11)	(16)	(11)
Advances	(5)	(6)	(194)	-	(199)	(6)
Repayments	-	1	10	-	10	1
At 31 March	(10)	(5)	(195)	(11)	(205)	(16)

Amounts receivable from or payable to related parties in respect of income and expenditure are ordinarily settled one month in arrears. Advances to and borrowings from fellow subsidiaries are repayable on demand and bear interest at commercial rates.

No amounts have been provided at 31 March 2011 (2010: £nil) and no expense recognised during the year (2010: £nil) in respect of bad or doubtful debts for related party transactions.

Details of key management compensation are provided in note 3c and information relating to pension fund arrangements is disclosed in notes 19 and 25.

## 25. Actuarial information on pensions

The Electricity Supply Pension Scheme is a funded scheme which is divided into sections, one of which is National Grid's section. This section of the scheme ceased to allow new hires to join from 1 April 2006.

The scheme is funded with assets held in a separate trustee administered fund. It is subject to independent actuarial valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers contribution, which together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme. The latest full actuarial valuation carried out as at 31 March 2010 and the results are shown below:

NG section of ESPS	
Latest full actuarial valuation	31 March 2010
Actuary	Aon Hewitt
Market value of scheme assets at latest valuation	£1,531m
Actuarial value of benefits due to members	£(2,038)m
Market value as percentage of benefits	75%
Funding deficit	£507m

The actuarial valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual is 29.6% of pensionable earnings (23.7% employers and an average employee contribution of 5.9%). This contribution rate will be reviewed as part of the next valuation in 2013.

Following the 2010 actuarial valuation, National Grid and the Trustees agreed a recovery plan which will see the deficit paid off by March 2027. Under the Schedule of Contributions a payment of £45m was made in 2010/11, a further payment of £45m will be made in 2011/12 and another of £38m in 2012/13. Thereafter, an annual payment of £38m will be made, rising in line with Retail Price Index.

Following this agreement, the Company has established a secured bank account with a charge in favour of the Trustees of National Grid's Electricity section of the Scheme. The forecast balance of the bank account at the end of 2011/12 is £3.5m. The funds in the bank account will be paid to National Grid's Electricity section of the Scheme in the event that: NGET is subject to an insolvency event, or if NGET ceases to hold a licence granted under the Electricity Act 1989.

National Grid has also agreed to bring forward a payment of £220m should certain triggers are breached. The principal triggers under which payment would be made are: namely if NGET ceases to hold a licence granted under the Electricity Act 1989, or NGET's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

### Asset allocations

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

	2011 %	2010 %
Equities	41.9	54.8
Gilts	28.6	26.1
Corporate bonds	11.7	13.5
Hedge Funds	7.3	-
Property	4.0	3.9
Cash (awaiting investment)	2.8	-
Other	3.7	1.7
Total	100.0	100.0

The current target asset allocation is 49% equities and 51% for bonds, property and other.

### Actuarial assumptions

The expected long-term rate of return on assets has been set reflecting the price inflation expectation, the expected real return on each major asset class and the long-term asset allocation strategy adopted for the scheme. The expected real returns on specific asset classes reflect historical returns, investment yields on the measurement date and general future return expectations and have been set after taking advice from the scheme's actuaries.

The principal actuarial assumptions used were:

	2011 %	2010 %
Discount rate (i)	5.5	5.6
Expected return on plan assets	6.7	6.9
Rate of increase in salaries (ii)	4.5	4.8
Rate of increase in pensions in payment and deferment	3.3	3.5
Rate of increase in Retail Prices Index (iii)	3.5	3.8

(i) The discount rate for pension liabilities has been determined by reference to appropriate yields on high quality corporate bonds prevailing in the UK debt market at the balance sheet date.

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

(iii) In September 2010 the UK Government changed the basis for statutory pension increases from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). The Scheme rules of the pension scheme specifically reference RPI. As a consequence the impact of the Government's move to CPI was limited to National Grid Electricity Transmission plc's Guaranteed Minimum Pensions. The financial consequence of the change as at 31 March 2011 was an approximate £5m reduction in present value of the defined benefit obligation.

## 25. Actuarial information on pensions continued

### Actuarial assumptions continued

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

	2011 years	2010 years
<b>Today:</b>		
Males	24.4	22.4
Females	24.8	23.8
<b>In 20 years:</b>		
Males	27.3	24.8
Females	28.1	26.6

### Sensitivities to actuarial assumptions

	Change in pension obligation		Change in annual pension cost	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Sensitivities (all other assumptions held constant):</b>				
0.1% change in discount rate	31	31	1	1
0.5% change in long-term rate of increase in salaries	30	38	1	2
Increase of one year in life expectations at age 60	55	57	1	1

The history of the present value of obligations, the fair value of the plan assets and experience adjustments is as follows:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of funded and unfunded obligations	(2,065)	(2,024)	(1,553)	(1,730)	(1,824)
Fair value of plan assets	1,598	1,531	1,145	1,321	1,336
	(467)	(493)	(408)	(409)	(488)
Difference between expected and actual return on plan assets	(17)	279	(301)	(77)	(25)
Experience (losses)/gains on plan liabilities	(1)	45	(19)	(30)	(4)
Actuarial gains/(losses) on plan liabilities	9	(432)	224	128	(67)

## 26. Supplementary information on derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange, credit spreads, and equity or other indices. Derivatives enable their users to alter exposure to market or credit risks. We use derivatives to manage our treasury risks.

### Treasury financial instruments

Derivatives are used for hedging purposes in the management of exposure to market risks. This enables the optimisation of the overall cost of accessing debt capital markets, and mitigates the market risk which would otherwise arise from the company assets and liabilities.

Hedging policies using derivative financial instruments are further explained in note 27. Derivatives held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges. These are described as follows:

### Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the item in relation to the risk being hedged are recognised in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to the income statement as a yield adjustment over the remainder of the life of the hedged item.

### Cash flow hedges

Exposure arises from the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates or are in a foreign currency. Interest rate and cross-currency swaps are maintained and designated as cash flow hedges, where they qualify, to manage this exposure. Fair value changes on designated cash flow hedges are initially recognised directly in the cash flow hedge reserve, as gains or losses recognised in equity. Amounts are transferred from equity and recognised in the income statement as the income or expense is recognised on the hedged asset or liability.

Forward foreign currency contracts are used to hedge anticipated and committed future currency cash flows. Where these contracts qualify for hedge accounting they are designated as cash flow hedges. On recognition of the underlying transaction in the financial statements, the associated hedge gains and losses, deferred in equity, are transferred and included with the recognition of the underlying transaction.

The gains and losses on ineffective portions of such derivatives are recognised immediately in remeasurements within the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement or on the balance sheet. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to remeasurements within the income statement.

### Derivatives not in a formal hedge relationship

Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting under IAS 39, some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in remeasurements within the income statement.

## 27. Financial risk

Our activities expose us to a variety of financial risks: market risk, including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk; credit risk; and liquidity risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. Derivative financial instruments are used to hedge certain risk exposures.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Boards of Directors of National Grid plc and the Company. This department identifies, evaluates and hedges financial risks in close co-operation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity as discussed further in our treasury policy, described on pages 15 to 18 of the Operating and Financial Review.



## 27. Financial risk continued

### (a) Market risk

#### (i) Foreign exchange risk

We are exposed to foreign exchange risk arising from non-sterling future commercial transactions and non-sterling recognised assets and liabilities.

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

During 2011 and 2010, derivative financial instruments were used to manage exchange risk as follows:

	2011			
	Sterling £m	Euro £m	Other £m	Total £m
Financial investments	4	-	-	4
Borrowings (i)	(3,867)	(635)	(164)	(4,666)
<b>Pre-derivative position</b>	<b>(3,863)</b>	<b>(635)</b>	<b>(164)</b>	<b>(4,662)</b>
Derivative effect	(715)	643	164	92
<b>Net debt position</b>	<b>(4,578)</b>	<b>8</b>	<b>-</b>	<b>(4,570)</b>

  

	2010			
	Sterling £m	Euro £m	Other £m	Total £m
Cash and cash equivalents	326	-	-	326
Financial investments	67	-	-	67
Borrowings (i)	(3,866)	(650)	(150)	(4,666)
<b>Pre-derivative position</b>	<b>(3,473)</b>	<b>(650)</b>	<b>(150)</b>	<b>(4,273)</b>
Derivative effect	(742)	643	150	51
<b>Net debt position</b>	<b>(4,215)</b>	<b>(7)</b>	<b>-</b>	<b>(4,222)</b>

(i) Includes bank overdrafts

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

## 27. Financial risk continued

### (a) Market risk continued

#### (ii) Cash flow and fair value interest rate risk

Interest rate risk arises from our borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk. Borrowings issued at fixed rates expose us to fair value interest rate risk. The interest rate risk management policy as further explained on page 17 is to minimise the finance costs (being interest costs and changes in the market value of debt), subject to certain constraints. Some of the borrowings issued are index-linked, that is their cost is linked to changes in the UK Retail Prices Index (RPI). We believe that these borrowings provide a hedge for revenues and regulatory asset values that are also RPI-linked.

Interest rate risk arising from financial investments is primarily variable.

The following table sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps:

	2011 £m	2010 £m
<b>Fixed interest rate borrowings</b>		
Less than 1 year	29	287
In 1 - 2 years	-	-
In 2 - 3 years	538	-
In 3 - 4 years	-	552
In 4 - 5 years	164	-
More than 5 years	1,176	1,350
	<b>1,907</b>	<b>2,189</b>
<b>Floating interest rate borrowings (including RPI linked)</b>	<b>2,754</b>	<b>2,476</b>
<b>Non-interest bearing borrowings</b>	<b>5</b>	<b>1</b>
<b>Total borrowings</b>	<b>4,666</b>	<b>4,666</b>

During 2011 and 2010, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2011				
	Fixed rate £m	Floating rate £m	RPI(i) £m	Other(ii) £m	Total £m
Financial investments	-	2	-	2	4
Borrowings (iv)	(1,907)	(616)	(2,138)	(5)	(4,666)
<b>Pre-derivative position</b>	<b>(1,907)</b>	<b>(614)</b>	<b>(2,138)</b>	<b>(3)</b>	<b>(4,662)</b>
Derivative effect	569	(567)	90	-	92
<b>Net debt position (iii)</b>	<b>(1,338)</b>	<b>(1,181)</b>	<b>(2,048)</b>	<b>(3)</b>	<b>(4,570)</b>

  

	2010				
	Fixed rate £m	Floating rate £m	RPI(i) £m	Other(ii) £m	Total £m
Cash and cash equivalents	326	-	-	-	326
Financial investments	-	67	-	-	67
Borrowings (iv)	(2,189)	(435)	(2,041)	(1)	(4,666)
<b>Pre-derivative position</b>	<b>(1,863)</b>	<b>(368)</b>	<b>(2,041)</b>	<b>(1)</b>	<b>(4,273)</b>
Derivative effect	(115)	79	87	-	51
<b>Net debt position</b>	<b>(1,978)</b>	<b>(289)</b>	<b>(1,954)</b>	<b>(1)</b>	<b>(4,222)</b>

(i) The post-derivative impact represents financial instruments linked to UK RPI.

(ii) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.

(iii) The post derivative impact includes short dated derivative contracts maturing within 12 months of the balance sheet date.

(iv) Includes bank overdrafts.

## 27. Financial risk continued

### (b) Fair value disclosures

The following is an analysis of our financial instruments measured at fair value. They are reported in a tiered hierarchy based on the valuation methodology described on page 18, and reflecting the significance of market observable inputs. The best evidence of fair value is a quoted price in an actively traded market. In the event the market for a financial instrument is not active, a valuation technique is used.

	2011				2010			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Assets</b>								
Available-for-sale investments	-	-	-	-	64	-	-	64
Derivative financial instruments	-	125	53	178	-	117	34	151
	-	125	53	178	64	117	34	215
<b>Liabilities</b>								
Derivative financial instruments	-	(86)	-	(86)	-	(100)	-	(100)
<b>Total</b>	-	39	53	92	64	17	34	115

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using techniques where one or more significant inputs are based on unobservable market data.

During the year no transfers have been made between the hierarchy levels.

The financial instruments classified as level 3 are cross-currency swaps with an embedded call option. Third party valuations are obtained from more than one source to support the reported fair value. The changes in the value of our level 3 derivative financial instruments are as follows:

	2011 Level 3 valuation £m	2010 Level 3 valuation £m
<b>At 1 April</b>	34	11
Net gains for the year (i)	21	26
Settlements	(2)	(3)
<b>At 31 March</b>	53	34

(i) Gains of £21m (2010:£26m) are attributable to assets or liabilities held at the end of the reporting period and have been recognised in finance costs in the income statement.

A reasonably possible change in assumptions is unlikely to result in a material change in the fair value of the level 3 instruments.

## 27. Financial risk continued

### (c) Credit risk

Credit risk is the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. Credit risk is managed on a portfolio basis for National Grid as a whole. Credit risk arises from cash and cash equivalents, derivative financial instruments, and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

#### Treasury related credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. The Company's limits are managed by the central treasury department of National Grid, as explained in our treasury policies on page 16 to 18.

As at 31 March 2011 and 2010, we had a number of exposures to individual counterparties. In accordance with our treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. The Company does not expect any significant losses from non-performance by these counterparties.

The counterparty exposure under derivative financial contracts as shown in note 10 was £178m (2010: £151m); after netting agreements it was £163m (2010: £144m).

#### Wholesale and retail credit risk

Our principal commercial exposure is governed by the credit rules within the regulated Connection and Use of System Code. This lays down the level of credit relative to the regulatory asset value for each credit rating. We have no retail credit risk. Management does not expect any significant losses of receivables that have not been provided for as shown in note 12.

### (d) Liquidity analysis

We determine our liquidity requirements by the use of both short and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12 month period.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities, and derivative assets and liabilities as at the balance sheet date:

	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due 3 years and beyond	Total
<b>At 31 March 2011</b>					
<b>Non-derivative financial liabilities</b>					
Borrowings	(218)	(200)	(530)	(3,616)	(4,564)
Interest payments on borrowings (i)	(172)	(176)	(173)	(2,812)	(3,333)
Other non-interest bearing liabilities	(500)	(10)	-	-	(510)
<b>Derivative financial liabilities</b>					
Derivative contracts - receipts	54	51	23	214	342
Derivative contracts - payments	(27)	(19)	(27)	(180)	(253)
<b>Total at 31 March 2011</b>	<b>(863)</b>	<b>(354)</b>	<b>(707)</b>	<b>(6,394)</b>	<b>(8,318)</b>
<b>At 31 March 2010</b>					
<b>Non-derivative financial liabilities</b>					
Borrowings	(282)	-	(200)	(4,095)	(4,577)
Interest payments on borrowings (i)	(178)	(176)	(182)	(3,049)	(3,585)
Other non-interest bearing liabilities	(389)	(12)	-	-	(401)
<b>Derivative financial liabilities</b>					
Derivative contracts - receipts	76	27	27	159	289
Derivative contracts - payments	(35)	(29)	(17)	(185)	(266)
<b>Total at 31 March 2010</b>	<b>(808)</b>	<b>(190)</b>	<b>(372)</b>	<b>(7,170)</b>	<b>(8,540)</b>

(i) The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the Company can be required to settle.

## 27. Financial risk continued

### (e) Sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments. The following analysis illustrates the sensitivity to changes in market variables, being UK interest rates and the UK Retail Prices Index.

The analysis excludes the impact of movements in market variables on the carrying value of pension obligations and provisions.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant, and on the basis of the hedge designations in place at 31 March 2011 and 31 March 2010, respectively. As a consequence, this sensitivity analysis relates to the positions at those dates and is not representative of the years then ended, as all of these varied.

The following assumptions were made in calculating the sensitivity analysis:

- the balance sheet sensitivity to interest rates relates only to derivative financial instruments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- changes in the carrying value of derivatives from movements in interest rates designated as cash flow hedges are assumed to be recorded fully within equity;
- changes in the carrying value of derivative financial instruments not in hedging relationships only affect the income statement;
- all other changes in the carrying value of derivative financial instruments designated as hedges are fully effective with no impact on the income statement;
- debt with a maturity below one year is floating rate for the accrued interest part of the calculation;
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 period for the accrued interest portion of the sensitivity calculations; and
- sensitivity to the Retail Prices Index does not take into account any changes to revenue or operating costs that are affected by the Retail Prices Index or inflation generally.

Using the above assumptions, the following table shows the illustrative impact on the income statement and items that are recognised directly in equity that would result from reasonably possible movements in the UK Retail Prices Index and UK interest rates, after the effects of tax.

	2011		2010	
	Income statement -/+ £m	Other Equity Reserves -/+ £m	Income statement -/+ £m	Other Equity Reserves -/+ £m
UK Retail Prices Index +/- 0.50%	7	-	7	-
UK interest rates +/- 0.50%	5	14	3	19

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

### (f) Capital and risk management

Our objective when managing capital is to safeguard our ability to continue as a going concern and to remain within regulatory constraints. The principal measure of balance sheet efficiency is gearing calculated as net debt expressed as a percentage of regulatory asset value. The gearing ratio at 31 March 2011 was 54% compared to 56% at 31 March 2010. We regularly review and maintain or adjust the capital structure as appropriate in order to manage the level of gearing.

Our licence and some of our bank loan agreements impose lower limits for the long-term credit ratings that the Company must hold. These requirements are monitored on a regular basis in order to ensure compliance.

## 28. Share options and reward plans

National Grid operates three principal forms of share option and share award plans in which our employees and Directors participate. These plans include an employee Sharesave scheme, a Performance Share Plan (PSP) and the Deferred Share Plan.

On 14 June 2010, National Grid completed a rights issue. The number of shares allocated to employees under share plans has been adjusted to reflect the bonus element of the rights issue. The terms of National Grid's share plans were adjusted such that participants of the various plans were no better or worse off as a result of the rights issue.

### Active share plans

Sharesave scheme - share options are offered to employees at 80% of the market price at the time of the invitation. The share options are exercisable on completion of a three and/or five year Save As You Earn contract.

PSP - awards delivered in National Grid shares are made to Executive Directors of National Grid and senior employees. The criteria are based on National Grid's total shareholder return (50%) when compared to FTSE 100 and annualised growth of the National Grid's EPS (50%) when compared to growth in RPI.

Deferred Share Plan - 50% of any Annual Performance Plan awarded to Executive Directors of National Grid and a fixed percentage awarded to senior employee is automatically deferred into National Grid shares which are held in trust for three years before release.

### Additional information in respect of active share plans (excluding Sharesave scheme)

	2011 millions	2010 millions
Awards of ordinary shares at 1 April	0.7	0.9
Impacts of rights issue	0.1	-
Awards made	0.4	0.3
Lapses/forfeits	(0.1)	(0.1)
Transfers (i)	0.1	-
Awards vested	-	(0.4)
Awards of ordinary shares at 31 March	1.2	0.7
Conditional awards available for release at 31 March	0.1	-

(i) Transfers arise from employees moving between companies in the National Grid group.

### Non-active share plans

We also have historical plans where awards are still outstanding, but no further awards will be granted. These include the Executive Share Option Plan for which details of movement are provided below.

### Share options - Sharesave scheme and Executive Share Option Plan

	Sharesave scheme options		Executive Plan options		Total options
	Weighted average price		Weighted average price		
	£	millions	£	millions	millions
At 1 April 2009	4.51	6.9	5.00	0.3	7.2
Granted	5.20	1.1	-	-	1.1
Lapsed - expired	5.33	(0.2)	4.68	-	(0.2)
Exercised	3.50	(1.9)	4.98	(0.1)	(2.0)
Transfers (i)	-	-	-	-	-
At 31 March 2010	4.94	5.9	5.03	0.2	6.1
Impacts of rights issue	-	0.8	-	-	0.8
Granted	4.45	1.0	-	-	1.0
Lapsed - expired	4.58	(0.3)	5.26	(0.1)	(0.4)
Exercised	4.33	(1.1)	-	-	(1.1)
<b>At 31 March 2011</b>	<b>4.42</b>	<b>6.3</b>	<b>4.07</b>	<b>0.1</b>	<b>6.4</b>

### Excercisable

<b>At 31 March 2011</b>	<b>4.71</b>	<b>0.2</b>	<b>4.07</b>	<b>0.1</b>	<b>0.3</b>
At 31 March 2010	4.58	0.3	4.65	0.1	0.4

### Weighted average share price at exercise date

<b>Year ended 31 March 2011</b>	<b>5.53</b>	<b>1.1</b>	<b>-</b>	<b>-</b>	<b>1.1</b>
Year ended 31 March 2010	5.74	1.9	6.03	0.1	2.0

## 28. Share options and reward plans continued

### Share options continued

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2011 was 2 years and 6 months. These options have exercise prices between £3.80 and £5.73 per ordinary share. The aggregate intrinsic value of all options outstanding and exercisable at 31 March 2011 amounted to £31m and £1m respectively.

### Awards under share option plans and reward plans

	2011	2010
<i>Share options</i>		
Average share price at date of grant	<b>564.5p</b>	676.0p
Average exercise price	<b>445.0p</b>	520.0p
Average fair value	<b>116.6p</b>	161.1p
<i>Other share plans</i>		
Average share price at date of grant	<b>493.3p</b>	598.2p
Average fair value	<b>327.8p</b>	355.6p

### Fair value calculation assumptions

	2011	2010
Dividend yield (%)	<b>4.4-5.0</b>	5.0
Volatility (%)	<b>22.4-26.1</b>	22.4-26.1
Risk-free investment rate (%)	<b>2.5</b>	2.5
Average life (years)	<b>4.0</b>	4.0

The fair values of awards under the Sharesave scheme have been calculated using the Black-Scholes European model. The fair value of awards with total shareholder return performance conditions are calculated using a Monte Carlo Simulation Model. Fair values of other awards are calculated as the share price at grant date, less the present value of dividends not received in the vesting period.

Volatility was derived based on the following, and is assumed to revert from its current implied level to its long-run mean based on historical volatility under (ii) below:

- (i) implied volatility in traded options over National Grid plc's shares;
- (ii) historical volatility of National Grid plc's shares over a term commensurate with the expected life of each option; and
- (iii) implied volatility of comparator companies where options in their shares are traded.

### Additional information in respect of share option

	2011	2010
<b>Share options exercised</b>		
Cash received on exercise of all share options during the year	<b>5</b>	7
Tax benefits realised from share options exercised during the year	<b>1</b>	3

## **29. Ultimate parent company**

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

## **30. Subsidiary undertakings**

The Company does not consolidate its wholly owned subsidiary Elexon Limited, which is the electricity market Balancing and Settlement Code company for Great Britain, as it has no control over Elexon.



## **Appendix 1 – Supplementary analysis of consolidated financial statements by regulatory business**

The schedules in this appendix provide a supplementary analysis of the primary financial statements by regulatory business, together with relevant supporting notes. This appendix should be read in conjunction with the consolidated financial statements of the Company, set out on pages 38 to 70 which provide details in respect of the Company in total not included in this appendix.

# Regulatory consolidated income statements

for the years ended 31 March

		Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	Notes	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
<b>Revenue</b>		<b>2,477</b>	<b>72</b>	<b>2,549</b>	2,437	47	2,484
Other operating income		-	1	1	-	-	-
Operating costs	A	(1,666)	(64)	(1,730)	(1,649)	(44)	(1,693)
<b>Operating profit</b>							
Before exceptional items		895	9	904	802	3	805
Exceptional items	B	(84)	-	(84)	(14)	-	(14)
<b>Total operating profit</b>		<b>811</b>	<b>9</b>	<b>820</b>	788	3	791
Interest income and similar income	C	104	1	105	77	1	78
Interest expense and other finance costs							
Before exceptional items and remeasurements	C	(277)	(1)	(278)	(230)	(1)	(231)
Exceptional items and remeasurements	B, C	(3)	-	(3)	10	-	10
	C	(280)	(1)	(281)	(220)	(1)	(221)
<b>Profit before taxation</b>							
Before exceptional items and remeasurements		722	9	731	649	3	652
Exceptional items and remeasurements	B	(87)	-	(87)	(4)	-	(4)
<b>Total profit before taxation</b>		<b>635</b>	<b>9</b>	<b>644</b>	645	3	648
Taxation							
Before exceptional items and remeasurements	D	(203)	(3)	(206)	(185)	1	(184)
Exceptional items and remeasurements	B, D	67	-	67	1	-	1
Total taxation	D	(136)	(3)	(139)	(184)	1	(183)
<b>Profit after taxation</b>							
Before exceptional items and remeasurements		519	6	525	464	4	468
Exceptional items and remeasurements	B	(20)	-	(20)	(3)	-	(3)
<b>Profit for the year</b>		<b>499</b>	<b>6</b>	<b>505</b>	461	4	465

# Regulatory consolidated statements of comprehensive income

for the years ended 31 March

		Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	Notes	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
<b>Profit for the year</b>		<b>499</b>	<b>6</b>	<b>505</b>	461	4	465
<b>Other comprehensive income/(loss):</b>							
Actuarial net losses	M	(8)	-	(8)	(151)	(2)	(153)
Deferred tax on actuarial net gains and losses	D	(1)	-	(1)	42	1	43
Gain in respect of cash flow hedges		9	-	9	14	-	14
Transferred to profit or loss on cash flow hedges		4	-	4	-	-	-
Tax on items taken directly to or transferred from equity	D	(4)	-	(4)	(4)	-	(4)
<b>Other comprehensive loss for the year</b>		-	-	-	(99)	(1)	(100)
<b>Total comprehensive income for the year</b>		<b>499</b>	<b>6</b>	<b>505</b>	362	3	365

# Regulatory consolidated balance sheets

at 31 March

		Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	Notes	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
<b>Non-current assets</b>							
Intangible assets	E	50	-	50	43	-	43
Property, plant and equipment	F	7,613	3	7,616	6,766	3	6,769
Derivative financial assets		158	-	158	134	-	134
Total non-current assets		7,821	3	7,824	6,943	3	6,946
<b>Current assets</b>							
Inventories	G	23	5	28	28	5	33
Trade and other receivables	H	178	26	204	149	12	161
Financial investments		4	-	4	67	-	67
Derivative financial assets		20	-	20	17	-	17
Cash and cash equivalents	I	-	-	-	326	-	326
Total current assets		225	31	256	587	17	604
<b>Total assets</b>		<b>8,046</b>	<b>34</b>	<b>8,080</b>	<b>7,530</b>	<b>20</b>	<b>7,550</b>
<b>Current liabilities</b>							
Borrowings		(263)	-	(263)	(334)	-	(334)
Derivative financial liabilities		(10)	-	(10)	(11)	-	(11)
Trade and other payables	J	(702)	(27)	(729)	(587)	(17)	(604)
Provisions	N	(13)	-	(13)	(10)	-	(10)
Total current liabilities		(988)	(27)	(1,015)	(942)	(17)	(959)
<b>Non-current liabilities</b>							
Borrowings		(4,403)	-	(4,403)	(4,332)	-	(4,332)
Derivative financial liabilities		(76)	-	(76)	(89)	-	(89)
Other non-current liabilities	K	(251)	-	(251)	(246)	-	(246)
Deferred tax liabilities	L	(760)	(1)	(761)	(755)	(1)	(756)
Pension obligations	M	(461)	(6)	(467)	(487)	(6)	(493)
Provisions	N	(83)	-	(83)	(10)	-	(10)
Total non-current liabilities		(6,034)	(7)	(6,041)	(5,919)	(7)	(5,926)
<b>Total liabilities</b>		<b>(7,022)</b>	<b>(34)</b>	<b>(7,056)</b>	<b>(6,861)</b>	<b>(24)</b>	<b>(6,885)</b>
<b>Net assets/(liabilities)</b>		<b>1,024</b>	<b>-</b>	<b>1,024</b>	<b>669</b>	<b>(4)</b>	<b>665</b>
<b>Total equity</b>							
<b>Total equity</b>		<b>1,024</b>	<b>-</b>	<b>1,024</b>	<b>669</b>	<b>(4)</b>	<b>665</b>

# Regulatory consolidated statements of changes in equity

for the years ended 31 March

	Total equity		
	Trans- mission business	Other activities	Total
	£m	£m	£m
At 31 March 2009	445	-	445
Total recognised income and expense for the year	362	3	365
Equity dividends	(150)	-	(150)
Share-based payments	4	-	4
Tax on share-based payments	1	-	1
Transfers	7	(7)	-
At 31 March 2010	669	(4)	665
Total recognised income and expense for the year	499	6	505
Equity dividends	(150)	-	(150)
Share-based payments	3	-	3
Tax on share-based payments	1	-	1
Transfers	2	(2)	-
<b>At 31 March 2011</b>	<b>1,024</b>	<b>-</b>	<b>1,024</b>

# Regulatory consolidated cash flow statements

for the years ended 31 March

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
Notes	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
<b>Cash flows from operating activities</b>						
Total operating profit	811	9	820	788	3	791
Adjustments for:						
Exceptional items and remeasurements	84	-	84	14	-	14
Depreciation and amortisation	264	-	264	240	-	240
Profit/(loss) on sale of tangible and intangible assets	4	(1)	3	3	-	3
Share based payment charge	3	-	3	3	-	3
Changes in working capital	(56)	(2)	(58)	43	-	43
Changes in pension obligations	(42)	(1)	(43)	(97)	(1)	(98)
Changes in provisions	(3)	-	(3)	(8)	-	(8)
Cash flows relating to exceptional items	(5)	-	(5)	-	(2)	(2)
Cash generated from operations	1,060	5	1,065	986	-	986
Tax paid	(111)	(1)	(112)	(88)	(2)	(90)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>949</b>	<b>4</b>	<b>953</b>	<b>898</b>	<b>(2)</b>	<b>896</b>
<b>Cash flows from investing activities</b>						
Purchases of intangible assets	(17)	-	(17)	(8)	-	(8)
Purchases of property, plant and equipment	(892)	-	(892)	(932)	-	(932)
Disposal of property, plant and equipment	4	1	5	2	(1)	1
Interest received	2	-	2	5	-	5
Purchases of financial investments	-	-	-	(64)	-	(64)
Disposal of financial investments	63	-	63	357	-	357
<b>Net cash flow (used in)/from investing activities</b>	<b>(840)</b>	<b>1</b>	<b>(839)</b>	<b>(640)</b>	<b>(1)</b>	<b>(641)</b>
<b>Cash flows from financing activities</b>						
Proceeds from loans received	182	-	182	34	-	34
Repayment of loans	(311)	-	(311)	(18)	-	(18)
Net movements in short-term borrowings and derivatives	25	-	25	(2)	-	(2)
Interest paid	(181)	-	(181)	(189)	-	(189)
Dividends paid	(150)	-	(150)	(150)	-	(150)
Transfers (i)	5	(5)	-	(3)	3	-
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(430)</b>	<b>(5)</b>	<b>(435)</b>	<b>(328)</b>	<b>3</b>	<b>(325)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(321)</b>	<b>-</b>	<b>(321)</b>	<b>(70)</b>	<b>-</b>	<b>(70)</b>
Cash and cash equivalents at the start of the year (ii)	313	-	313	383	-	383
<b>Net cash and cash equivalents at the end of the year (ii)</b>	<b>(8)</b>	<b>-</b>	<b>(8)</b>	<b>313</b>	<b>-</b>	<b>313</b>

(i) Transfers represent the reallocation of balances and funding between the regulated Transmission business and other activities.

(ii) Net of bank overdrafts of £8m (2010: £13m).

# Notes to the regulatory consolidated financial statements

## A. Operating costs

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
<b>Before exceptional items</b>						
Depreciation and amortisation	264	-	264	240	-	240
Payroll costs	103	9	112	90	7	97
Other operating charges:						
Rates	100	-	100	108	-	108
Balancing Service Incentive Scheme (BSIS)	581	-	581	691	-	691
Payments to Scottish transmission network owners	347	-	347	309	-	309
Other	187	55	242	197	37	234
	1,582	64	1,646	1,635	44	1,679
<b>Exceptional items</b>						
Payroll costs	5	-	5	5	-	5
Other operating charges:						
Other	79	-	79	9	-	9
	84	-	84	14	-	14
<b>After exceptional items</b>						
Depreciation and amortisation	264	-	264	240	-	240
Payroll costs	108	9	117	95	7	102
Other operating charges:						
Rates	100	-	100	108	-	108
Balancing Service Incentive Scheme (BSIS)	581	-	581	691	-	691
Payments to Scottish transmission network owners	347	-	347	309	-	309
Other	266	55	321	206	37	243
	1,666	64	1,730	1,649	44	1,693
<b>Operating costs include:</b>						
Consumption of inventories	4	-	4	5	-	5
Research expenditure	6	-	6	6	-	6
Operating lease rentals - other	7	-	7	7	-	7

### Payroll costs

Wages and salaries	125	8	133	102	6	108
Social security costs	11	1	12	11	1	12
Other pension costs	31	-	31	16	-	16
Share-based payments	3	-	3	3	-	3
Severance costs (excluding pension costs)	2	-	2	3	-	3
	172	9	181	135	7	142
Less: payroll costs capitalised	(64)	-	(64)	(40)	-	(40)
	108	9	117	95	7	102

**B. Exceptional items and remeasurements**

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
<b>Included within operating profit:</b>						
Exceptional items - restructuring costs	(15)	-	(15)	(14)	-	(14)
Exceptional items - environmental charges	(69)	-	(69)	-	-	-
<b>Total exceptional items included within operating profit</b>	<b>(84)</b>	<b>-</b>	<b>(84)</b>	<b>(14)</b>	<b>-</b>	<b>(14)</b>
<b>Included within finance costs:</b>						
Exceptional items - debt redemption costs	(11)	-	(11)	-	-	-
Remeasurements - net gains on derivative financial instruments	8	-	8	10	-	10
<b>Total exceptional items and remeasurements included within finance costs</b>	<b>(3)</b>	<b>-</b>	<b>(3)</b>	<b>10</b>	<b>-</b>	<b>10</b>
<b>Total exceptional items and remeasurements before taxation</b>	<b>(87)</b>	<b>-</b>	<b>(87)</b>	<b>(4)</b>	<b>-</b>	<b>(4)</b>
<b>Included within taxation:</b>						
<i>Exceptional credits arising on items not included in profit before tax:</i>						
Deferred tax credit arising on the reduction in UK tax rate	62	-	62	-	-	-
Tax on exceptional items	8	-	8	4	-	4
Tax on remeasurements	(3)	-	(3)	(3)	-	(3)
<b>Tax on exceptional items and remeasurements</b>	<b>67</b>	<b>-</b>	<b>67</b>	<b>1</b>	<b>-</b>	<b>1</b>
<b>Total exceptional items and remeasurements after taxation</b>	<b>(20)</b>	<b>-</b>	<b>(20)</b>	<b>(3)</b>	<b>-</b>	<b>(3)</b>
 Total exceptional items after taxation	 (25)	 -	 (25)	 (10)	 -	 (10)
Total remeasurements after taxation	5	-	5	7	-	7
<b>Total exceptional items and remeasurements after taxation</b>	<b>(20)</b>	<b>-</b>	<b>(20)</b>	<b>(3)</b>	<b>-</b>	<b>(3)</b>



**C. Finance income and costs**

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
<b>Interest income and similar income</b>						
Expected return on pension plan assets	102	1	103	73	1	74
Interest income on financial instruments:						
Bank deposits and other financial assets	2	-	2	4	-	4
Interest income and similar income	104	1	105	77	1	78
<b>Interest expense and other financial costs</b>						
Interest on pension plan obligations	(111)	(1)	(112)	(102)	(1)	(103)
Interest expense on financial liabilities held at amortised cost:						
Bank loans and overdrafts	(4)	-	(4)	(21)	-	(21)
Other borrowings	(278)	-	(278)	(161)	-	(161)
Derivatives	22	-	22	1	-	1
Less: interest capitalised	94	-	94	53	-	53
Interest expense and other finance costs before exceptional items and remeasurements	(277)	(1)	(278)	(230)	(1)	(231)
<b>Exceptional items:</b>						
Exceptional debt redemption costs	(11)	-	(11)	-	-	-
<b>Remeasurements:</b>						
Net gains/(losses) on derivative financial instruments included in remeasurements:						
Ineffectiveness on derivatives designated as fair value hedges	11	-	11	27	-	27
Ineffectiveness on derivatives designated as cash flow hedges	(2)	-	(2)	(11)	-	(11)
On derivatives not designated as hedges or ineligible for hedge accounting	(1)	-	(1)	(6)	-	(6)
	8	-	8	10	-	10
Exceptional items and remeasurements included within interest expense	(3)	-	(3)	10	-	10
Interest expense and other finance costs	(280)	(1)	(281)	(220)	(1)	(221)
<b>Net finance costs</b>	<b>(176)</b>	<b>-</b>	<b>(176)</b>	<b>(143)</b>	<b>-</b>	<b>(143)</b>

## D. Taxation

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

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
<b>Before exceptional items and remeasurements</b>						
United Kingdom						
Corporation tax at 28% (2010: 28%)	128	3	131	100	-	100
Corporation tax adjustment in respect of prior years	12	-	12	4	-	4
Total current tax	140	3	143	104	-	104
Deferred tax	74	-	74	83	1	84
Deferred tax adjustment in respect of prior years	(11)	-	(11)	(2)	(2)	(4)
Total deferred tax	63	-	63	81	(1)	80
<b>Income tax expense</b>	<b>203</b>	<b>3</b>	<b>206</b>	<b>185</b>	<b>(1)</b>	<b>184</b>
<b>Exceptional items and remeasurements</b>						
United Kingdom						
Corporation tax at 28% (2010: 28%)	(4)	-	(4)	(1)	-	(1)
Total current tax	(4)	-	(4)	(1)	-	(1)
Deferred tax	(1)	-	(1)	-	-	-
Deferred tax impact from change in UK tax rate	(62)	-	(62)	-	-	-
Total deferred tax	(63)	-	(63)	-	-	-
<b>Income tax expense</b>	<b>(67)</b>	<b>-</b>	<b>(67)</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>
<b>Total</b>						
United Kingdom						
Corporation tax at 28% (2010: 28%)	124	3	127	100	(1)	99
Corporation tax adjustment in respect of prior years	12	-	12	4	-	4
Total current tax	136	3	139	104	(1)	103
Deferred tax	73	-	73	84	-	84
Deferred tax impact from change in UK tax rate	(62)	-	(62)	-	-	-
Deferred tax adjustment in respect of prior years	(11)	-	(11)	(4)	-	(4)
Total deferred tax	-	-	-	80	-	80
<b>Total Income tax expense</b>	<b>136</b>	<b>3</b>	<b>139</b>	<b>184</b>	<b>(1)</b>	<b>183</b>

**D. Taxation (continued)****Taxation on items charged/(credited) to other comprehensive income and equity**

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
Deferred tax credit on revaluation of cash flow hedges	4	-	4	4	-	4
Deferred tax charge/ (credit) on actuarial gains/losses	1	-	1	(42)	(1)	(43)
Tax charge/(credit) recognised in consolidated statement of comprehensive income	5	-	5	(38)	(1)	(39)
Corporation tax credit on share-based payments recognised directly in equity	(1)	-	(1)	(1)	-	(1)
	4	-	4	(39)	(1)	(40)

The tax charge for the year after exceptional items and remeasurements is lower (2010: higher) than the standard rate of corporation tax in the UK of 28% (2010: 28%). The differences are explained below:

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
<b>Before exceptional items and measurements</b>						
Profit before taxation						
Before exceptional items and remeasurements	722	9	731	649	3	652
Profit before taxation from continuing operations	722	9	731	649	3	652
Profit on continuing operations multiplied by the rate of corporation tax in the UK of 28% (2010: 28%)	201	3	204	182	1	183
Effects of:						
Adjustments in respect of previous years	1	-	1	1	(2)	(1)
Expenses not deductible for tax purposes	1	-	1	2	-	2
Tax charge	203	3	206	185	(1)	184
	%	%	%	%	%	%
At the effective income tax rate	28.1	33.3	28.2	28.5	(33.3)	28.2
<b>After exceptional items and measurements</b>						
Profit before taxation						
Before exceptional items and remeasurements	722	9	731	649	3	652
Exceptional items and remeasurements	(87)	-	(87)	(4)	-	(4)
Profit before taxation from continuing operations	635	9	644	645	3	648
Profit on continuing operations multiplied by the rate of corporation tax in the UK of 28% (2010: 28%)	177	3	180	181	1	182
Effects of:						
Adjustments in respect of previous years	1	-	1	1	(2)	(1)
Expenses not deductible for tax purposes	20	-	20	2	-	2
Impact of change in UK tax rate	(62)	-	(62)	-	-	-
Tax charge	136	3	139	184	(1)	183
	%	%	%	%	%	%
At the effective income tax rate	21.4	33.3	21.6	28.5	(33.3)	28.2

**E. Intangible assets**

	Trans- mission business	Total
	Software £m	Software £m
<b>Non-current</b>		
Cost at 1 April 2009	169	169
Additions	8	8
Reclassifications	(3)	(3)
Cost at 31 March 2010	174	174
Additions	17	17
Cost at 31 March 2011	191	191
Amortisation at 1 April 2009	(120)	(120)
Amortisation charge for the year	(15)	(15)
Reclassifications	4	4
Amortisation at 31 March 2010	(131)	(131)
Amortisation charge for the year	(10)	(10)
Amortisation at 31 March 2011	(141)	(141)
<b>Net book value at 31 March 2011</b>	<b>50</b>	<b>50</b>
Net book value at 31 March 2010	43	43

**F. Property, plant and equipment**

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total Transmission business £m	Other activities Land and buildings £m	Total £m
Cost at 1 April 2009	180	7,176	1,467	84	8,907	14	8,921
Additions	14	58	941	1	1,014	-	1,014
Disposals	-	(19)	(1)	(2)	(22)	(1)	(23)
Reclassifications	18	747	(771)	9	3	-	3
Cost at 31 March 2010	212	7,962	1,636	92	9,902	13	9,915
Additions	53	83	969	4	1,109	-	1,109
Disposals	(1)	(48)	-	(3)	(52)	-	(52)
Reclassifications	57	808	(868)	3	-	-	-
Cost at 31 March 2011	321	8,805	1,737	96	10,959	13	10,972
Depreciation at 1 April 2009	(29)	(2,846)	-	(51)	(2,926)	(10)	(2,936)
Depreciation charge for the year	(4)	(212)	-	(9)	(225)	-	(225)
Disposals	-	16	-	3	19	-	19
Reclassifications	(1)	10	-	(13)	(4)	-	(4)
Depreciation at 31 March 2010	(34)	(3,032)	-	(70)	(3,136)	(10)	(3,146)
Depreciation charge for the year	(6)	(240)	-	(8)	(254)	-	(254)
Disposals	1	40	-	3	44	-	44
Reclassifications	(1)	1	-	-	-	-	-
Depreciation at 31 March 2011	(40)	(3,231)	-	(75)	(3,346)	(10)	(3,356)
<b>Net book value at 31 March 2011</b>	<b>281</b>	<b>5,574</b>	<b>1,737</b>	<b>21</b>	<b>7,613</b>	<b>3</b>	<b>7,616</b>
Net book value at 31 March 2010	178	4,930	1,636	22	6,766	3	6,769

The net book value of land and buildings comprised:

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
Freehold	224	3	227	139	1	140
Long leasehold (over 50 years)	3	-	3	3	-	3
Short leasehold (under 50 years)	54	-	54	36	2	38
	<b>281</b>	<b>3</b>	<b>284</b>	<b>178</b>	<b>3</b>	<b>181</b>

**G. Inventories**

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
Raw materials and consumables	23	5	28	28	5	33

**H. Trade and other receivables**

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
Trade receivables	10	6	16	11	2	13
Amounts owed by fellow subsidiaries	27	2	29	17	-	17
Other receivables	3	-	3	3	-	3
Prepayments and accrued income	138	18	156	118	10	128
	178	26	204	149	12	161

**I. Cash and cash equivalents**

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
Short-term deposits	-	-	-	326	-	326
<b>Cash and cash equivalents excluding bank overdrafts</b>	-	-	-	326	-	326
<b>Bank overdrafts</b>	(8)	-	(8)	(13)	-	(13)
Net cash and cash equivalents	(8)	-	(8)	313	-	313

**J. Trade and other payables**

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
Trade payables	452	16	468	352	10	362
Amounts owed to fellow subsidiaries	101	-	101	98	1	99
Social security and other taxes	43	-	43	39	-	39
Other payables	32	-	32	27	-	27
Deferred income	74	11	85	71	6	77
	702	27	729	587	17	604

**K. Other non-current liabilities**

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
Deferred income	241	-	241	234	-	234
Other payables	10	-	10	12	-	12
	251	-	251	246	-	246

## L. Deferred tax assets and liabilities

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

	Accelerated tax depreciation	Employee share options	Pensions	Financial instruments	Other net temporary differences	Total Transmission business	Other activities	Total
	£m	£m	£m	£m	£m	£m	£m	£m
<b>(Assets) and liabilities</b>								
Deferred tax assets at 31 March 2009	-	(5)	(114)	(17)	(8)	(144)	1	(143)
Deferred tax liabilities at 31 March 2009	855	-	-	-	-	855	3	858
At 1 April 2009	855	(5)	(114)	(17)	(8)	711	4	715
Charged/(credited) to income statement	57	2	20	-	3	82	(2)	80
(Credited)/charged to equity	-	-	(42)	4	-	(38)	(1)	(39)
At 31 March 2010	912	(3)	(136)	(13)	(5)	755	1	756
Deferred tax assets at 31 March 2010	-	(3)	(136)	(13)	(5)	(157)	(2)	(159)
Deferred tax liabilities at 31 March 2010	912	-	-	-	-	912	3	915
At 1 April 2010	912	(3)	(136)	(13)	(5)	755	1	756
(Credited)/charged to income statement	(12)	(2)	16	-	(2)	-	-	-
(Credited)/charged to equity	-	-	1	4	-	5	-	5
<b>At 31 March 2011</b>	<b>900</b>	<b>(5)</b>	<b>(119)</b>	<b>(9)</b>	<b>(7)</b>	<b>760</b>	<b>1</b>	<b>761</b>
Deferred tax assets at 31 March 2011	-	(5)	(119)	(9)	(7)	(140)	(2)	(142)
Deferred tax liabilities at 31 March 2011	900	-	-	-	-	900	3	903
	900	(5)	(119)	(9)	(7)	760	1	761

Deferred tax assets are all offset against deferred tax liabilities.

At the balance sheet date there were no material current deferred tax assets or liabilities (2010: £nil).

## M. Pensions

Substantially all of National Grid Electricity Transmission employees are members of the National Grid section of the Electricity Supply Pension (ESP) Scheme which is a defined benefit pension scheme or of the defined contribution section of the National Grid UK pension scheme. The fair value of plan assets and present value of defined benefit obligations in respect of the ESP scheme are updated annually. For further details of the nature and terms of this scheme and the actuarial assumptions used to value the associated assets and pension obligations, refer to note 25 to the Company consolidated financial statements.

### Amounts recognised in the consolidated income statement and statement of other comprehensive income:

	Trans- mission business	Other activities	Total	Trans- mission business	Other activities	Total
	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
<b>Included within payroll costs</b>						
Defined contribution scheme costs	3	-	3	2	-	2
<i>Defined benefit scheme costs:</i>						
Current service cost	27	-	27	13	-	13
Contributions from other employers	(3)	-	(3)	(2)	-	(2)
Curtailement gains on redundancies	(1)	-	(1)	(1)	-	(1)
Cost of contractual termination on redundancies	3	-	3	3	-	3
Other augmentation	2	-	2	1	-	1
	31	-	31	16	-	16
<b>Included within finance income and costs</b>						
Interest cost	111	1	112	102	1	103
Expected return on plan assets	(102)	(1)	(103)	(73)	(1)	(74)
	9	-	9	29	-	29
<b>Included within other comprehensive income</b>						
Actuarial loss during the year	(8)	-	(8)	(151)	(2)	(153)
Cumulative actuarial (loss)/gain	(190)	(2)	(192)	(183)	(2)	(185)

### Amounts recognised in the balance sheet

	2011 £m	2011 £m	2011 £m	2010 £m	2010 £m	2010 £m
Present value of funded obligations	(2,014)	(27)	(2,041)	(1,978)	(26)	(2,004)
Fair value of plan assets	1,577	21	1,598	1,511	20	1,531
	(437)	(6)	(443)	(467)	(6)	(473)
Present value of unfunded obligations	(24)	-	(24)	(20)	-	(20)
Net liability	(461)	(6)	(467)	(487)	(6)	(493)
<b>Changes in the present value of the defined benefit obligations (including unfunded obligations)</b>						
Opening defined benefit obligation	(1,998)	(26)	(2,024)	(1,533)	(20)	(1,553)
Current service cost	(27)	-	(27)	(13)	-	(13)
Interest cost	(111)	(1)	(112)	(102)	(1)	(103)
Actuarial gains/(losses)	9	-	9	(426)	(6)	(432)
Net increase in liabilities from redundancies	(2)	-	(2)	(3)	-	(3)
Employee contributions	(2)	-	(2)	(4)	-	(4)
Benefits paid	89	1	90	87	1	88
Net transfers	1	-	1	(3)	-	(3)
Other augmentations	2	-	2	(1)	-	(1)
Closing defined benefit obligation	(2,039)	(26)	(2,065)	(1,998)	(26)	(2,024)
<b>Changes in the fair value of plan assets</b>						
Opening fair value of plan assets	1,511	20	1,531	1,130	15	1,145
Expected return on plan assets	102	1	103	73	1	74
Actuarial (losses)/gains	(17)	-	(17)	275	4	279
Employer contributions	69	1	70	113	1	114
Employee contributions	2	-	2	4	-	4
Benefits paid	(89)	(1)	(90)	(87)	(1)	(88)
Net transfers	(1)	-	(1)	3	-	3
Closing fair value of plan assets	1,577	21	1,598	1,511	20	1,531
<b>Actual return on plan assets</b>	85	1	86	348	5	353
<b>Expected contributions to defined benefit plans in the following year</b>	25	-	25	22	-	22

**N. Provisions**

	Environmental £m	Other £m	Trans- mission business £m	Total £m
At 1 April 2009	2	16	18	18
Additions	-	7	7	7
Utilised	(1)	(4)	(5)	(5)
At 31 March 2010	1	19	20	20
Additions	73	10	83	83
Utilised	(1)	(5)	(6)	(6)
Unused amounts reversed	-	(1)	(1)	(1)
<b>At 31 March 2011</b>	<b>73</b>	<b>23</b>	<b>96</b>	<b>96</b>

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

	Trans- mission business 2011 £m	Total 2011 £m	Trans- mission business 2010 £m	Total 2010 £m
Current	13	13	10	10
Non-current	83	83	10	10
	<b>96</b>	<b>96</b>	20	20



**O. Consolidated cash flow statement****(a) Reconciliation of net cash flow to movement in net debt**

	Trans- mission business	Total	Trans- mission business	Total
	2011 £m	2011 £m	2010 £m	2010 £m
Decrease in cash and cash equivalents	(321)	(321)	(70)	(70)
Decrease in financial investments	(63)	(63)	(293)	(293)
Decrease/(increase) in borrowings and derivatives	104	104	(14)	(14)
Net interest paid on the components of net debt	179	179	184	184
Change in net debt resulting from cash flows	(101)	(101)	(193)	(193)
Changes in fair value of financial assets and liabilities	22	22	24	24
Net interest charge on the components of net debt	(269)	(269)	(177)	(177)
Movement in net debt (net of related derivative financial instruments) in the year	(348)	(348)	(346)	(346)
Net debt (net of related derivative financial instruments) at start of year	(4,222)	(4,222)	(3,876)	(3,876)
Net debt (net of related derivative financial instruments) at end of year	(4,570)	(4,570)	(4,222)	(4,222)

**(b) Analysis of changes in net debt - Transmission business and Total**

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Trans- mission business and Total £m
At 1 April 2009	387	(4)	383	360	(4,708)	89	(3,876)
Cash flow	(61)	(9)	(70)	(297)	196	(22)	(193)
Fair value gains and losses	-	-	-	-	41	(17)	24
Interest charges	-	-	-	4	(182)	1	(177)
At 31 March 2010	326	(13)	313	67	(4,653)	51	(4,222)
Cash flow	(326)	5	(321)	(65)	303	(18)	(101)
Fair value gains and losses	-	-	-	-	(15)	37	22
Interest charges	-	-	-	2	(293)	22	(269)
<b>At 31 March 2011</b>	<b>-</b>	<b>(8)</b>	<b>(8)</b>	<b>4</b>	<b>(4,658)</b>	<b>92</b>	<b>(4,570)</b>
<b>Balances at 31 March 2011:</b>							
Non-current assets	-	-	-	-	-	158	158
Current assets	-	-	-	4	-	20	24
Current liabilities	-	(8)	(8)	-	(255)	(10)	(273)
Non-current liabilities	-	-	-	-	(4,403)	(76)	(4,479)
<b>At 31 March 2011</b>	<b>-</b>	<b>(8)</b>	<b>(8)</b>	<b>4</b>	<b>(4,658)</b>	<b>92</b>	<b>(4,570)</b>

# Notes to the regulatory consolidated financial statements - supplementary information

## P. Commitments and contingencies

### (a) Future capital expenditure

	Trans- mission business	Total	Trans- mission business	Total
	2011 £m	2011 £m	2010 £m	2010 £m
Contracted for but not provided	968	968	921	921

### (b) Lease commitments

	Trans- mission business	Total	Trans- mission business	Total
	2011 £m	2011 £m	2010 £m	2010 £m
Amounts due:				
Less than 1 year	11	11	10	10
In 1 - 2 years	7	7	7	7
In 2 - 3 years	5	5	5	5
In 3 - 4 years	5	5	5	5
In 4 - 5 years	5	5	5	5
More than 5 years	25	25	31	31
	58	58	63	63

## **Appendix 2 - Unpublished information - Analysis of Charges and apportionments**

*In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 2 does not form part of the published regulatory accounting statements.*

***In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 2 does not form part of the published regulatory accounting statements.***

## **Appendix 3 - Analysis of regulatory Transmission business by Transmission Owner (TO) and System Operator (SO) activities**

The extra-licence information in this appendix is provided for the use of Ofgem only and is not published. It should be read in conjunction with the rest of the regulatory accounting statements.

*In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 3 does not form part of the published regulatory accounting statements.*

## Regulatory Transmission Income statements

*In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 3 does not form part of the published regulatory accounting statements.*

## Regulatory Transmission Balance sheets

*In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 3 does not form part of the published regulatory accounting statements.*

## Regulatory Transmission Cash flow statements

*In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 3 does not form part of the published regulatory accounting statements.*



## Notes to the Regulatory Transmission financial statements

*In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 3 does not form part of the published regulatory accounting statements.*

***In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 3 does not form part of the published regulatory accounting statements.***

# Glossary and definitions

References to the 'Company' and the use of the abbreviation 'NGET' refer to National Grid Electricity Transmission plc and its subsidiaries collectively, depending on context.

References to the Transmission business refer to the regulated business as defined by the Electricity Transmission Licence.

References to the Electricity Transmission Licence refer to the licence granted under the Electricity Act 1989

## Other definitions

### BSIS

The Balancing Services Incentive Scheme, an incentive arrangement applicable to our electricity transmission arrangements.

### GAAP

Generally accepted accounting principles.

### GW

Gigawatt,  $10^9$  watts.

### GWh

Gigawatt hours.

### HSE

Health and Safety Executive.

### IAS

International Accounting Standard.

### IFRIC

The International Financial Reporting Interpretations Committee, which provides guidance on how to apply accounting standards.

### IFRS

International Financial Reporting Standard.

### KPI

Key Performance Indicator.

### Lost time injury

A work-related injury which causes a person to be away from work for at least one normal shift after the shift on which the injury occurs, because the person is unfit to perform his or her duties.

### National Grid

National Grid plc, the ultimate parent company of National Grid Electricity Transmission plc and its controlling party.

### Ofgem

The Office of Gas and Electricity Markets.

### tonnes CO<sub>2</sub> equivalent

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

### TW

Terawatt,  $10^{12}$  watts.

### TWh

Terawatt hours.

