National Grid Electricity Transmission plc
Regulatory accounting statements 2009/10

Company Number 2366977

Contents

Note on use of terms and abbreviations

Within these accounts, National Grid Electricity Transmission plc is referred to by the abbreviation 'NGET', and National Grid plc, its ultimate parent company, by the abbreviation 'National Grid'. References to NGET, 'the Company', 'we', 'our', and 'us' refer to National Grid Electricity Transmission plc itself, or National Grid Electricity Transmission plc and its subsidiaries collectively, as the context requires. A full glossary of terms used is included on page 98.

About these regulatory accounting statements

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

Format and content of the regulatory accounts

These regulatory accounting statements comprise extracts from the statutory accounts of NGET amended as appropriate to be suitable and relevant for the regulatory accounts, together with further information in the form of appendices.

The extracts comprise the Operating and Financial Review (OFR), the Consolidated Primary statements and Notes to the accounts, and versions of the Directors' report, Statement of Directors' responsibilities and Accounting policies.

The principal amendments are as follows:

- The Directors' report - amended to make clear that it is not a Directors' report within the meaning of the Companies Acts
- The Statement of Directors' responsibilities - amended to take account of the difference in responsibilities in respect of Regulatory accounts
- Accounting policies - amended to take account of accounting policies specific to Regulatory accounts, mainly that relating to Basis of preparation of regulatory accounting statements on page 28.
- Consequential changes in titles and referencing

The Consolidated Primary statements and Notes to the accounts to be found on pages 36 to 67 relate to NGET as a whole and are further analysed by regulatory business in Appendix 3.

The Operating and Financial Review (OFR) to be found on pages 1 to 23 relates to the activities of NGET as a whole and contains information relevant to the regulatory business carried on by NGET.

The appendices provide further information by regulatory business and comprise:

- A corporate governance report
- Additional information to supplement certain tables in the OFR by providing information for the regulatory business
- Analysis of the financial statements by regulatory business as referred to above
- Analysis of charges and apportionments

Definition of regulatory businesses and scope of regulatory accounting statements

The regulatory business reported on in these regulatory accounting statements is the Transmission business as defined in the licence under which they are prepared. This business differs in some respects from the Transmission business as reported on in the statutory accounts of NGET.

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 NGET for the year ended 31 March 2010, 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 NGET statutory accounts is addressed to, and for the benefit of, the members of NGET 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 NGET, 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.

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 NGET which are not specifically attributable to the Transmission business. Further details of these items are provided under Basis of preparation on page 28.

Operating and Financial Review

Operating and Financial Review contents

This Operating and Financial Review describes the main trends and factors underlying the development, performance and position of National Grid Electricity Transmission plc (NGET) during the year ended 31 March 2010 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.

Principal operations

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

The performance of the principal businesses is reported by segment, reflecting the management responsibilities and economic characteristics of each activity. The principal businesses and segments, together with other activities, are as follows:

Businesses and segments	Description of principal activities
Electricity Transmission	The transmission of electricity in the UK as owner and operator of the high-voltage electricity transmission network in England and Wales and operator of the electricity transmission networks in Scotland.
Other activities	Other activities do not constitute a segment in their own right, but comprise non-regulated activities and corporate activities.

Electricity Transmission
The Electricity Transmission business comprises the following principal activities:

Electricity transmission owner
NGET owns the electricity transmission system in England and Wales. NGET's electricity assets comprise a route length of over 7,200 kilometres of overhead line mainly consisting of double circuits, some 713 kilometres of underground cable and 338 substations at 242 sites. As electricity transmission owner, NGET owns and maintains the physical assets, develops the network to accommodate new connections and disconnections, and manages a programme of asset replacement and investment to ensure the long-term reliability of the network.

Electricity system operator
NGET is the Great Britain System Operator, responsible for managing the operations of both the England and Wales transmission system owned by NGET and also the two high-voltage electricity transmission networks in Scotland. Day-to-day operation of the Great Britain electricity transmission 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. NGET is also designated as the System Operator for the new offshore electricity transmission regime.

As electricity system operator, NGET undertakes a range of activities necessary for the successful, efficient, delivery of secure and reliable energy. This involves the continuous real-time balancing of supply and demand, and management of balancing services including commercial arrangements with market participants that enable electricity demand or generation output to be varied.

Organisation and structure

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

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

The Electricity Transmission business of NGET forms part of the global Transmission business of National Grid.

The overall management and governance of NGET 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 NGET's Electricity Transmission business is carried on by the Transmission

Executive Committee. This committee is chaired by Nick Winser, who is a Director of NGET, and who also sits on the Board and Executive Committee of National Grid and is the National Grid Executive Director responsible for the global Transmission business.

Certain activities, including safety, employee engagement and climate change, are reported on a line of business level rather than at company level. As a result, KPIs and objectives may be measured and monitored for the Transmission business rather than for NGET. This is discussed further under 'Vision, strategy and objectives' on page 6 and 'Performance against objectives' on page 9.

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

More information on the business activities, organisation, structure, management and governance of National Grid can be found in the National Grid Annual Report and Accounts 2009/10 and on National Grid's website at www.nationalgrid.com. See note 29 on page 67 for further details of where these reports can be obtained.

External market

Markets in which NGET operates

The principal market in which NGET operates is the electricity market in Great Britain.

The supply of electricity in the UK is competitive in that consumers can choose their electricity supplier. Those suppliers are then responsible for sourcing electricity from generators or importers as appropriate, as well as arranging for the electricity to be delivered through physical delivery networks. These networks, including the ones NGET operates, are generally monopolies in their local areas because, for the majority of consumers, there are no alternative methods of receiving electricity.

Electricity delivery in the UK

Electricity is transported through electricity transmission networks to regional electricity distribution networks that then deliver electricity to consumers on behalf of suppliers. Certain end users, primarily large industrial consumers, receive electricity directly from the transmission network rather than through a distribution network.

NGET is the owner and operator of the high-voltage electricity transmission network in England and Wales, and the operator, but not owner, of the two electricity transmission networks in Scotland. We charge electricity suppliers and electricity generators for our services. There are 14 electricity distribution networks in the UK, owned by 7 companies. Two companies each own an electricity transmission network in Scotland, which is operated by NGET in both cases.

The ownership of these networks that NGET does not own is set out in the table below.

Network	Owner (and parent where relevant)
Electricity distribution networks in Great Britain (non National Grid)	
West Midlands East Midlands	Central Networks (E.ON)
North West	Electricity North West
North East Yorkshire	CE Electric UK (Berkshire Hathaway)
South Wales South West England	Western Power Distribution
London South East England East of England	EDF Energy Networks (Electricité de France)
Central and Southern Scotland Cheshire, Merseyside and North Wales	Scottish Power (Iberdrola)
Northern Scotland Central Southern England	Scottish and Southern Energy
Electricity transmission networks in Scotland (non National Grid)	
Northern Scotland	Scottish and Southern Energy
Southern Scotland	Scottish Power (Iberdrola)

Current and future developments

Market structure and ownership

There have been no significant changes in the structure of the UK electricity infrastructure market or in ownership during 2009/10.

Energy market developments

The energy market continues to undergo developments driven by new sources of electricity generation, including renewables, and an increased focus on security of supply.

The energy sector faces challenges relating to meeting the UK Government's targets on renewable generation, and the retirement of significant parts of the current generation capacity.

In November 2009, the Department of Energy and Climate Change (DECC) issued a consultation document on reforming the planning consent system for nationally significant energy infrastructure projects. The consultation period closed in February 2010 and the outcome is expected to be finalised later in 2010.

In January 2010, The Crown Estate announced the successful bidders for each of the nine Round 3 offshore wind zones within UK waters. These zones have the potential to deliver up to 32 GW of renewable offshore wind generation.

Following the UK government's support for new nuclear generation announced in January 2008, the Health and Safety Executive is currently assessing generic designs. This assessment is expected to be completed in June 2011, and consideration of specific designs can then begin. The first new nuclear generation is currently expected to be operational by 2017.

These changes are expected to have an impact on our electricity networks and will require significant investment in our electricity transmission network to link the new generation plant with domestic, business and industrial consumers.

More information on the external market can be found in the National Grid Annual Report and Accounts 2009/10 or on National Grid's website at www.nationalgrid.com.

Regulatory environment

Due to NGET's position in, and importance to the UK economy, NGET's electricity transmission business is subject to UK and European Union laws and regulations.

The Company is the sole holder of an electricity transmission licence for England and Wales. This licence also covers our role as system operator for the transmission networks in Great Britain. Under the Electricity Act 1989 we have a duty to develop and maintain an efficient, coordinated and economical system of electricity transmission and to facilitate competition in the supply and generation of electricity.

NGET is regulated by the Office of Gas and Electricity Markets (Ofgem). Ofgem operates under the direction and governance of the Gas and Electricity Markets Authority and has established price control mechanisms that restrict the amount of revenue that can be earned by regulated businesses.

There are two price controls for our electricity transmission business, one covering our business as transmission owner and the other for our role as system operator. The revenue that we can earn from charging for access to transmission system is determined by formulas linked to the UK Retail Prices Index (RPI). These formulas are based upon Ofgem's estimates of operating expenditure, capital expenditure and asset replacement, together with an allowed rate of return on capital invested in the business, as measured by the regulatory asset value. They provide a financial incentive to operate and invest efficiently and also provide incentives by which we can gain or lose for our performance in managing system operation, in controlling internal costs, and for our service quality.

Our price controls are typically reviewed every five years and the current price control for electricity transmission activities as network owner covers the period 1 April 2007 to 31 March 2012. In December 2009, Ofgem announced that they intend to delay the implementation of the next control by one year to 2013; as a result the current control will need to be extended.

We accepted Ofgem's final proposal for the system operator scheme that applied to the year ended 31 March 2010 for electricity transmission. We also accepted their proposal for the one year scheme from 1 April 2010.

The key elements of the current price control for electricity transmission are that we earn a 4.4% post-tax real rate of return on our regulatory asset value (equivalent to a 5.05% vanilla return), with a £3.5 billion baseline five year capital expenditure allowance and a £0.9 billion five year controllable operating expenditure allowance.

In addition, we are subject to a number of incentives that can adjust the transmission network revenue. For electricity transmission these include incentives for transmission network reliability, sulphur hexafluoride (SF_6) losses, efficiency and balancing services.

Other regulation

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

In addition, as a public company with securities listed on the London Stock Exchange, NGET is subject to regulation by the UK Financial Services Authority and by the exchange.

Energy policy, regulatory and other developments

UK and European energy policy

In May 2007 the UK government published a white paper entitled Meeting the Energy Challenge. This document set out the government's strategy to address the issues of climate change and the UK's increasing reliance on imported fuel. The strategy includes: carbon dioxide (CO_2) emission reductions of about 60% by 2050; security of supply; competition in energy markets in the UK and overseas; and adequate and affordable heating for every home.

In November 2008, the government enacted the Climate Change Act, making the UK the first country in the world to have a legally binding long-term framework to cut carbon emissions. The Act provided for targets for reductions in greenhouse gases of 80% by 2050, against a 1990 baseline. It also established a series of five year carbon budgets, and set up a Committee on Climate Change as an expert body to advise the government on those carbon budgets and to advise on the balance between actions to be taken at the domestic, European and international levels. In addition, in his 2009 Budget the then Chancellor Alistair Darling also promised to cut greenhouse gases by 34% by 2020 through the carbon budget provisions previously envisaged in the Act.

In 2009, the Department of Energy and Climate Change issued the UK Low Carbon Transition Plan, setting out plans to meet the 34% cut in emissions by 2020, including measures such as home energy efficiency and smart meters, and a target of 40% of the UK's electricity to be derived from low carbon sources, including nuclear, by 2020.

In December 2008, the European Union approved a number of environmental proposals. Legally binding national targets have been established that dictate the proportion of energy production to be provided from renewable sources by 2020. For the UK the target is 15%. In order to achieve this, it is believed the proportion of electricity generated by renewable sources will need to rise to around 35%.

Regulatory developments

During the year ended 31 March 2010, there were no significant legislative changes in the UK relating to utility regulation.

In March 2008, Ofgem announced a review of the current RPI-X based regulatory framework. The RPI-X@20 review is an assessment of the current regulatory regime and its ability to address the challenges facing energy networks in the future. Ofgem's intention is for the output from this project to feed into future price controls. To allow the output of RPI-X@20 to be fully incorporated into the next full transmission price control review, the current transmission price controls will be rolled over and extended by one year to March 2013. The outcome of RPI-X@20 is unlikely to impact our current regulatory settlements, but is expected to influence future price controls from 2013.

In early 2009, Ofgem launched Project Discovery, an examination of the prospects for secure and sustainable energy supplies over the next 10 to 15 years. We will continue to work with Ofgem as they consult on their range of options.

The European Commission's third legislative package of energy proposals for the European gas and electricity markets was passed in July 2009 and must now be implemented in UK domestic legislation by April 2011. The new legislation consists of two directives on rules for the internal gas and electricity markets, two regulations on conditions for access to those markets, and a regulation establishing an Agency for the Cooperation of Energy Regulators. The original legislation, published in September 2007, contained measures to force energy companies to unbundle their transmission businesses from supply and generation activities. The final proposals include alternatives to full unbundling. The legislative processes are expected to complete by the end of 2010. Key features of the new proposed regulation include improving information flows and coordination of actions in an emergency.

Price controls

The price controls for the UK electricity transmission business were due to be reviewed during 2010 and 2011 but they have been delayed by a year and are now expected to be implemented in April 2013.

We were subject to one year system operator price controls for our electricity transmission operations for 2009/10, and new one year controls have been agreed for 2010/11.

Other developments

Security of supply and climate change

We are focused on the long-term security of supply and environmental challenges arising from the transition to a low carbon economy. We are working with UK electricity generators and Ofgem to ensure that the connection of renewable generation to the transmission network can be facilitated quickly and within our current licensing framework. We are also working with governmental and regulatory bodies to ensure we help facilitate the implementation of the new climate change initiatives and policy being developed around integrating increasing amounts of renewable energy.

Connection of renewable generation

The price controls contain allowances for transmission reinforcement works to accommodate the growing impact of renewable energy from Scotland.

Network access is being sought by just under 100 renewable generation projects in Scotland totalling approximately 9.5 GW, each with connection agreements with National Grid. The need for anticipatory investment is underpinned by continuing large amounts of activity in the generation market. At our latest connections update, as of 1 April, agreements have been signed for the connection of 71.8 GW of generation, connecting across the period 2010 to 2025. This generation is mainly combined cycle gas turbines, offshore wind and nuclear, but also includes onshore wind, clean coal and waste/biomass plant. In addition to demonstrating the requirements for the Electricity Networks Strategy Group reinforcements, these generation connections drive further increases in our load related investment requirements. We have continued to work closely with the Scottish transmission companies to find innovative solutions to advancing new generation projects in Scotland. We have introduced measures to allow generators who are ready and able to connect to do so before wider reinforcement works. On 8 May 2009, Ofgem confirmed that they will agree derogations from the GB Security and Quality Standards of Supply to advance the connection of 450 MW of Scottish renewable generation.

We continue to develop a strategic plan for our networks up to 2050, recognising the unique role they play in meeting the UK's climate change objectives. In respect of electricity transmission, our plan is consistent with meeting the UK's 2020 renewables target and remaining on track to meet the 2050 greenhouse gas reduction target. Comprising mainly onshore infrastructure investment, this plan has been shared with, and is supported by, the multi agency Electricity Networks Strategy Group. This plan will facilitate the connection of up to 34 GW of new renewable wind generation. These new connections will occur alongside an increasing replacement of the ageing generation fleet.

National Grid plc rights issue

On 20 May 2010, the Board of National Grid plc announced a fully underwritten rights issue to raise approximately £3.2 billion, net of expenses. The issue closed on 11 June 2010. The proceeds are expected to be used to fund a portion of National Grid plc's capital investment programme and for general corporate purposes.

External relationships

We aim to enhance our relationships with all our external stakeholders including investors, customers, regulators, governments, suppliers and the communities we serve.

Responsibility

Our reputation depends on the trust and confidence of our stakeholders. We will only earn this 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, in which NGET participates, first published in 2002, has been extensively revised this year to provide a clearer line of sight from National Grid's vision to how we manage our business and our day-to-day dealings with our stakeholders. Our company-wide policies and position statements, available on National Grid's website, underpin the Framework.

National Grid's Standards of Ethical Business Conduct provide a common set of practical guidelines to help ensure that our behaviours are lawful, comply with our policies and licences, and follow the values set out in the Framework and our core values. We undertake online training for employees annually to ensure they understand the Standards.

More information on National Grid's approach to corporate responsibility and business ethics is included in the Corporate Governance section of the National Grid plc Annual Report and Accounts 2009/10.

Investors

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

Customers

We aim to treat customers with respect, to communicate clearly with them, and to make their interactions with us as straightforward as possible. We aim at all times to provide a safe, reliable and efficient service to our customers. We have a very wide range of customers, including: electricity generators; new developers from nuclear to wind, wave and tidal power; local distribution companies; and industrial, commercial and domestic consumers.

In 2009, we sought feedback from our transmission customers to understand what it was like to do business with us. They told us in a lot of cases we perform well and are knowledgeable about the industry. However, in a number of cases we let them down by our actions – including not communicating effectively and not being accessible. Using the data we gathered, a programme for 2010 has been developed to drive change in our customer focus. The programme sets out clear commitments to our customers, is driven and supported by senior management, and provides accountability and ownership for our employees.

A customer focused Transmission business will ensure we can be flexible in meeting the challenges of our changing customer base. It will allow us to respond proactively to customer requirements by meeting requests wherever we can. In cases where the regulatory frameworks prevent us from doing so, we will explain clearly the reasons and will work with the industry to adapt the frameworks for the future.

We recognise the difficulties the current state of the economy has caused many of our customers. We understand we have an obligation to balance the payment needs of our customers with our financial responsibility to our shareholders, our regulatory commissions and our remaining customer base. To help balance these needs, we have been implementing a comprehensive bad debt mitigation strategy which includes focusing on early intervention and customer risk segmentation allowing us to better match appropriate collection strategies to individual customers.

Regulator

Our regulator is Ofgem which is concerned with ensuring we can and do provide a safe, reliable and efficient service to our customers. Our ability to deliver that service, and to deliver returns to our investors, depends on our relationship with the regulator. Our focus on customer service and operational excellence is a critical component of our relationship with our regulator, underpinning the building of trust. This involves being responsive to the needs of our regulators for high quality information, complying with rules and regulations, operating in an ethical way, responding constructively to consultations and, most importantly, delivering on our promises. We continue to work very closely with Ofgem on the renewal of our electricity transmission network, and in expanding those networks to meet new and changing demand.

Suppliers

We aim to work in partnership with our suppliers, developing constructive relationships and working together effectively. Our objective is to develop contractual arrangements with our suppliers that align their interests with our own as far as possible and share financial risks appropriately.

Considering the environmental impact as part of our procurement decision making is key to developing our leadership position on climate change issues. We are developing a strategy to measure and reduce our supply chain carbon emissions.

Community involvement

We continue to participate in National Grid's community involvement programmes, details of which can be found in the National Grid plc Annual Report and Accounts 2009/10.

Vision, strategy and objectives

As described under 'Organisation and structure' on page 1, National Grid's businesses are managed on a global lines of business basis. As a subsidiary company of National Grid plc, therefore, NGET participates in the National Grid vision and strategy. The following section describes National Grid's vision and strategy to the extent that it relates to NGET. Further details and discussion of the strategy and objectives of National Grid can be found in the Annual Report 2009/10.

Vision

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

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

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

Strategy

Our strategy is a medium term step in the journey towards the vision – what we are doing over the next few years. It is also the over arching principle that provides commercial context to each of the objectives. We will build on our core regulated business base and financial discipline to deliver sustainable growth and superior financial performance.

Objectives

The objectives are the building blocks of the strategy and are fundamental to our business - what we are doing now.

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

Line of sight

Line of sight links the vision, strategy and National Grid objectives to all our employees' individual objectives – how what each of us does contributes to the success of National Grid.

Our vision, strategy and Company objectives are the foundation of the annual priorities of each line of business and function.

These annual priorities form the basis of the objectives of the Executive Directors and senior managers, and then flow down the organisation to the individual objectives of every manager and employee. Consequently, the actions required to deliver the strategy are allocated and aligned with employee responsibilities.

Our aim is that every employee is able to trace their objectives through to the National Grid's objectives, strategy and vision.

Delivering the future through our strategy

We will seek to grow through replacing and expanding our networks and investing in other organic growth opportunities relating to climate change and security of supply. In developing the future UK and EU policy and regulatory framework, we will actively influence the energy policy agenda and endeavour to position ourselves as the go-to company for current and new governments both with regard to expert opinion on matters relating to UK energy policy and climate change, and as the company of choice for delivering large energy infrastructure projects. We will look to ensure that future 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 rates of return.

Transmission UK strategy – investment led organic growth by:

Delivering a step change in asset replacement of our transmission infrastructure
Delivering major new infrastructure investment to facilitate low carbon targets in the UK

Values

This year we are emphasising the link between the line of sight and our values. It is important that we judge our achievements not just on what is delivered but also on how it is done. Our core values are: respect others and value their diversity; take ownership for driving performance; demonstrate integrity and openness in all relationships, and work as one team, one National Grid.

Responsibility

National Grid's vision, strategy and objectives are underpinned by its commitment to corporate responsibility. National Grid will operate to the highest standards of corporate governance and conduct its business in an ethical and sustainable manner.

Business drivers, 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 regulator 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, efficiency and reliability
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. The quality of our customer service feeds through to the attitudes of the regulator and is also linked to our financial performance. 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.

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. The principal risks are described here. For more details on risks, see pages 19 to 21.

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, for example in our participation in RPI-X@20. 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 operating profits and cash flows 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
Transforming the way we operate by simplifying and standardising our systems and processes will drive efficiency and reduce costs. Transforming our operating model will enable us to deliver increased value to shareholders. Conversely, if we do not achieve this transformation, or associated 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 to reshape energy markets to address climate issues, and helping our employees, customers and suppliers to change their behaviour to be more environmentally responsible.

Key performance indicators (KPIs)

Our performance and the progress we have made 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 objectives; the relationships between the objectives and the KPIs is explained below. Details of other performance measures are included under Performance against objectives on page 9.

Objective	KPI/performance measure	Description and performance	Target
Financial KPIs			
Delivering superior financial performance	Adjusted operating profit	Operating profit excluding exceptional items and remeasurements **2009/10: £805 million** 2008/09: £729 million	Year-on-year increase
Delivering strong sustainable regulatory contracts with good returns	Operational return	Electricity Transmission operational return against the target set by the regulator for the 5 year price control period **2009/10: 6.6%** 2008/09: 4.7%	Achieve or exceed regulatory allowed return over 5 year price control period of 5.05%
Non-financial KPIs			
Driving improvements in safety, customer and operational performance	Employee lost time injury frequency rate	Injuries resulting in employees taking time off work per 100,000 hours worked on a 12 month basis **2009/10: 0.18** 2008/09: 0.10	Zero
Modernising and extending our transmission networks	Network reliability	Reliability of Electricity Transmission network as a percentage against the target set by our regulator **2009/10: 99.9999%** 2008/09: 99.9999%	99.9999%
Building transparency, trust and an inclusive and engaged workforce	Employee engagement score	Employee engagement index calculated using responses to National Grid's annual employee survey Transmission business **2009/10: 77%** 2008/09: 82%	Year-on-year increase
Positively shaping the energy and climate change agenda	Greenhouse gas emissions	Percentage reduction in greenhouse gas emissions against 1990 baseline Year-on-year reduction % **2009/10: 3%** 2008/09: 13%	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.

Performance measures and strategy

National Grid's strategy is stated on page 6. NGET's performance in implementing the key elements of the strategy is measured in the following ways.

Efficiency and reliability

We invest in our existing business in order to improve efficiency and reliability. The KPI in this area is network reliability (see previous page) and other performance measures include capital investment (see page 10).

Financial discipline

We seek to control operating costs, and to invest capital only where we expect to be able to obtain an acceptable return. Our KPI in this area is operational returns (see previous page).

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.

Sustainable Growth

Our KPIs in this area, as shown on page 8, are employee lost time injury frequency rate, employee engagement and greenhouse gas emissions. Other performance measures include; measures of gender and ethnic mix, the number of significant direct environmental incidents and value of environmental fines, together with our participation in bodies such as the RPI-X@20 advisory panel.

Financial performance

Our aim is to increase adjusted operating profit each year. Adjusted operating profit for 2009/10 was £805 million compared to £729 million in 2008/09, an increase of £76 million. Adjusted operating profit excludes exceptional items and remeasurements.

A more detailed analysis of financial performance is provided on page 12.

Driving improvements in safety, customer and operational performance

We aim for operational excellence by performing to the highest standards of safety and reliability and by improving customer service.

Safety

Safety is critical both to business performance and to helping to define the culture of NGET for our employees.

We recognise that our operations potentially give rise to risk and believe we can eliminate or minimise those risks to achieve zero injuries or harm and to safeguard members of the public. NGET believes that everyone, collectively and individually, has a part to play in achieving that aim.

Employee safety

We report 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.

During 2009/10 there were 8 lost time injuries compared with 4 in 2008/09. The lost time injury frequency rate was 0.18 in 2009/10 compared with 0.10 in 2008/09. Definitions for lost time injury and lost time injury frequency rate are included in the glossary on page 77.

The principal causes of lost time injuries are road traffic collisions, musculoskeletal injuries and slips trips and falls. National Grid has implemented targeted programmes during the year to change behaviours in these areas and drive performance improvements.

Contractor safety

We believe everyone who works for National Grid is entitled to high levels of safety, whether they are a direct employee or employed by one of our contract partners. In 2009/10, there were 30 contractor lost time injuries compared with 36 in 2008/09. 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.

Public safety

The safety of the public in the communities we serve is of prime importance to us. During 2009/10, no member of the public was injured as a result of our operations compared with 2 during 2008/09 and a target of zero.

Process safety

Operating major hazard sites and pipelines means managing process safety risks is always a prime consideration in the way we run our business. We aspire to be an industry leader in this area.

Process safety incidents are relatively rare and often have catastrophic consequences. As such, counting the number of incidents is not a good indicator of performance.

During 2009/10, National Grid have continued to develop and report comprehensive leading and lagging indicators to measure that we have process safety risks under control.

Employee health

Over the year, sickness absence rate decreased to 1.32% compared with 1.45% in 2008/09. The gathering and structuring of absence data has improved to provide more accuracy and detail. This helps inform National Grid's health and wellbeing programmes. This year, all National Grid employees have had an opportunity to engage with health and wellbeing programmes. Further information can be found in the National Grid plc Annual Report and Accounts 2009/10.

Reliability

NGET's principal operations are critical to the functioning of the UK economy. The reliability of our transmission networks is one of our highest priorities after safety.

Our approach to maintaining and improving reliability involves: investing in infrastructure and systems to provide the operational tools and techniques necessary to manage our assets and operations to high standards and investing in the renewal of assets; investing in the skills and capabilities of our people to give them the ability to operate our networks to a high degree of service excellence; and maintaining a constant focus on reliability as one of our principal objectives, ensuring we are proactive about planning and that we react quickly to factors that could compromise reliability.

The total amount of electricity transmitted in 2009/10 was 286 TWh compared with 296 TWh for 2008/09. The winter of 2009/10 saw demand from the electricity transmission network in England and Wales hit a peak of 52.7 GW. This compares with 52.9 GW in 2008/09.

The KPI on network reliability is on page 8.

Customer service

We aim to impress our customers with the quality of the services we provide, with our responsiveness when things go wrong and with our dedication to continued improvement.

Delivering strong, sustainable regulatory contracts with good regulatory returns

We will work with Ofgem and the UK government to develop the changes that are required to address climate change and security of supply in a way that is affordable for consumers and ensures timely delivery while also ensuring adequate returns for our investors.

Significant levels of investment over the next few years mean that it is vital that we optimise our regulatory returns and ensure we are appropriately compensated for our investments.

The overall regulatory framework, and the price controls which form part of this framework, provide the environment that enables us to be confident that where we act efficiently and economically and in the consumers' interest then we will receive appropriate returns.

We are actively participating in Ofgem's review of the current RPI–X based regulatory framework, which is discussed on page 3. In addition to our responses to the various consultation documents, we are also participating in the four industry working groups that Ofgem have established: innovation, investment, financing, and consumers. Ofgem anticipate that the outcome of the project will be published toward the end of 2010. It will not have any impact on the present price control, other than necessitating a one year adapted rollover of the existing price control, but it is expected that its conclusions will feed through into the review for the price control commencing April 2013.

Our aim is to meet or exceed the base financial returns in our price controls. The performance measure we use to monitor return on investment is the vanilla return. We measure the financial performance of our regulated business using an operational return metric comparable to the vanilla return defined in the UK price controls from 1 April 2007. In the electricity transmission operations we achieved a 6.6% operational return in 2009/10 (2008/09: 4.7%), ahead of regulatory assumptions.

Modernising and extending the transmission network

We aim to invest the amount required to maintain a safe and reliable system, and to accommodate new patterns of supply and demand. Capital investment is one of the principal drivers to future growth.

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

Our capital investment plans reflect changing energy infrastructure requirements. Our capital investment programme in our regulated business usually takes place within defined regulatory frameworks that permit us to earn a return on allowed investments.

Works to upgrade the two double circuits connecting Scotland and England are under way and due for completion in 2010 at a total cost of around £110 million. Further works are being carried out to increase the capability of the transmission system in the northeast and northwest of England so that increased transfers from Scotland can be transported to demand centres in England and Wales. The further works will be completed in 2011 at a total cost of around £230 million.

Investment in electricity transmission systems is, by its nature, variable and is largely driven by changing sources of supply and asset replacement requirements. The electricity transmission licences oblige us to provide connections and capacity upon request.

We have increased our level of investment as we replace parts of our UK electricity network as the assets reach the end of their useful lives. This, together with work required to meet changing supply sources, means that the electricity transmission business will continue to see a significant increase in investment and network renewal.

Capital investment in the replacement, reinforcement and extension of the electricity transmission systems in 2009/10 was £1,022 million, compared with £864 million in 2008/09. This mainly related to electricity transmission investment including

Thames Estuary reinforcement, the London cable tunnels project and transmission investment to facilitate connection of renewable generation. Capital investment included £8 million with respect to intangible assets, principally software applications (2008/09: £9 million).

We have identified significant capital requirements over the medium term. These requirements are primarily driven by the need to replace ageing infrastructure, reinforce the network to accommodate changing sources of supply and connect new generation, including renewables.

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

We aim to work as one company, operating to National Grid's common core principles, standards and policies to deliver its vision.

In Transmission, our common operating model project is developing a plan to prepare us for the challenges and opportunities between now and 2020.

Business process outsourcing

National Grid announced on 8 October 2009 that, following an extensive review, it proposed to outsource some of the UK shared services activities to an external service provider. The outsourcing is expected to deliver significant benefits, process efficiencies and continuous improvement over a five year period. It will result in a reduction of around 300 agency and permanent positions and the closure of the Newcastle site. The phased transfer of activities has begun and is expected to continue throughout 2010.

Across National Grid operations, there are global functions, such as information systems and procurement which provide a common strategy, policy and key processes to drive consistency, efficiency and effectiveness. Further information can be found in the National Grid plc Annual Report and Accounts 2009/10.

Much of the focus for Transmission has been on preparing for the significant increase in capital investment that is expected in future years, including developing the longer term investment plan.

We have continued to focus on incremental efficiencies and are committed to further improving the levels of efficiency in our operations. This is how we will reduce controllable costs on an enduring basis contributing to an improved financial performance.

Building trust, transparency and an inclusive and engaged workforce

To better recruit, retain and develop talented people, we endeavour to engage our employees and to achieve a more inclusive workplace and diverse workforce, reflecting the composition of the communities in which we operate. Our goal is to be seen as an employer of choice across all communities.

Employee engagement

In February 2010, National Grid conducted its third annual employee survey. The response rate was the highest so far, representing 97% of National Grid's workforce.

Action plans are being developed and will form part of the management annual objective process for 2010/11 to ensure we further build upon the very encouraging survey response rate and these survey results.

Within NGET we monitor the engagement score for the principal line of business, Transmission. In 2009/10, Transmission employee engagement in the UK was 77% compared to 82% in 2008/09.

Inclusion and diversity

We use performance measures including the percentage of female and ethnic minority employees, as well as measuring employee perceptions in our employee survey. Inclusion and diversity measures have been built into the Company's business scorecard.

At 31 March 2010, 13.7% of NGET's employees were female and 10.1% were from ethnic minority groups, compared with 13.5% and 9.5% respectively at 31 March 2009.

Further information on National Grid's employee engagement and Inclusion and diversity can be found in the National Grid plc Annual Report and Accounts 2009/10.

Developing talent, leadership skills and capabilities

A key success factor in delivering our business objectives is having highly competent leaders at every level within the organisation driving high performance and engaging employees. This is the foundation of our talent development strategy, which focuses on the key and critical transition points individuals make during their careers.

For further information on National Grid's developing of talent, leadership and capabilities can be found in the National Grid plc Annual Report and Accounts 2009/10.

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 safeguard the environment.

Climate change

National Grid has further embedded its climate change initiative and increased its energy efficiency programmes, focusing on initiatives that are cost effective. National Grid believes its 45% by 2020 and 80% by 2050 greenhouse gas emissions reduction targets to be industry leading within the UK and US.

Further information on National Grid's climate change agenda can be found in the National Grid plc Annual Report and Accounts 2009/10.

Protecting the environment
In April 2009, National Grid published a revised environment policy, reinforcing our commitment to being an innovative leader in energy management and to safeguarding our global environment for future generations.

The performance indicators that we monitor in this area include the number of significant direct environmental incidents.The number of significant environmental incidents in 2009/10 arising directly from our operations was 9, which includes 2 contractor-related incidents. In 2008/09, there were 9 incidents. Of these 3 were contractor-related incidents. There were no prosecutions by enforcing bodies resulting from these incidents.

We take seriously the issues that surround electric and magnetic fields. We recognise that there is scientific uncertainty as to whether the electric and magnetic fields that are produced by some of our assets have an effect on health or not, and that this produces public concern. We monitor the science carefully but we look to relevant independent bodies such as the World Health Organization and the UK's Health Protection Agency for authoritative advice. In all our operations, as a minimum, we aim to comply with the relevant regulations, guidelines or practices in force. In addition, we actively support high-quality research and open communication (including maintaining a website at www.emfs.info) and we look for more constructive and less confrontational ways of handling this issue. All these activities are governed by National Grid's public position statement on electric and magnetic fields, which we review annually.

National Grid's website (www.nationalgrid.com), provides further information on the steps being taken to reduce its impact on the environment, including the use of natural resources and mininising the impact on the environment of waste.

Financial performance

In the following section we provide a more detailed analysis of the financial results.

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

Measurement of financial performance and use of adjusted profit measures
In considering the financial performance of 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, comprising firstly business performance, which excludes exceptional items and remeasurements and secondly exceptional items and remeasurements. Exceptional items and remeasurements are excluded from the measures of business performance used by management to monitor financial performance as they are considered to distort the comparability of our reported financial performance from year to year.

Measures of business performance are referred to in this Annual Report as adjusted profit measures in order to clearly distinguish them from the comparable total profit measures of which they are a component. Adjusted operating profit, adjusted profit before tax and adjusted earnings differ from total operating profit, profit before tax and profit for the year respectively by the exclusion of exceptional items and remeasurements.

Exceptional items are items of income and expenditure that, in the judgement of management, should be disclosed separately on the basis that they are material, either by virtue of their nature or size, and are relevant to an understanding of our financial performance. Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental provisions and gains or losses on disposals of businesses or investments.

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

Adjusted profit measures are limited in their usefulness compared with the comparable total profit measures, as they exclude important elements of our underlying financial performance, namely exceptional items and remeasurements. We believe that in separately presenting financial performance in two components it is easier to read and interpret financial performance between periods, as adjusted profit measures are more comparable by excluding the distorting effect of exceptional items and remeasurements, and exceptional items and remeasurements are more clearly understood if separately identified and analysed. The presentation of these two components of financial performance is additional to, and not a substitute for, the comparable total profit measures presented.

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

Profit for the year from continuing operations
Profit for the year from continuing operations increased from £391 million in 2008/09 to £468 million in 2009/10 as a consequence of the changes in operating profit, net finance costs, exceptional finance costs and remeasurements, and taxation described in the following sections.

Adjusted earnings

	Years ended 31 March	
	2010	2009
	£m	£m
Adjusted operating profit	**805**	729
Net finance costs excluding exceptional items and remeasurements	**(153)**	(185)
Adjusted profit before taxation	**652**	544
Taxation excluding taxation on exceptional items and remeasurements	**(184)**	(153)
Adjusted profit from continuing operations	**468**	391

Earnings

	Years ended 31 March	
	2010	2009
	£m	£m
Total operating profit	**791**	721
Net finance costs	**(143)**	(217)
Profit before taxation	**648**	504
Taxation	**(183)**	(156)
Profit from continuing operations	**465**	348

Adjusted profit measures

The following tables reconcile the adjusted profit measure to the corresponding total profit measure in accordance with IFRS.

Reconciliation of adjusted operating profit to total operating profit

	Years ended 31 March	
	2010	2009
	£m	£m
Adjusted operating profit	**805**	729
Exceptional items	**(14)**	(8)
Total operating profit	**791**	721

Adjusted operating profit is presented on the face of the consolidated income statement, under the heading operating profit before exceptional items.

Reconciliation of adjusted profit before taxation to profit before taxation

	Years ended 31 March	
	2010	2009
	£m	£m
Adjusted profit before taxation	**652**	544
Exceptional items	**(14)**	(8)
Derivative financial remeasurements	**10**	(32)
Total profit before taxation	**648**	504

Adjusted profit before taxation is presented on the face of the consolidated income statement, under the heading profit before taxation before exceptional items and remeasurements.

Reconciliation of adjusted earnings to earnings (profit for the year from continuing operations)

	Years ended 31 March	
	2010	2009
	£m	£m
Adjusted earnings	**468**	391
Exceptional items	**(10)**	(20)
Derivative financial remeasurements	**7**	(23)
Earnings	**465**	348

Adjusted earnings is presented on the face of the consolidated income statement, under the heading profit from continuing operations after taxation before exceptional items and remeasurements.

Operating profit

Operating profit for 2009/10 and 2008/09 is as follows:

	Years ended 31 March	
	2010	2009
	£m	£m
Revenue	**2,484**	2,601
Other operating income	**-**	6
Operating costs	**(1,693)**	(1,886)
Total operating profit	**791**	721
Comprising:		
Adjusted operating profit	**805**	729
Exceptional items	**(14)**	(8)
Total operating profit	**791**	721

Revenue is analysed by segment as follows:

	Years ended 31 March	
	2010	2009
	£m	£m
Electricity Transmission	**2,483**	2,601
Other activities	**1**	1
Total segmental revenues	**2,484**	2,602
Less: sales between business segments	**-**	(1)
Revenue	**2,484**	2,601

Operating profit before exceptional items is analysed by segment as follows:

	Years ended 31 March	
	2010	2009
	£m	£m
Electricity Transmission	**814**	736
Other activities	**(9)**	(7)
Adjusted operating profit	**805**	729

Adjusted operating profit increased by £76 million to £805 million in 2009/10 compared to £729 million in 2008/09, as a result of a £78 million increase in Electricity Transmission adjusted operating profit and a £2 million decrease in other activities.

Total operating profit is analysed by segment as follows:

	Years ended 31 March	
	2010	2009
	£m	£m
Electricity Transmission	**800**	726
Other activities	**(9)**	(5)
Total operating profit	**791**	721

2009/10 compared with 2008/09

The principal movements in Electricity Transmission operating profit between 2008/09 and 2009/10 can be summarised as follows:

	Revenue	Operating costs	Operating profit
	£m	£m	£m
2008/09 operating profit	2,601	(1,875)	**726**
Add back 2008/09 exceptional items	-	10	**10**
2008/09 adjusted operating profit	2,601	(1,865)	**736**
Allowed revenues	127	-	**127**
Timing of recoveries	(52)	-	**(52)**
BSIS	(197)	227	**30**
Depreciation and amortisation	-	(18)	**(18)**
Other	4	(13)	**(9)**
2009/10 adjusted operating profit	**2,483**	**(1,669)**	**814**
2009/10 exceptional items	**-**	**(14)**	**(14)**
2009/10 operating profit	**2,483**	**(1,683)**	**800**

Electricity Transmission revenue decreased by £118 million to £2,483 million in 2009/10 compared to £2,601 million in 2008/09. This related to fall in the recovery of incentivised costs associated with balancing the system (BSIS) partially offset by an increase in allowed revenues.

Electricity Transmission operating costs, excluding exceptional items, decreased by £196 million to £1,669 million in 2009/10 compared to £1,865 million in 2008/09, largely reflecting the fall in incentivised BSIS costs. As expected, depreciation and amortisation increased by £18 million as a result of increasing capital investment. Other items decreased costs by £13 million, principally because of lower pass-through costs recovered through revenue.

Electricity Transmission exceptional items of £14 million in 2009/10 and £10 million in 2008/09 comprise restructuring costs arising from planned cost reduction programmes.

Total operating profit for NGET increased by £70 million to £791 million in 2009/10 compared to £721 million in 2008/09, due to the £76 million increase in adjusted operating profit offset by a £6 million increase in exceptional charges.

Net finance costs

Net finance costs excluding exceptional items and remeasurements was £153 million in 2009/10, compared with £185 million in 2008/09. The decrease primarily reflected a lower effective interest rate due to lower RPI and LIBOR rates, partially offset by an increase in our net pension interest due to a fall in plan assets and lower expected returns on assets.

Taxation

The net tax charge of £183 million in 2009/10 comprised a £184 million charge on adjusted profit before tax and a £1 million credit on exceptional items and remeasurements. This compares with a net charge of £156 million in 2008/09, comprising a £153 million charge on adjusted profit before tax and a £3 million charge on exceptional items and remeasurements. In 2008/09, exceptional items and remeasurements included a £15 million expense for increased deferred tax liabilities due to a change in the UK industrial allowance regime.

The effective tax rate before and after exceptional items and remeasurements was 28% for both cases (2008/09: 28% and 31%), compared with a standard UK corporation tax rate of 28% in 2009/10 and 28% in 2008/09.

Cash flows

Cash flows from operating activities

Cash generated from operations was £986 million in 2009/10 compared with £1,125 million in 2008/09. This included cash outflows relating to exceptional items of £2 million in 2009/10 and £5 million in 2008/09.

There was a net corporate tax payment in 2009/10 of £90 million compared with a payment of £192 million in 2008/09.

After reflecting cash flows relating to taxation, the net cash inflow from operating activities was £896 million in 2009/10, compared with £933 million in 2008/09.

Cash flows from investing activities

Cash outflows from investing activities were £641 million in 2009/10 compared to £278 million in 2008/09. Cash outflows to purchase property, plant and equipment and intangible fixed assets, net of disposal proceeds, were £939 million in 2009/10 compared to £865 million in 2008/09, as a result of the increase in capital investment. Interest received was £5 million in 2009/10 compared to £31 million in 2008/09. Net cash inflows from sale of financial investments were £293 million in 2009/10 compared to inflows on the sale of financial investments of £556 million in 2008/09.

Cash flows from financing activities

The net cash outflow from financing activities was £325 million in 2009/10 compared to £284 million in 2008/09. This reflected net inflows from loans of £14 million (2008/09: £200 million) and net payments to providers of finance, in the form of interest and dividends, of £339 million (2008/09: £484 million).

Net interest cash outflows increased from £153 million in 2008/09 to £184 million in 2009/10 due mainly to higher average net debt.

Dividends in respect of the financial year

	2010 £m	2009 £m
Interim	**150**	300

The table above shows the ordinary dividends paid or payable by NGET in respect of the last two financial years. These dividends do not include any associated UK tax credit in respect of such dividends.

Financial position and financial management

Going concern

Having made enquiries, the Directors consider that the Company and its subsidiaries have adequate resources to continue in business for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the consolidated and individual financial statements of the Company. More details on NGET's liquidity position are provided under the heading Liquidity and treasury management below and in note 27 to the consolidated financial statements.

Financial position

Balance sheet

The balance sheet at 31 March 2010 can be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment and non-current intangible assets	6,812	-	6,812
Current assets and liabilities	194	(614)	(420)
Other non-current assets and liabilities	-	(256)	(256)
Pension obligations	-	(493)	(493)
Deferred tax	-	(756)	(756)
Total before net debt	7,006	(2,119)	4,887
Net debt	544	(4,766)	(4,222)
Total as at 31 March 2010	**7,550**	**(6,885)**	**665**
Total as at 31 March 2009	7,157	(6,712)	445

The £220 million increase in net assets from £445 million at 31 March 2009 to £665 million at 31 March 2010 resulted from the profit for the year from continuing operations of £465 million, net expense recognised directly in equity of £100 million, and equity dividends paid of £150 million.

Net debt

Net debt increased by £346 million from £3,876 million at 31 March 2009 to £4,222 million at 31 March 2010. Cash flows from operations net of tax of £896 million were offset by capital expenditure, net of adjustments on disposal, of £939 million, dividends paid of £150 million and net interest paid £184 million, together with fair value and other adjustments of £29 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 cash equivalents of £326 million. At 31 March 2009, net debt comprised borrowings of £4,712 million, including bank overdrafts of £4 million, less derivative financial instruments with a net carrying value of £89 million, financial investments of £360 million and cash and equivalents of £387 million.

The maturity of borrowings is shown in note 16 to the consolidated financial statements.

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 2010 was 56%, compared with 58% as at 31 March 2009.

Liquidity and treasury management

Treasury policy

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

The primary objective of the Treasury function is to manage the funding and liquidity requirements of National Grid. A secondary objective is to manage the associated financial risks, in the form of interest rate risk and foreign exchange risk, to within acceptable boundaries. Further details of the management of funding and liquidity and the main risks arising from 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

During 2009/10, there has been a partial recovery in the global economic situation, following the crisis in the banking system, the failure of individual banks and increased restrictions on lending across the capital and money markets in 2008/09. Credit spreads have narrowed significantly. With our low risk business model and cash flows that are largely stable over a period of years, we were able to access the markets during 2008/09 and have continued to do so in 2009/10, having issued £25 million of long-term debt into the capital markets (plus a further £9 million inter company borrowings). We remain confident of our ability to access the public debt markets in the future. The cost of our new long-term debt has fallen over the last few years, decreasing from around 5.9% in 2008/09 to around 5.8% in 2009/10. This reflects the increase in credit spreads demanded by lenders and the fall in headline interest rates.

Cash flow and cash flow forecasting

Cash flows from operations are largely stable annually and over a period of years, although they do depend on the timing of customer payments. 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 between certain National Grid subsidiary companies including paying dividends, lending cash or levy 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 2010, NGET had a $1.0 billion US commercial paper programme (unutilised) and a $1.0 billion Euro commercial paper programme (unutilised). It also has a joint €15 billion Euro medium term note programme with National Grid plc (€3.3 billion issued by NGET, €9.0 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 2010, the Company had £425 million of long term committed facilities (undrawn). Subsequent to year end these facilities were renewed at an increased level and now stand at £715 million expiring in April 2014.

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 2010 are shown in notes 14 and 15 to the consolidated financial statements.

We believe that maturing amounts in respect of contractual obligations as shown in commitments and contingencies in note 23 to the consolidated financial statements 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.

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 2010, 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 11 to the consolidated financial statements.

Refinancing risk management

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

Note 16 to the consolidated financial statements sets out the contractual maturities of our borrowings over the next five years, with total contracted borrowings maturing over 49 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 2010.

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 by National Grid is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints so that, even with an extreme movement in interest rates, neither the interest cost nor the total financing cost is expected to exceed preset limits with a high degree of certainty.

Some of NGET's 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 shown at 31 March 2010 will change over time.

In 2010/11, we expect the financing costs of National Grid to continue to benefit from low short-term interest rates, some of which have already been locked in using short-term interest rate derivatives, although we expect this to be offset by higher inflation affecting our index-linked debt.

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.

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 businesses, including commodity contracts. The National Grid Finance Committee has agreed a policy for managing such risk. This policy sets limits as to the exposure that National Grid can have with any one counterparty, based on that counterparty's credit rating from independent 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 master 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 standard International Swap Dealers Association (ISDA) documentation, which provides for netting in respect of all transactions governed by a specific ISDA agreement with a counterparty.

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	2010		2009	
	Income statement £m	Other compre-hensive income £m	Income statement £m	Other compre-hensive income £m
UK Retail Prices Index ± 0.50%	**7**	**-**	7	-
UK interest rates ± 0.50%	**3**	**19**	3	18

Commodity contracts

NGET has 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 (BETTA). 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 GB national electricity transmission system operator role.

Commitments and contingencies

Commitments and contingencies outstanding at 31 March 2010 and 2009 are summarised in the table below:

	2010 £m	2009 £m
Future capital expenditure contracted but not provided for	**921**	763
Total operating lease commitments	**63**	63
Other commitments and contingencies	**26**	40

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 2010

We were not party to litigation that we considered to be material as at 31 March 2010.

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 2010, we charged £24 million and received charges of £46 million from related parties (other than Directors and key managers), compared with £41 million and £59 million respectively in 2008/09.

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. This 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.

Net pension obligations

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

	£m
As at 1 April 2009	(408)
Pension service cost	(13)
Interest less expected return	(29)
Curtailments and settlements	(4)
Actuarial gains and losses	
– on plan assets	279
– on plan liabilities	(432)
Contributions:	
– ordinary contributions	24
– additional contributions	90
As at 31 March 2010	**(493)**

Plan assets	1,531
Plan liabilities	(2,024)
Net plan liability	(493)

The amounts recorded in the balance sheet are based on accounting standards which require pension obligations to be calculated on a different basis to that used by the actuaries to determine the funding we need to make into the plan. The principal movements in net pension obligations during the year arose as a consequence of actuarial losses on plan liabilities principally as a consequence of using lower discount rates to calculate the present value of these obligations, partially offset by actuarial gains on plan assets.

Actuarial position

The last completed full actuarial valuation of the National Grid section of the Electricity Supply Pension Scheme was as at 31 March 2007. This concluded that the pre-tax funding deficit was £405 million on the basis of the funding assumptions. Employer cash contributions for the ongoing cost of this plan are currently being made at a rate of 20.5% of pensionable payroll.

Contributions

In addition to ongoing employer contributions NGET made deficit contributions of £90 million during 2009/10 and anticipates no further payments in the year to 31 March 2011, in line with the recovery plan.

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

Plan assets

The National Grid Electricity Group of the Electricity Supply Pension Scheme is trustee administered and the trustees are responsible for setting the investment strategy and monitoring investment performance, consulting with us where appropriate.

Principal risks and uncertainties

Risk management
Identifying, evaluating and managing risks is integral to the way we run our business. National Grid continues to have a well established enterprise-wide risk management process that ensures risks are consistently assessed, recorded and reported in a visible, structured and continuous manner, the outputs of which are primarily used as a management tool. An output from this process is information that provides assurance to management and thus helps safeguard our assets and reputation. NGET participates in this enterprise wide process.

More information on National Grid's risk management process can be found in the National Grid plc Annual Report and Accounts 2009/10.

Risk factors

The risk management process has identified the following risk factors that could have a material adverse effect on our business, financial condition, results of operations and reputation as well as the value and liquidity of our securities. Not all of these factors are within our control. In addition, other factors besides those listed below may have an adverse effect on NGET.

Changes in law or regulation and decisions by governmental bodies or regulators could have a material adverse effect on our results of operations.
Our businesses are subject to regulation by governments and other authorities. Consequently, changes in law or regulation or regulatory policy and precedent in the countries in which we operate could materially adversely affect us. Decisions or rulings concerning, for example: (i) whether licences, approvals or agreements to operate or supply are granted or are renewed or whether there has been any breach of the terms of a licence, approval, or regulatory requirement; (ii) timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs, a decoupling of energy usage and revenue and other decisions relating to the impact of general economic conditions on us, our markets and customers, implications of climate change, the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities; and (iii) structural changes in regulation (including as a result of Ofgem's RPI-X@20 review), could have a material adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future. For further information, see the Operating and Financial Review and, in particular, the external market, regulatory environment and energy policy, regulatory and other developments sections and the business description sections.

Breaches of, or changes in, environmental, climate change or health and safety laws or regulations could expose us to increased costs, claims for financial compensation and adverse regulatory consequences, as well as damaging our reputation.
Aspects of our activities are potentially dangerous, such as the operation and maintenance of electricity transmission networks. Electricity utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so, such as the effects of electric and magnetic fields. We are subject to laws and regulations relating to pollution, the protection of the environment, and the use and disposal of hazardous substances and waste materials. These expose us to costs and liabilities relating to our operations and our properties whether current, including those inherited from predecessor bodies, or formerly owned by us and sites used for the disposal of our waste. The cost of future environmental remediation obligations is often inherently difficult to estimate and uncertainties can include the extent of contamination, the appropriate corrective actions and our share of the liability. We are also subject to laws and regulations governing health and safety matters protecting the public and our employees. We are increasingly subject to regulation in relation to climate change. We commit significant expenditure toward complying with these laws and regulations and to meeting our obligations under negotiated settlements. If additional requirements are imposed or our ability to recover these costs under relevant regulatory framework changes, this could have a material adverse impact on our businesses and our results of operations and financial position. Furthermore, any breach of these regulatory or contractual obligations, or even incidents that do not amount to a breach, could materially adversely affect our results of operations and our reputation.

For further information about environmental, climate change and health and safety matters relating to our business, see the Our Responsibility section of National Grid plc's website at www.nationalgrid.com.

Network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure may have significant material adverse impacts on both our financial position and reputation.
We may suffer a major network failure or interruption or may not be able to carry out critical non network operations. Operational performance could be materially adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand or inadequate record keeping or failure of information systems and supporting technology. This could cause us to fail to meet agreed standards of service or incentive and reliability targets or be in breach of a licence, approval, regulatory requirement or contractual obligation, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation. In addition to these risks, we may be affected by other potential events that are largely outside our control such as the impact of weather (including as a result of climate change), unlawful or unintentional acts of third parties or force

majeure. Weather conditions, including prolonged periods of adverse weather, can affect financial performance and severe weather that causes outages or damages infrastructure will materially adversely affect operational and potentially business performance and our reputation. Terrorist attack, sabotage or other intentional acts may also damage our assets or otherwise significantly affect corporate activities and as a consequence have a material adverse impact on our results of operations and financial condition.

Our results of operations depend on a number of factors relating to business performance including performance against regulatory targets and the delivery of anticipated cost and efficiency savings.

Earnings maintenance and growth from our regulated electricity business will be affected by our ability to meet or exceed efficiency and integration targets and service quality standards set by, or agreed with, our regulators. In addition, from time to time, we publish cost and efficiency savings targets for our business. To meet these targets and standards, we must continue to improve operational performance, service reliability and customer service and continue to invest in the development of our information technology. If we do not meet these targets and standards, we may not achieve the expected benefits, our business may be materially adversely affected and our performance, results of operations and our reputation may be materially harmed.

Our reputation may be harmed if consumers of electricity suffer a disruption to their supply.

Our electricity transmission business is responsible for transporting available electricity. We consult with, and provide information to, regulators, governments and industry participants about future demand and the availability of supply. However, where there is insufficient supply, our role is to manage the relevant network safely and reliably which, in extreme circumstances, may require us to disconnect consumers, which may damage our reputation.

We are subject to restrictions with respect to our borrowing and debt arrangements, and our funding costs and access to financing may be adversely affected by changes to credit ratings and by prolonged periods of market volatility or illiquidity.

We are subject to certain covenants and restrictions in relation to our listed debt securities and our bank lending facilities. In addition, restrictions imposed by regulators may also limit the manner in which we service the financial requirements of our business.

Our business is financed through cash generated from ongoing operations and the capital markets, particularly the long-term debt capital markets. The maturity and repayment profile of debt we use to finance investments often does not correlate to cash flows from our assets. As a result we access commercial paper and money markets and longer-term bank and capital markets as sources of finance. Some of the debt we issue is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and the cost of those borrowings. As evidenced during recent periods, financial markets can be subject to periods of volatility and shortages of liquidity and if we were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, our cost of financing may increase, the uncommitted and discretionary elements of our proposed capital investment programme may need to be reconsidered and the manner in which we implement our strategy may need to reassessed. The occurrence of any such events could have a material adverse impact on our business, results of operations and prospects.

Our results of operations could be affected by deflation or inflation

Our income under our price controls is linked to the retail price index. Therefore if the UK economy suffers from a prolonged period of deflation, our revenues may decrease, which may not be offset by reductions in operating costs. Conversely during a period of inflation our operating costs may increase without a corresponding increase in the retail price index and therefore without a corresponding increase in revenues. Such increased costs may materially adversely affect our results of operations. In addition, even where increased costs are recoverable under our price controls there may be a delay in our ability to recover our increased costs.

Future funding requirements of our pension schemes could materially adversely affect our results of operations.

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

New or revised accounting standards, rules and interpretations could have an adverse effect on our reported financial results. Changes in law and accounting standards could increase our effective rate of tax.

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

Customers and counterparties to our transactions may fail to perform their obligations, which could harm our results of operations.

Our operations are exposed to the risk that customers and counterparties to our transactions that owe us money or commodities will not perform their obligations, which could materially adversely affect our financial position. This risk is most significant where there are concentrations of receivables from utilities and their affiliates, as well as industrial customers and other purchasers and may also arise where customers are unable to pay us as a result of increasing commodity prices or adverse economic conditions.

The loss of key personnel or the inability to attract, train or retain qualified personnel could affect our ability to implement our strategy and have a material adverse effect on our business, financial condition, results of operations and prospects.

Our ability to implement our long-term business strategy depends on the capabilities and performance of our personnel. Loss of key personnel or an inability to attract, train or retain appropriately qualified personnel (in particular for technical positions where availability of appropriately qualified personnel may be limited) could affect our ability to implement our long-term business strategy and may have a material adverse effect on our business, financial condition, results of operations and prospects.

Accounting policies

Basis of accounting

The consolidated financial statements present the results of NGET for the years ended 31 March 2010 and 2009 and financial position as at 31 March 2010 and 2009. 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.

IFRS differ from UK Generally Accepted Accounting Principles (UK GAAP).

Choices permitted under IFRS

IFRS provides certain options available within accounting standards. Material choices NGET has made, and continues 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.

Pensions
We recognise actuarial gains and losses each year in the consolidated statement of comprehensive income.

Capital contributions
Contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with depreciation on the associated asset.

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.

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.

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.

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

Estimates of unbilled revenues amounted to £113 million at 31 March 2010 compared with £123 million at 31 March 2009.

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.

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 the statement of recognised income and expense or by being offset by adjustments to the carrying value of debt.

Pensions
Pensions 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 based on corporate bond yields 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.

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.

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.

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 total costs and timing of cash flows relating to environmental liabilities are based on management estimates supported by the use of external consultants.

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.

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 2010 would result in an increase or decrease in our recorded net assets and profit for the year by approximately £11 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 £11 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 2010 then the profit for the year would have been £6 million lower than that reported net of tax, and net assets would have been £17 million lower.

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 £5 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 £2 million.

Pensions
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, £38 million and £57 million and a change in the annual pension cost of £0.7 million, £1.8 million and £0.5 million respectively.

Accounting developments

Accounting standards, amendments to standards and interpretations adopted in 2009/10

In preparing our consolidated financial statements we have complied with International Financial Reporting Standards, International Accounting Standards and interpretations applicable for 2009/10. The standards, amendments to standards and interpretations adopted during 2009/10 are discussed in the financial statements on page 34. None of these resulted in a material change to our consolidated results, assets or liabilities in 2009/10 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 35.

Directors' Report

for the year ended 31 March 2010

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 NGET 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 as at the date of this report were:

Malcolm Cooper	Appointed July 2007
Mark Fairbairn	Appointed July 2007
Stuart Humphreys	Appointed July 2008
Paul Whittaker	Appointed July 2007
Nick Winser	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 1 to 21, 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 (2008/09: £300 million interim dividend). The Directors have not proposed a final dividend.

Donations
During 2009/10, some £1.6 million (2008/09: £1.4 million) was invested in support of community initiatives and relationships in the UK. There were no direct charitable donations for 2009/10 (2008/09: £0.1 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 (2008/09: £8 million).

Financial instruments
Details on the use of financial instruments and financial risk management are included on pages 15 to 17 in the Operating and Financial Review.

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

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

Policy and practice on payment of creditors
It is NGET's policy to include in contracts or other agreements, terms of payment with suppliers. Once agreed, NGET aims to abide by these terms of payment. The average creditor payment period at 31 March 2010 was 9 days (9 days at 31 March 2009).

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 2010 will be issued separately to shareholders.

By order of the Board

Karen Clayton
Company Secretary
29 July 2010

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 non-NGET 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.

By order of the Board

Karen Clayton
Company Secretary
29 July 2010

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 2010 on pages 28 to 67 and pages 76 to 97 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 regulatory financial statements and the further analysis by regulatory business of the five primary statements and notes 1 to 31 contained in appendix 3 and 4.

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 Regulatory Licence granted to the Company, being the Electricity Transmission 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 Authority of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Authority for our audit work, for this report or the opinions we have formed.

Basis of preparation
The regulatory accounting statements have been prepared under the historical cost convention and in accordance with the Condition and the accounting policies set out on pages 28 to 33.

Note 31 includes disclosure of amounts charged to or from other businesses of National Grid plc or amounts determined by apportionment. The Condition requires these disclosures to be made to the Authority, but allows the Company to remove these disclosures from the information made available to the public as per paragraph 10 of the Condition.

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

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

The directors of the Company are responsible for preparing the regulatory accounting statements and for compliance with the Condition, as described on page 25.

Our responsibility is to audit the regulatory accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except as stated in the 'Scope of the audit of the financial statements', below and having regard to the guidance contained in Audit 05/03 "Reporting to Regulators of Regulated Entities". Those standards require us to comply with the Auditing Practices Boards (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial 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, as the nature, form and content of the regulatory accounting statements are determined by the Authority, we did not evaluate the overall adequacy of the presentation of information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

We read the other information contained in the regulatory accounting statements, on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the regulatory accounting statements. The other information comprises: about regulatory accounting statements; the Operating and Financial Review; the corporate governance statement and the Directors' Report.

Our opinion on the regulatory accounting statements is separate from our opinion on the statutory financial statements of the Company on which we reported on 2 July 2010, 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 auditors' report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

The Condition requires the regulatory accounting statements to be drawn up on the basis set out therein, including the separate disclosure of amounts charged to or from other businesses of National Grid plc or determined by apportionment. The Directors of National Grid Gas plc are responsible for determining the bases of charges and apportionments, which requires a number of judgements and assumptions to be made. We do not give an opinion on the appropriateness of the bases of charges and apportionments.

Opinion on the regulatory accounting statements

In our opinion, on the basis set out above, the regulatory accounting statements fairly present in accordance with the Condition and the accounting policies set out on pages 28 to 33, the state of affairs for the Company's Transmission business and other activities at 31 March 2010 and the profit and cash flows of its Transmission business and other activities for the year then ended and have been properly prepared in accordance with the Condition and the accounting policies.

Matters on which we are required to report by exception

We also have nothing to report in respect of the following matters where the terms of our engagement require us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the regulatory accounting statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

29 July 2010

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

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

Accounting policies

for the year ended 31 March 2010

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

These consolidated regulatory financial statements have been prepared in accordance with Standard Condition B1 of National Grid Electricity Transmission plc's Electricity Transmission Licence granted under the Electricity Act 1989 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 2010 and in accordance with applicable United Kingdom law and Article 4 of the European Union IAS regulation. The 2009 comparative financial information has also been prepared on this basis.

The November 2008 amendment to IAS 39 and IFRS 7 on the reclassification of financial assets, which is effective 1 July 2008, is still subject to endorsement by the European Union. The amendment relating to the reclassification of financial assets does not have an impact on consolidated results or asset or liabilities of the Company and therefore these consolidated financial statements comply with both IFRS as issued by the IASB and IFRS as adopted by the European Union.

The consolidated regulatory financial statements have been prepared on a historical cost basis, except for the recording of pension liabilities and the revaluation of derivative financial instruments.

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

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.

Attribution of revenue, costs, assets, liabilities and equity

These regulatory financial statements contain arbitrary apportionments of certain centrally held balances of National Grid Electricity Transmission plc which are not specifically attributable to the Transmission business. The centrally held balances and the method of apportionment are as follows:

Balance	Method of apportionment	
	year ended 31 March 2010	year ended 31 March 2009
Net debt (borrowings, derivatives, bank overdrafts net of cash, cash equivalents and financial investments).	Fixed asset RAV at the balance sheet date.	Fixed asset RAV at the balance sheet date.
Interest payable and receivable relating to net debt.	Fixed asset RAV at the balance sheet date.	Fixed asset RAV at the balance sheet date.
	years ended 31 March 2009 and 2010	
Intercompany balances.	Fixed asset net book value at the balance sheet date.	
Deferred tax liabilities.	Fixed asset net book value at the balance sheet date.	
Retirement benefit obligations	According to the Licencee's final proposals.	
Taxation charge and corporate tax payable	Calculation specific to each business	
Total equity (called up share capital, share premium account, retained profits and other reserves).	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 is 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 for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

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

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

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

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

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

Cash flows and operations that relate to a major component of the business that has been sold are shown separately from continuing operations.

I. Inventories

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

J. Revenue

Revenue represents the sales value derived from the transmission of electricity and the provision of related services during the year. It 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.

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 items 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 recognised income and expense.

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 retirement benefit 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 income on a straight-line basis over the term of the relevant lease.

Assets held under finance leases are recognised at their fair value or, if lower, the present value of minimum lease payments on inception. The corresponding liability is recognised as a finance lease obligation within borrowings. Rental payments are apportioned between finance costs and reduction in the finance lease obligation, so as to achieve a constant rate of interest.

Assets held under finance leases are depreciated over the shorter of their useful life and the lease term.

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 fair value through profit and loss and on 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, construction or development of qualifying assets (being assets that necessarily take a substantial period of time to get ready for their intended use) are added to their cost. Such additions cease when the assets are substantially ready for their intended use.

Derivative financial instruments are recorded at fair value, and where 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 by 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, based on an estimate of the number of shares that will eventually vest. This fair value is recognised on a straight-line basis over the vesting period, as an operating cost and an increase in equity. 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 to increase the comparability of our reported financial performance from year to year. Business performance subtotals, which exclude exceptional items and remeasurements, are presented on the face of the income statement or in the notes to the financial statements.

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

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, 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. Other operating income

Other operating income primarily relates to profits or losses arising on the disposal of properties arranged by National Grid's property management business, which is considered to be part of normal recurring activities, but which does not represent revenue.

S. 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 and bank overdrafts, which are reported in borrowings.

T. 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.

U. 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 5.
- Valuation of financial instruments and derivatives – notes 11, 14 and 26.
- Revenue recognition and assessment of unbilled revenue – accounting policies J.
- Recoverability of deferred tax assets – accounting policy G and note 19.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2009/10

During the year ended 31 March 2010, NGET adopted the following International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) or amendments and interpretations by the International Financial Reporting Interpretations Committee (IFRIC). There was no material impact of IFRIC 18 to NGET. In accordance with the transition provisions of IFRIC 18 'Transfers of assets from customers', comparative amounts have not been restated. None of the other pronouncements had a material impact on NGET's consolidated results or assets and liabilities.

IFRIC 18 on transfers of assets from customers	Addresses arrangements whereby an entity receives items of property, plant and equipment or cash which the entity must use to connect customers to a network or provide access to a supply of goods or services, or both.
IAS 1 revised on the presentation of financial statements	Requires changes to the presentation of financial statements and adopts revised titles for the primary statements, although companies may continue to use the existing titles.
Amendment to IFRS 7 on improving disclosures about financial instruments	Introduces a three-level hierarchy for fair value measurement disclosures and requires entities to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk. The additional information required by this amendment can be found in note 27.
IFRS 8 on operating segments	Sets out the requirements for the disclosure of information about an entity's operating segments and about the entity's products and services, the geographical areas in which it operates and its major customers.
IAS 23 revised on borrowing costs	Removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.
IFRIC 13 on customer loyalty programmes	Clarifies that the sale of goods or services together with customer award credits (for example, loyalty points or the right to free products) is accounted for as a multiple-element transaction. The consideration received from the customer is allocated between the components of the arrangement based on their fair values, which will defer the recognition of some revenue.
Amendment to IFRS 2 on share-based payments	Clarifies the definition of vesting conditions and the accounting treatment of cancellations. Vesting conditions are defined as either service conditions or performance conditions. Cancellations by employees are accounted for in the same way as cancellations by the Company.
Amendments to IAS 32 and IAS 1 on puttable financial instruments and obligations arising on liquidation	Addresses the classification as a liability or as equity of certain puttable financial instruments and instruments, or components thereof, which impose upon an entity an obligation to deliver a pro rata share of net assets on liquidation.
Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements on the cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	Permits investments to be recognised on first-time adoption of IFRS at cost or deemed cost (fair value or previous GAAP carrying amount) and removes the requirement to recognise dividends out of pre-acquisition profits as a reduction in the cost of the investment.
Improvements to IFRS 2008	Contains amendments to various existing standards.
IFRIC 15 on agreements for the construction of real estate	Addresses the timing of revenue recognition for entities engaged in the construction of real estate for their customers.
IFRIC 16 on hedges of a net investment in a foreign operation	Clarifies that a hedged risk may be designated at any level in a group and hedging instruments may be held by any company in a group (except the foreign entity being hedged), that net investment hedge accounting may not be adopted in respect of a presentation currency and that on disposal the amounts to be reclassified from equity to profit or loss are any cumulative gain or loss on the hedging instrument and the cumulative translation difference on the foreign operation disposed of.
Amendment to IAS 39 Financial Instruments: Recognition and measurement: Reclassification of Financial Assets: Effective Date and Transition	Clarifies the effective date of the reclassification of financial assets.
Amendments to IAS 39 and IFRIC 9 on embedded derivatives	Requires reassessment of whether an embedded derivative should be separated out if a financial asset is reclassified out of the fair value through profit or loss category.

New IFRS accounting standards and interpretations not yet adopted

The following standards and interpretations were not effective for the year ended 31 March 2010. None of these are expected to have a material impact on NGET's consolidated results or assets and liabilities.

IFRS 3R on business combinations	Makes a number of changes to the accounting for business combinations, including requirements that all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income; an option to calculate goodwill based on the parent's share of net assets only or to include goodwill related to the minority interest; and a requirement that all transaction costs be expensed. IFRS 3R has been adopted by the Company with effect from 1 April 2010.
IAS 27R on consolidated and individual financial statements	Requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. The revised standard also specifies the accounting when control is lost. IAS 27R has been adopted by the Company with effect from 1 April 2010.
Amendment to IAS 39 Financial Instruments: Recognition and measurement on eligible hedged items	Prohibits designating inflation as a hedgeable component of an instrument, unless cash flows relating to the separate inflation component are contractual and also prohibits the designation of a purchased option in its entirety as the hedge of a one-sided risk in a forecast transaction. The amendment to IAS 39 has been adopted by the Company with effect from 1 April 2010.
Revised IFRS 1 on first-time adoption of IFRS	Changes the structure, while retaining the substance, of the previously issued version of IFRS 1. The revised version of IFRS 1 has been adopted by the Company with effect from 1 April 2010.
IFRIC 17 on distribution of non-cash assets to owners	Requires such a distribution to be measured at the fair value of the asset and any difference between the carrying amount of the asset and its fair value to be recognised in profit or loss. IFRIC 17 has been adopted by the Company with effect from 1 April 2010.
Improvements to IFRS 2009	Contains amendments to various existing standards. The amendments have been adopted by the Company with effect from 1 April 2010.
Amendment to IFRS 2 on group cash settled share based payments	Clarifies the scope and accounting for group cash settled share based payment transactions in separate or individual financial statements when there is no obligation to settle the share based payment transaction. The amendment to IFRS 2 has been adopted by the Company with effect from 1 April 2010.
Amendment to IFRS 1 on first time adoption of IFRS	Provides additional exemptions for first time adopters. The amendment to IFRS 1 will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.
Amendment to IAS 32 on classification of rights issues	Defines as an equity instrument a financial instrument that gives the holder the right to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency, if the financial instrument is offered pro rata to all existing owners of the same class of non-derivative equity instruments. The amendment to IAS 32 has been adopted by the Company with effect from 1 April 2010.
Revised IAS 24 on related party disclosures	Simplifies the definition of a related party and provides a partial exemption for government-related entities. The revised version of IAS 24 will be adopted by the Company with effect from 1 April 2011, subject to endorsement by the European Union.
IFRS 9 on financial instruments	Requires that financial assets should be classified as at either amortised cost or fair value on the basis of the entity's business model and contractual cash flows. IFRS 9 will be adopted by the Company with effect from 1 April 2013, subject to endorsement by the European Union.
IFRIC 19 on extinguishing financial liabilities with equity instruments	Clarifies that equity instruments issued to extinguish a financial liability should be measured at fair value, unless fair value cannot reasonably be determined in which case the fair value of the liabilities extinguished should be used. IFRIC 19 will be adopted by the Company with effect from 1 April 2011, subject to endorsement by the European Union.
Amendment to IFRIC 14 on prepayments of a minimum funding requirement	Permits an entity to treat early payments of contributions to cover a minimum funding requirement as an asset. The amendment to IFRIC 14 will be adopted by the Company with effect from 1 April 2011, subject to endorsement by the European Union.
Amendment to IFRS 1 on comparative IFRS 7 disclosures	Provides limited disclosure exemptions in respect of financial instruments for first-time adopters of IFRS. The amendment to IFRS 1 will be adopted by the Company with effect from 1 April 2011, subject to endorsement by the European Union.

Consolidated income statement

for the years ended 31 March

	Notes	**2010 £m**	**2010 £m**	2009 £m	2009 £m
Revenue	1(a)		**2,484**		2,601
Other operating income	2		**-**		6
Operating costs	3		**(1,693)**		(1,886)
Operating profit					
Before exceptional items	1(b)	**805**		729	
Exceptional items	4	**(14)**		(8)	
Total operating profit	1(b)		**791**		721
Interest income and similar income	6		**78**		119
Interest expense and other finance costs					
Before exceptional items and remeasurements	6	**(231)**		(304)	
Exceptional items and remeasurements	4, 6	**10**		(32)	
	6		**(221)**		(336)
Profit before taxation					
Before exceptional items and remeasurements		**652**		544	
Exceptional items and remeasurements	4	**(4)**		(40)	
Total profit before taxation			**648**		504
Taxation					
Before exceptional items and remeasurements	7	**(184)**		(153)	
Exceptional items and remeasurements	4, 7	**1**		(3)	
Total taxation	7		**(183)**		(156)
Profit after taxation					
Before exceptional items and remeasurements		**468**		391	
Exceptional items and remeasurements	4	**(3)**		(43)	
Profit for the year			**465**		348

The results reported above relate to continuing operations.

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2010 £m	2009 £m
Profit for the year		**465**	348
Other comprehensive income:			
Actuarial net losses		**(153)**	(77)
Deferred tax on actuarial net gains and losses	7	**43**	22
Net loss/(gain) taken to equity in respect of cash flow hedges		**14**	(33)
Tax on items taken directly to or transferred from equity	7	**(4)**	9
Other comprehensive income for the year		**(100)**	(79)
Total comprehensive income for the year		**365**	269

Consolidated balance sheet

at 31 March

	Notes	2010 £m	2009 £m
Non-current assets			
Intangible assets	9	**43**	49
Property, plant and equipment	10	**6,769**	5,985
Derivative financial assets	11	**134**	134
Total non-current assets		**6,946**	6,168
Current assets			
Inventories	12	**33**	31
Trade and other receivables	13	**161**	177
Financial investments	14	**67**	360
Derivative financial assets	11	**17**	34
Cash and cash equivalents	15	**326**	387
Total current assets		**604**	989
Total assets	1(d)	**7,550**	7,157
Current liabilities			
Borrowings	16	**(334)**	(89)
Derivative financial liabilities	11	**(11)**	(24)
Trade and other payables	17	**(604)**	(570)
Provisions	20	**(10)**	(6)
Total current liabilities		**(959)**	(689)
Non-current liabilities			
Borrowings	16	**(4,332)**	(4,623)
Derivative financial liabilities	11	**(89)**	(55)
Other non-current liabilities	18	**(246)**	(210)
Deferred tax liabilities	19	**(756)**	(715)
Pension obligations	5	**(493)**	(408)
Provisions	20	**(10)**	(12)
Total non-current liabilities		**(5,926)**	(6,023)
Total liabilities		**(6,885)**	(6,712)
Net assets		**665**	445
Equity			
Called up share capital	21	**44**	44
Retained earnings		**656**	446
Cash flow hedge reserve		**(35)**	(45)
Total shareholders' equity		**665**	445

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, additional analysis of primary statements and notes by regulatory business in appendix 3 and information on charges and apportionments in note 31 in appendix 4, were approved by the Board of Directors of National Grid Electricity Transmission plc on 29 July 2010 and were signed on its behalf by:

Mark Fairbairn Director

Stuart Humphreys Director

Consolidated statement of changes in equity

for the years ended 31 March

	Called-up share capital £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
At 1 April 2008	44	(21)	453	476
Total recognised income and expense for the year	-	(24)	293	269
Equity dividends	-	-	(300)	(300)
Share-based payments	-	-	1	1
Tax on share-based payments	-	-	(1)	(1)
At 31 March 2009	44	(45)	446	445
Total recognised income and expense for the year	-	10	355	365
Equity dividends	-	-	(150)	(150)
Share-based payments	-	-	4	4
Tax on share-based payments	-	-	1	1
At 31 March 2010	**44**	**(35)**	**656**	**665**

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 2010 will be continuously transferred to the income statement until the borrowings are repaid (note 16).

The amount of the cash flow hedge reserve due to be released from reserves to the income statement within the next year is £nil, with the remaining amount of £35m due to be released with the same maturity profile as borrowings in note 16.

Consolidated cash flow statement

for the years ended 31 March

	Notes	**2010** **£m**	2009 £m
Cash flows from operating activities			
Total operating profit		**791**	721
Adjustments for:			
Exceptional items and remeasurements		**14**	8
Depreciation and amortisation		**240**	222
Profit on sale of tangible and intangible assets		**3**	3
Share based payment charge		**3**	2
Changes in working capital		**35**	272
Changes in pension obligations		**(98)**	(98)
Cash flows relating to exceptional items		**(2)**	(5)
Cash flows generated from operations		**986**	1,125
Tax paid		**(90)**	(192)
Net cash inflow from operating activities		**896**	933
Cash flows from investing activities			
Purchases of intangible assets		**(8)**	(8)
Purchases of property, plant and equipment		**(932)**	(853)
Disposal of property, plant and equipment		**1**	(4)
Interest received		**5**	31
Purchases of financial investments		**(64)**	(339)
Disposal of financial investments		**357**	895
Net cash flow used in investing activities		**(641)**	(278)
Cash flows from financing activities			
Proceeds from loans received		**34**	2,298
Repayment of loans		**(18)**	(2,125)
Net movements in short-term borrowings and derivatives		**(2)**	27
Interest paid		**(189)**	(184)
Dividends paid to shareholders		**(150)**	(300)
Net cash flow used in financing activities		**(325)**	(284)
Net (decrease)/increase in cash and cash equivalents		**(70)**	371
Cash and cash equivalents at the start of the year (i)		**383**	12
Net cash and cash equivalents at the end of the year (i)	15	**313**	383

(i) Net of bank overdrafts of £13m (2009: £4m).

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). 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 on operating segments is assessed principally on the basis of operating profit before exceptional items and remeasurements. 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 contracting activities, the provision of support services and corporate activities not included within the above segment.

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

Sales between businesses are priced having regard to the regulatory and legal requirements that the businesses are subject to, which include requirements to avoid cross-subsidies.

(a) Revenue

	Total sales 2010 £m	**Sales between businesses 2010 £m**	**Sales to third parties 2010 £m**	Total sales 2009 £m	Sales between businesses 2009 £m	Sales to third parties 2009 £m
Operating segment						
Electricity Transmission	**2,483**	**-**	**2,483**	2,601	-	2,601
Other activities	**1**	**-**	**1**	1	1	-
	2,484	**-**	**2,484**	2,602	1	2,601

(b) Operating profit/(loss)

	Before exceptional items		After exceptional items	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Operating segment				
Electricity Transmission	**814**	736	**800**	726
Other activities	**(9)**	(7)	**(9)**	(5)
	805	729	**791**	721

(c) Capital expenditure and depreciation

	Capital expenditure		Depreciation and amortisation	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Operating segment				
Electricity Transmission	**1,022**	864	**240**	222
Other activities	**-**	-	**-**	-
	1,022	864	**240**	222

Capital expenditure comprises additions to property, plant and equipment and intangible assets amounting to £1,014m (2009: £855m) and £8m (2009: £9m) respectively.

Depreciation and amortisation includes depreciation of property, plant and equipment and amortisation of intangible assets amounting to £225m (2009: £206m) and £15m (2009: £16m) respectively.

1. Segmental analysis continued

(d) Total assets

	Total assets	
	2010	2009
	£m	£m
Operating segment		
Electricity Transmission	**6,982**	6,203
Other activities	**7**	19
	6,989	6,222
Unallocated	**561**	935
	7,550	7,157

Unallocated total assets include amounts owed by fellow subsidiaries, cash and cash equivalents, taxation, financial investments and derivative assets.

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	
	2010	2009	**2010**	2009	**2010**	2009
	£m	£m	**£m**	£m	**£m**	£m
Depreciation of property, plant and equipment	**225**	206	**-**	-	**225**	206
Amortisation of intangible assets	**15**	16	**-**	-	**15**	16
Payroll costs	**97**	117	**5**	1	**102**	118
Other operating charges:						
Rates	**108**	103	**-**	-	**108**	103
Electricity transmission services scheme direct costs	**691**	904	**-**	-	**691**	904
Payments to Scottish electricity transmission network owners	**309**	290	**-**	-	**309**	290
Other	**234**	242	**9**	7	**243**	249
	1,679	1,878	**14**	8	**1,693**	1,886
Operating costs include:						
Consumption of inventories					**5**	6
Research expenditure					**6**	8
Operating lease rentals					**7**	6

(a) Payroll costs

	2010	2009
	£m	£m
Wages and salaries	**108**	117
Social security costs	**12**	12
Other pension costs	**16**	14
Share-based payments	**3**	2
Severance costs (excluding pension costs)	**3**	3
	142	148
Less: payroll costs capitalised	**(40)**	(30)
	102	118

3. Operating costs continued

(b) Number of employees, including Directors

	31 March 2010 Number	Average 2010 Number	Average 2009 Number
UK			
Continuing operations	**2,488**	2,515	2,469

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

(c) Key management compensation

	2010 £m	2009 £m
Salaries and short-term employee benefits	**3**	2
Post-employment benefits	**1**	1
Share-based payments	**1**	1
	5	4

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 NGET 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 2010 was £1,124,670 (2009: £1,101,631).

The highest paid director and four other directors exercised share options during 2010 (2009: highest paid director and two other Directors).

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 (2009: five directors, under a defined benefit scheme).

The aggregate emoluments for the highest paid Director were £474,102 for 2010 (2009: £482,485); and total accrued annual pension at 31 March 2010 for the highest paid Director was £82,522 (2009: £81,751).

(e) Auditors' remuneration

	2010 £m	2009 £m
Audit services		
Audit fee of parent company and consolidated financial statements	**0.2**	0.3
Other services		
Other services supplied pursuant to legislation	**0.2**	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

	2010 £m	2009 £m
Exceptional items - restructuring costs (i)	**(14)**	(8)
Total exceptional items included within operating profit	**(14)**	(8)
Remeasurements - net gains/(losses) on derivative financial instruments (ii)	**10**	(32)
Total exceptional items and remeasurements included within finance costs	**10**	(32)
Total exceptional items and remeasurements before taxation	**(4)**	(40)
Exceptional tax item - deferred tax charge arising from change in the IBAs regime (iii)	**-**	(15)
Tax on exceptional items - restructuring costs (i)	**4**	3
Tax on remeasurements - derivative financial instruments (ii)	**(3)**	9
Tax on exceptional items and remeasurements	**1**	(3)
Total exceptional items and remeasurements after taxation	**(3)**	(43)
Total exceptional items after taxation	**(10)**	(20)
Total remeasurements after taxation	**7**	(23)
Total exceptional items and remeasurements after taxation	**(3)**	(43)

(i) Restructuring costs relate to transformation related initiative, costs associated with the outsourcing of the shared services organisation, charges in the comparative years include planned cost reduction programmes and costs associated with the outsourcing of elements of the shared services organisation.

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

(iii) The exceptional tax charge in the prior year arose from changes to industrial buildings allowances (IBA) in the 2008 Finance Act. This resulted in an increase in deferred tax liabilities.

5. Pensions

Substantially all of NGET's employees are members of the National Grid Electricity Group of the Electricity Supply Pension Scheme which is a defined benefit pension scheme. 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.

The amounts recognised in the consolidated income statement with respect to pensions are as follows:

	2010 £m	2009 £m
Defined benefit scheme costs		
Current service cost	**13**	12
Curtailment gains on redundancies	**(1)**	(1)
Cost of contractual termination on redundancies	**3**	2
Other augmentation	**1**	1
Total in payroll costs	**16**	14
Interest cost	**103**	112
Expected return on plan assets	**(74)**	(93)
Total in finance costs	**29**	19

The amounts recognised in the consolidated statement of recognised income and expense with respect to pensions are as follows:

	2010 £m	2009 £m
Actuarial loss during the year	**(153)**	(77)
Adjustment to actuarial (loss)/gain relating to prior year	**-**	5
Cumulative actuarial loss	**(185)**	(32)

The amounts recognised in the consolidated balance sheet with respect to pensions are as follows:

	2010 £m	2009 £m
Present value of funded obligations	**(2,004)**	(1,539)
Fair value of plan assets	**1,531**	1,145
	(473)	(394)
Present value of unfunded obligations	**(20)**	(14)
Net liability in the balance sheet	**(493)**	(408)

	2010 £m	2009 £m
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation (including unfunded obligations)	**(1,553)**	(1,730)
Current service cost	**(13)**	(12)
Interest cost	**(103)**	(112)
Actuarial (losses)/gains	**(432)**	224
Net increase in liabilities from redundancies	**(3)**	(1)
Employee contributions	**(4)**	(6)
Benefits paid (including unfunded obligations)	**88**	82
Net transfers	**(3)**	3
Other augmentations	**(1)**	(1)
Closing defined benefit obligation (including unfunded obligations)	**(2,024)**	(1,553)
Changes in the fair value of plan assets		
Opening fair value of plan assets	**1,145**	1,321
Expected return on plan assets	**74**	93
Actuarial gains/(losses)	**279**	(301)
Employer contributions	**114**	111
Employee contributions	**4**	6
Benefits paid (including unfunded obligations)	**(88)**	(82)
Net transfers	**3**	(3)
Closing fair value of plan assets	**1,531**	1,145
Actual return on plan assets	**353**	(208)
Expected contributions to defined benefit plans in the following year	**22**	19

6. Finance income and costs

	2010 £m	2009 £m
Interest income and similar income		
Expected return on pension plan assets	**74**	91
Interest income on financial instruments:		
Interest income from bank deposits and other financial assets	**4**	27
Interest receivable on finance leases	**-**	1
Interest income and similar income	**78**	119
Interest expense and other financial costs		
Interest on pension plan obligations	**(103)**	(112)
Interest expense on financial liabilities held at amortised cost:		
Interest on bank loans and overdrafts	**(21)**	(23)
Interest on other borrowings	**(161)**	(233)
Interest on derivatives	**1**	(8)
Less: interest capitalised (i)	**53**	72
Interest expense	**(231)**	(304)
Net gains/(losses) on derivative financial instruments included in remeasurements:		
Ineffectiveness on derivatives designated as fair value hedges (ii)	**27**	(34)
Ineffectiveness on derivatives designated as cash flow hedges	**(11)**	4
On derivatives not designated as hedges or ineligible for hedge accounting	**(6)**	(2)
Net gains/(losses) on derivative financial instruments included in remeasurements (iii)	**10**	(32)
Interest expense and other finance costs	**(221)**	(336)
Net finance costs	**(143)**	(217)
Comprising:		
Interest income and similar income	**78**	119
Interest expense and other finance costs		
Before exceptional items and remeasurements	**(231)**	(304)
Exceptional items and remeasurements	**10**	(32)
	(221)	(336)
	(143)	(217)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 3.6% (2009: 6.15%).

(ii) Includes a net gain on instruments designated as fair value hedges of £4m (2009: £63m) together with a gain of £23m (2009: £97m) arising from the fair value adjustments to the carrying value of debt.

(iii) Includes a net foreign exchange gain on financing activities of £26m (2009: £68m loss). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

7. Taxation

Taxation on items charged to the income statement

	Before exceptional items and remeasurements		Exceptional items and remeasurements		Total	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Current tax						
Corporation tax at 28% (2009: 28%)	**100**	91	**(1)**	(12)	**99**	79
Corporation tax adjustment in respect of prior years	**4**	4	**-**	-	**4**	4
Total current tax	**104**	95	**(1)**	(12)	**103**	83
Deferred tax	**84**	62	**-**	-	**84**	62
Deferred tax charge arising from changes in the IBAs regime	**-**	-	**-**	15	**-**	15
Deferred tax adjustment in respect of prior years	**(4)**	(4)	**-**	-	**(4)**	(4)
Total deferred tax	**80**	58	**-**	15	**80**	73
Income tax expense	**184**	153	**(1)**	3	**183**	156

Taxation on items (credited)/charged to equity

	2010 £m	2009 £m
Deferred tax charge/(credit) on revaluation of cash flow hedges	**4**	(9)
Deferred tax credit on actuarial gains/losses	**(43)**	(22)
Tax credit recognised in consolidated statement of comprehensive income	**(39)**	(31)
Deferred tax charge on share-based payments recognised directly in equity	**-**	2
Corporation tax credit on share-based payments recognised directly in equity	**(1)**	(1)
	(40)	(30)

The tax charge for the year after exceptional items and remeasurements is higher (2009: higher) than the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are explained below:

	Before exceptional items and remeasure-ments 2010 £m	**After exceptional items and remeasure-ments 2010 £m**	Before exceptional items and remeasure-ments 2009 £m	After exceptional items and remeasure-ments 2009 £m
Profit before taxation				
Before exceptional items and remeasurements	**652**	**652**	544	544
Exceptional items and remeasurements	**-**	**(4)**	-	(40)
Profit before taxation from continuing operations	**652**	**648**	544	504
Profit on continuing operations multiplied by the rate of corporation tax in the UK of 28% (2009: 28%)	**183**	**182**	152	141
Effects of:				
Expenses not deductible for tax purposes	**2**	**2**	1	16
Non-taxable income	**(1)**	**(1)**	-	(1)
Tax charge	**184**	**183**	153	156
	%	**%**	%	%
At the effective income tax rate	**28.2**	**28.2**	28.1	31.0

7. Taxation (continued)

Factors that may affect future tax charges

A number of changes to the UK Corporation Tax system were announced in the 2010 Budget Report which have been enacted in the 2010 Finance Act. The impact of these is not considered to be material to the future tax charge in the UK.

Further changes were announced in the UK Government's Emergency Budget on 22 June 2010. This included a reduction in the main corporation tax rate from the current 28% to 24% comprising a 1% per annum reduction over the course of a four year period commencing from 1 April 2011. In addition, the rate of capital allowances on assets in the main pool is expected to fall from 20% to 18% and long life assets from 10% to 8% from 1 April 2012. We are in the process of evaluating the impact these changes will have on future tax charges.

Additionally, the worldwide debt cap, which restricts the amount of finance expense available for UK tax purposes, will apply for accounting periods ended 31 March 2011 onwards but is not expected to have a material effect on our future tax charge.

There is currently ongoing consultation on the reform of the controlled foreign company legislation. The outcome of the consultation process will not be known for some time and we will monitor the impact of the taxation on our holdings in our overseas operations.

Furthermore a number of additional issues will also be the subject of future consultation such as a possible general anti-avoidance rule. We will monitor the impact of these proposals on our future tax charge.

8. Dividends

The following table shows the dividends paid to equity shareholders:

	2010 pence (per ordinary share)	**2010 £m**	2009 pence (per ordinary share)	2009 £m
Ordinary dividends				
Interim dividend for the year ended 31 March 2010	**34.30**	**150**	-	-
Interim dividend for the year ended 31 March 2009	**-**	**-**	68.61	300

9. Intangible assets

	Software £m
Non-current	
Cost at 1 April 2008	160
Additions	9
Cost at 31 March 2009	169
Additions	8
Reclassifications (i)	(3)
Cost at 31 March 2010	174
Amortisation at 1 April 2008	(104)
Amortisation charge for the year	(16)
Amortisation at 31 March 2009	(120)
Amortisation charge for the year	(15)
Reclassifications (i)	4
Amortisation at 31 March 2010	(131)
Net book value at 31 March 2010	**43**
Net book value at 31 March 2009	49

(i) Represents reclassification between categories - see note 10.

10. 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 2008	154	6,644	1,247	90	8,135
Additions	26	602	224	3	855
Disposals	5	(73)	-	(1)	(69)
Reclassifications (i)	-	3	(3)	-	-
Cost at 31 March 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
Depreciation at 1 April 2008	(27)	(2,682)	-	(72)	(2,781)
Depreciation charge for the year	(5)	(191)	-	(10)	(206)
Disposals	-	28	-	23	51
Depreciation at 31 March 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)
Net book value at 31 March 2010	**181**	**4,930**	**1,636**	**22**	**6,769**
Net book value at 31 March 2009	153	4,331	1,468	33	5,985

(i) Represents reclassification between categories - see note 9.

The net book value of land and buildings comprised:

	2010 £m	2009 £m
Freehold	**140**	110
Long leasehold (over 50 years)	**3**	3
Short leasehold (under 50 years)	**38**	40
	181	153

The cost of property, plant and equipment at 31 March 2010 included £644m (2009: £590m) relating to interest capitalised.

Included within trade and other payables and other non-current liabilities at 31 March 2010 are contributions to the cost of property, plant and equipment amounting to £7m (2009: £6m) and £220m (2009: £209m) respectively.

11. 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 by designated hedge type can be analysed as follows:

	2010			2009		
	Assets £m	**Liabilities £m**	**Total** £m	Assets £m	Liabilities £m	Total £m
Fair value hedges						
Interest rate swaps	**47**	**(4)**	**43**	66	-	66
Cross-currency interest rate swaps	**59**	**-**	**59**	64	-	64
	106	**(4)**	**102**	130	-	130
Cash flow hedges						
Interest rate swaps	**2**	**(57)**	**(55)**	4	(56)	(52)
Cross-currency interest rate swaps	**17**	**-**	**17**	9	-	9
	19	**(57)**	**(38)**	13	(56)	(43)
Derivatives not in a formal hedge relationship						
Interest rate swaps	**14**	**(24)**	**(10)**	16	(19)	(3)
Cross-currency interest rate swaps	**4**	**-**	**4**	5	-	5
Foreign exchange forward contracts	**-**	**-**	**-**	4	-	4
Forward rate agreements	**-**	**(7)**	**(7)**	-	(4)	(4)
	18	**(31)**	**(13)**	25	(23)	2
	143	**(92)**	**51**	168	(79)	89
Hedge positions offset within derivative instruments	**8**	**(8)**	**-**	-	-	-
Total	**151**	**(100)**	**51**	168	(79)	89

The maturity of derivative financial instruments is as follows:

	2010			2009		
	Assets £m	**Liabilities £m**	**Total** £m	Assets £m	Liabilities £m	Total £m
In one year or less	**17**	**(11)**	**6**	34	(24)	10
Current	**17**	**(11)**	**6**	34	(24)	10
In more than one year but not more than two years	**-**	**-**	**-**	5	-	5
In more than two years but not more than three years	**-**	**(16)**	**(16)**	-	-	-
In more than three years but not more than four years	**47**	**(7)**	**40**	-	(11)	(11)
In more than four years but not more than five years	**-**	**-**	**-**	61	(1)	60
In more than five years	**87**	**(66)**	**21**	68	(43)	25
Non-current	**134**	**(89)**	**45**	134	(55)	79
Total	**151**	**(100)**	**51**	168	(79)	89

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

	2010 £m	2009 £m
Interest rate swaps	**(2,143)**	(1,922)
Cross-currency interest rate swaps	**(700)**	(698)
Foreign exchange forward contracts	**(3)**	(29)
Forward rate agreements	**(940)**	(1,980)
Total	**(3,786)**	(4,629)

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

12. Inventories

	2010 £m	2009 £m
Raw materials and consumables	**33**	31
Work in progress	**-**	-
	33	31

The above table includes a £12m provision for obsolescence as at 31 March 2010 (2009: £11ml).

13. Trade and other receivables

	2010 £m	2009 £m
Trade receivables	**13**	16
Amounts owed by fellow subsidiaries	**17**	20
Other receivables	**3**	8
Prepayments and accrued income	**128**	133
	161	177

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

Provision for impairment of receivables

	£m
At 31 March 2009	**-**
At 31 March 2010	**1**

As at 31 March 2010, trade receivables of £nil (2009: £nil) were past due but not impaired.

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

14. Financial investments

	2010 £m	2009 £m
Current		
Loans and receivables - amounts due from fellow subsidiaries	**3**	21
Available-for-sale investments	**64**	339
Total financial and other investments	**67**	360

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

15. Cash and cash equivalents

	2010 £m	2009 £m
Short-term deposits	**326**	387
Cash and cash equivalents excluding bank overdrafts	**326**	387
Bank overdrafts	**(13)**	(4)
Net cash and cash equivalents	**313**	383

The fair values 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.

16. Borrowings

The following table analyses borrowings, including bank overdrafts:

	2010 £m	2009 £m
Current		
Bank loans	**5**	28
Bonds	**300**	46
Borrowings from fellow subsidiaries	**16**	11
Bank overdrafts	**13**	4
	334	89
Non-current		
Bank loans	**400**	400
Bonds	**3,932**	4,223
	4,332	4,623
Total borrowings	**4,666**	4,712

Total borrowings are repayable as follows:	2010 £m	2009 £m
In one year or less	**334**	89
In more than one year, but not more than two years	**-**	258
In more than two years, but not more than three years	**200**	-
In more than three years, but not more than four years	**552**	200
In more than four years, but not more than five years	**-**	577
In more than five years other than by instalments	**3,580**	3,588
	4,666	4,712

The fair value of borrowings at 31 March 2010 was £5,068m (2009: £4,367m). 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 2010 was £4,577m (2009: £4,595m).

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 £5m (2009: nil) in respect of cash received under collateral agreements. Cash placed under collateral agreements is shown in note 15.

As at 31 March 2010, the Company had committed credit facilities of £425m (2009: £425m) of which £425m was undrawn (2009: £425m undrawn). These undrawn facilities expire within one year.

All of the unused facilities at 31 March 2010 and at 31 March 2009 were held as back-up to commercial paper and similar borrowings.

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

17. Trade and other payables

	2010 £m	2009 £m
Trade payables	**362**	324
Amounts owed to fellow subsidiaries	**99**	83
Social security and other taxes	**39**	31
Other payables	**27**	26
Deferred income	**77**	106
	604	570

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.

18. Other non-current liabilities

	2010 £m	2009 £m
Other payables	**12**	-
Deferred income	**234**	210
	246	210

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

19. 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	Employee share options £m	Pensions £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2008	-	(7)	(114)	(8)	(10)	(139)
Deferred tax liabilities at 31 March 2008	809	-	-	-	-	809
At 1 April 2008	809	(7)	(114)	(8)	(10)	670
Charged/(credited) to income statement	49	-	22	-	2	73
Charged/(credited) to equity	-	2	(21)	(9)	-	(28)
At 31 March 2009	858	(5)	(113)	(17)	(8)	715
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/(credited) to income statement	57	1	19	-	3	80
Charged/(credited) 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
	915	(4)	(138)	(13)	(4)	756

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 (2009: £nil).

20. Provisions

	Environmental £m	Other £m	Total provisions £m
At 1 April 2008	2	13	15
Additions	-	5	5
Utilised	-	(2)	(2)
At 31 March 2009	2	16	18
Additions	-	7	7
Utilised	(1)	(4)	(5)
At 31 March 2010	**1**	**19**	**20**

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

	2010 £m	2009 £m
Current	**10**	6
Non-current	**10**	12
	20	18

Environmental provision
The environmental provision is calculated on an undiscounted basis and represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Company. It is currently estimated that this provision will be utilised within the next year.

Other provisions
Other provisions include employer liability claims of £7m (2009: £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 2009 and 2010 - 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

	2010 **£m**	2009 £m
Movement in cash and cash equivalents	**(70)**	371
Decrease in financial investments	**(293)**	(556)
Increase in borrowings and derivatives	**(14)**	(200)
Net interest paid	**184**	155
Change in net debt resulting from cash flows	**(193)**	(230)
Changes in fair value of financial assets and liabilities	**24**	(65)
Net interest charge	**(177)**	(237)
Movement in net debt (net of related derivative financial instruments) in the year	**(346)**	(532)
Net debt at start of year	**(3,876)**	(3,344)
Net debt (net of related derivative financial instruments) at end of year	**(4,222)**	(3,876)

(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 2008	12	-	12	916	(4,314)	42	(3,344)
Cash flow	375	(4)	371	(583)	(106)	88	(230)
Fair value gains and losses	-	-	-	-	(32)	(33)	(65)
Interest charges	-	-	-	27	(256)	(8)	(237)
At 31 March 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)

Notes to the consolidated financial statements - supplementary information

23. Commitments and contingencies

(a) Future capital expenditure

	2010 £m	2009 £m
Contracted for but not provided	**921**	763

(b) Lease commitments

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

	2010 £m	2009 £m
Amounts due:		
In one year or less	**10**	7
In more than one year, but not more than two years	**7**	6
In more than two years, but not more than three years	**5**	5
In more than three years, but not more than four years	**5**	4
In more than four years, but not more than five years	**5**	5
In more than five years	**31**	36
	63	63

The majority of the leases are in respect of properties.

(c) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £5m (2009: £1m).

(d) Other commitments, contingencies and guarantees

The value of other commitments and guarantees at 31 March 2010 amounted to £26m (2009: £40m) and comprised the following:

(i) Guarantees in respect of a former associate amounting to £14m (2009: £14m). These are open ended.

(ii) Guarantees in the normal course of business and entered into on normal commercial terms of £12m (2009: £26m). These guarantees run for various lengths of time.

24. Related party transactions

The following information is provided in accordance with IAS 24 (Related party disclosures) as being material transactions with related parties during the year. These transactions are with fellow subsidiaries of National Grid plc, a joint venture and a pension plan, are in the normal course of business and are summarised below.

	Parent		Other related parties		Total	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Income:						
Goods and services supplied	**-**	-	**21**	11	**21**	11
Interest received on advances to fellow subsidiaries	**-**	3	**3**	27	**3**	30
	-	3	**24**	38	**24**	41
Expenditure:						
Services received	**-**	-	**(33)**	(19)	**(33)**	(19)
Corporate services received	**-**	-	**(9)**	(12)	**(9)**	(12)
Charges in respect of share-based payments	**-**	-	**(3)**	(2)	**(3)**	(2)
Interest paid on borrowings from fellow subsidiaries	**-**	(3)	**(1)**	(23)	**(1)**	(26)
	-	(3)	**(46)**	(56)	**(46)**	(59)
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:						
Amounts receivable	**-**	-	**17**	20	**17**	20
Amounts payable	**-**	-	**(99)**	(83)	**(99)**	(83)
Advances to fellow subsidiaries (amounts due within one year):						
At 1 April	**-**	71	**21**	845	**21**	916
Advances	**1**	-	**-**	-	**1**	-
Repayments	**-**	(71)	**(19)**	(824)	**(19)**	(895)
At 31 March	**1**	-	**2**	21	**3**	21
Borrowings payable to fellow subsidiaries (amounts due within one year):						
At 1 April	**-**	-	**(11)**	(408)	**(11)**	(408)
Advances	**(6)**	-	**-**	(9)	**(6)**	(9)
Repayments	**1**	-	**-**	406	**1**	406
At 31 March	**(5)**	-	**(11)**	(11)	**(16)**	(11)

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 2010 (2009: £nil) and no expense recognised during the year (2009: £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 5 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 provides final salary defined benefits and 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 was carried out by Hewitt Associates Limited as at 31 March 2007. The market value of the scheme's assets was £1,345m and the value of the assets represented 77% of the actuarial value of benefits due to members, calculated on the basis of pensionable earnings and service at 31 March 2007 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £405m (£292m net of tax) on the valuation date in the light of which NGET agreed a recovery plan with the trustees.

The actuarial valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 26.5% of pensionable earnings (20.5% employers and 6% employees). This contribution rate will be reviewed as part of the next valuation on 31 March 2010.

Following the 2007 actuarial valuation, NGET and the trustees agreed a recovery plan which will see the remaining deficit paid off by March 2017. NGET paid deficit repair contributions of £90m (£65m net of tax) during the year and anticipates no further deficit payment in the year to March 2011 and will recommence contributions in the following year in line with the recovery plan. Contributions to the scheme in the year to 31 March 2011 are expected to consist of ongoing normal contribution only.

Since 2007, National Grid has also agreed to bring forward payment of the outstanding deficit plus interest in the event that certain triggers are breached. The conditions under which payment of the outstanding deficit would be made are if NGET ceases to hold the 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 and actuarial assumptions

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

	2010	2009	2008
	%	%	%
Equities	**54.8**	47.6	55.5
Corporate bonds	**13.5**	13.0	9.0
Gilts	**26.1**	33.0	28.6
Property	**3.9**	4.8	5.8
Other	**1.7**	1.6	1.1
Total	**100.0**	100.0	100.0

The expected long-term rate of return on assets has been set reflecting the price inflation expectation, the expected real return on each major asset class and the long-term asset allocation strategy adopted for the plan. 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 current target asset allocation is 52% equities, 41% bonds, 7% property and other.

The principal actuarial assumptions used were:

	2010	2009	2008
	%	%	%
Discount rate (i)	**5.6**	6.8	6.6
Expected return on plan assets	**6.9**	6.3	6.9
Rate of increase in salaries (ii)	**4.8**	3.9	4.7
Rate of increase in pensions in payment and deferment	**3.5**	2.8	3.8
Rate of increase in Retail Prices Index	**3.8**	2.9	3.7

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

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

25. Actuarial information on pensions continued

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

	2010 years	2009 years
Today:		
Males	**22.4**	22.3
Females	**23.8**	23.7
In 20 years:		
Males	**24.8**	24.7
Females	**26.6**	26.5

Sensitivities analysed - all other assumptions held constant:

	Change in in pension obligation		Change in in annual pension cost	
	2010 £m	2009 £m	**2010 £m**	2009 £m
0.1% increase in discount rate	**31**	20	**1**	-
0.5% increase in long-term rate of increase in salaries	**38**	19	**2**	1
Increase of one year in life expectations at age 60	**57**	37	**1**	-

The history of experience adjustments is as follows:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Details of experience gains/(losses)					
Present value of funded and unfunded obligations	**(2,024)**	(1,553)	(1,730)	(1,824)	(1,724)
Fair value of plan assets	**1,531**	1,145	1,321	1,336	1,334
	(493)	(408)	(409)	(488)	(390)
Difference between expected and actual return on plan assets	**279**	(301)	(77)	(25)	168
Experience losses on plan liabilities	**45**	(19)	(30)	(4)	(11)
Actuarial (losses)/gains on plan liabilities	**(432)**	224	128	(67)	(125)

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 maturity and other profiles of assets and liabilities.

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

Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the item in relation to the risk being hedged are recognised in 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 NGET. 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 17 of the Operating and Financial Review.

27. Financial risk continued

(a) Market risk

(i) Foreign exchange risk

NGET is 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 2010 and 2009, derivative financial instruments were used to manage exchange risk as follows:

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

	2009				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Cash and cash equivalents	387	-	-	-	387
Financial investments	360	-	-	-	360
Borrowings (i)	(3,859)	(706)	-	(147)	(4,712)
Pre-derivative position	(3,112)	(706)	-	(147)	(3,965)
Derivative effect	(763)	702	3	147	89
Net debt position	(3,875)	(4)	3	-	(3,876)

(i) Includes bank overdrafts

The currency exposure on other financial instruments is as follows:

	2010				2009			
	Sterling £m	**Euro £m**	**US dollar £m**	**Total £m**	Sterling £m	Euro £m	US dollar £m	Total £m
Trade and other receivables	**33**	**-**	**-**	**33**	44	-	-	44
Trade and other payables	**(527)**	**-**	**-**	**(527)**	(433)	-	-	(433)
Other non-current liabilities	**(12)**	**-**	**-**	**(12)**	-	-	-	-

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from NGET's borrowings. Borrowings issued at variable rates expose NGET to cash flow interest rate risk. Borrowings issued at fixed rates expose NGET to fair value interest rate risk. The interest rate risk management policy as further explained on page 16 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). NGET believes 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.

27. Financial risk continued

(a) Market risk continued

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

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:

	2010 £m	2009 £m
Fixed interest rate borrowings		
In one year or less	**287**	61
In more than one year but not more than two years	**-**	258
In more than two years but not more than three years	**-**	-
In more than three years but not more than four years	**552**	-
In more than four years but not more than five years	**-**	577
In more than five years	**1,350**	1,373
	2,189	2,269
Floating interest rate borrowings (including RPI)	**2,476**	2,442
Non-interest bearing borrowings	**1**	1
Total borrowings	**4,666**	4,712

During 2010 and 2009, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	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)**
Pre-derivative position	**(1,863)**	**(368)**	**(2,041)**	**(1)**	**(4,273)**
Derivative effect	**(115)**	**79**	**87**	**-**	**51**
Net debt position (iii)	**(1,978)**	**(289)**	**(1,954)**	**(1)**	**(4,222)**

	2009 Fixed rate £m	Floating rate £m	RPI(i) £m	Other(ii) £m	Total £m
Cash and cash equivalents	-	387	-	-	387
Financial investments	-	358	-	2	360
Borrowings (iv)	(2,269)	(415)	(2,027)	(1)	(4,712)
Pre-derivative position	(2,269)	330	(2,027)	1	(3,965)
Derivative effect	243	(253)	96	3	89
Net debt position	(2,026)	77	(1,931)	4	(3,876)

(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 NGET's financial instruments measured at fair value. They are reported in a tiered hierarchy based on the valuation methodology described on page 17, and reflecting the significance of market observable inputs.

The levels are classified as follows:

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.

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.

The fair value classification of our financial assets and financial liabilities is as follows:

	2010			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale investments	**64**	**-**	**-**	**64**
Derivative financial instruments	**-**	**117**	**34**	**151**
	64	**117**	**34**	**215**
Liabilities				
Derivative financial instruments	**-**	**(100)**	**-**	**(100)**
Total	**64**	**17**	**34**	**115**

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:

	Derivative financial instruments £m
At 1 April 2009	11
Total recognised income and expense for the year (i)	26
Settlements	(3)
At 31 March 2010	34

(i) Gains of £26m are attributable to assets or liabilities held at the end of the reporting period.

27. Financial risk continued

(c) Credit risk

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 plc, as explained in our treasury policies on page 15.

As at 31 March 2010 and 2009, 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 11 was £151m (2009: £168m); after netting agreements it was £144m (2009: £125m).

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 13.

(d) Liquidity analysis

We manage 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:

At 31 March 2010	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due 3 years and beyond	Total
Non-derivative financial liabilities					
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)**
Derivative financial liabilities					
Derivative contracts - receipts	**76**	**27**	**27**	**159**	**289**
Derivative contracts - payments	**(35)**	**(29)**	**(17)**	**(185)**	**(266)**
Total at 31 March 2010	**(808)**	**(190)**	**(372)**	**(7,170)**	**(8,540)**

At 31 March 2009	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due 3 years and beyond	Total
Non-derivative financial liabilities					
Borrowings	(38)	(250)	-	(4,306)	(4,594)
Interest payments on borrowings (i)	(185)	(185)	(184)	(3,127)	(3,681)
Other non-interest bearing liabilities	(350)	-	-	-	(350)
Derivative financial liabilities					
Derivative contracts - receipts	47	56	30	221	354
Derivative contracts - payments	(30)	(24)	(26)	(203)	(283)
Total at 31 March 2009	(556)	(403)	(180)	(7,415)	(8,554)

(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 future 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 2010 and 31 March 2009, 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 twelve-month period for the accrued interest portion of the sensitivity calculations; and
- sensitivity to the Retail Prices Index does not take into account any changes to revenue or operating costs that are affected by the Retail Prices Index or inflation generally.

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

	2010		2009	
	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%	**3**	**19**	3	18

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

(f) Capital and risk management

NGET's objective when managing capital is to safeguard its ability to continue as a going concern and to remain within regulatory constraints. The principal measure of balance sheet efficiency is gearing calculated as net debt expressed as a percentage of regulatory asset value. The gearing ratio at 31 March 2010 was 56% compared to 58% at 31 March 2009. 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 award plans in which our employees and Directors participate. These are an employee Sharesave scheme, a Performance Share Plan (PSP) and the Deferred Share Plan.

Active share plans

The Sharesave scheme is savings related where, under normal circumstances, share options are exercisable on completion of a three or a five-year Save-As-You-Earn contract. The exercise price of options granted represents 80% of the market price at the time of the invitation.

Under the PSP, awards have been made to Directors and approximately 75 senior employees. Awards made from 2005, have a criteria of 50% based on National Grid's Total Shareholder Return (TSR) performance when compared to the FTSE 100 and 50% is based on the annualised growth of National Grid's EPS compared to the growth in RPI (the general index of retail prices for all items). Awards are delivered in National Grid plc shares.

Under the Deferred Share Plan, one half of any bonus earned by Executive Directors of National Grid plc and a predetermined part of any bonus earned by other Directors and senior employees is automatically deferred into National Grid shares. The shares are held in trust for three years before release.

Additional information in respect of active share plans

	2010 000s	2009 000s
Performance Share Plan		
Awards of ordinary share equivalents at 1 April	**871**	698
Awards made	**305**	233
Lapses/forfeits	**(50)**	(24)
Transfers (i)	**(6)**	(6)
Awards vested	**(442)**	(30)
Awards of ordinary share equivalents at 31 March	**678**	871
Conditional awards available for release at 31 March	**-**	225
Deferred Share Plan		
Awards of ordinary share equivalents at 1 April	**53**	32
Awards made	**12**	21
Awards vested	**(40)**	-
Awards of ordinary share equivalents at 31 March	**25**	53
Conditional awards available for release at 31 March	**-**	-

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

Non-active share plans

We also have a number of historical plans under which awards are still outstanding, but no further awards will be granted. These include the Executive Share Option Plan and the Share Matching Plan.

The Executive Share Option Plan applied to senior executives, including Executive Directors of National Grid plc. Options granted were subject to the achievement of performance targets related to National Grid's TSR over a three-year period and those for 2000 are subject to a final retest in 2010 after which they will lapse if the performance criterion is not met. The share options are generally exercisable between the third and tenth anniversaries of the date of grant if the relevant performance target is achieved.

The Share Matching Plan applied to Executive Directors of National Grid plc and other Directors and senior employees whereby a predetermined part of each participant's bonus entitlement was automatically deferred into National Grid plc shares (known as qualifying shares) and a matching award may be exercised under the Plan after a three-year period, provided the Director or senior employee remains employed by the National Grid group.

Additional information in respect of non-active share plans

	2010 000s	2009 000s
Share Matching Plan		
Awards at 1 April	**3**	8
Awards exercised	**-**	(5)
Awards at 31 March	**3**	3
Options exercisable at 31 March	**3**	3

28. Share options and reward plans continued

Share options

Movements in options to subscribe for ordinary shares under the various option schemes for the two years ended 31 March 2010 are shown below and include those options related to shares issued to employee benefit trusts.

	Sharesave scheme options		Executive Plan options		Total options
	Weighted average price £	millions	Weighted average price £	millions	millions
At 1 April 2008	4.52	5.4	4.87	0.5	5.9
Granted	4.88	2.9	-	-	2.9
Lapsed - expired	6.21	(0.9)	5.26	-	(0.9)
Exercised	3.73	(0.6)	4.54	(0.2)	(0.8)
Transfers (i)	4.52	0.1	-	-	0.1
At 31 March 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**

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

Included within options outstanding at 31 March 2010 and 31 March 2009 were the following options which were exercisable:

At 31 March 2010	**4.58**	**0.3**	**4.65**	**0.1**	**0.4**
At 31 March 2009	4.25	0.0	4.70	0.2	0.2

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2010 was 2 years and 7 months. These options have exercise prices between £3.83 and £6.55.

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

	2010 £	2009 £
Sharesave scheme options	5.74	6.99
Executive Plan options	6.03	6.81

Additional information in respect of share options

Options outstanding and exercisable and their weighted average exercise prices for the respective ranges of exercise prices and years at 31 March 2010 are as follows:

	Weighted average exercise price of exercisable options £	Number exercisable	Weighted average exercise price of outstanding options £	Number outstanding	Exercise price per share pence	Normal dates of exercise years
Executive Plan	5.26	-	5.26	166,468	526.00	2004 - 2011
	4.65	97,650	4.65	97,650	435.75 - 481.50	2006 - 2013
	4.64	97,650	5.03	264,118		

Share-based payment charges

The charge to the income statement for the year ended 31 March 2010 was £3m (2009: £2m).

Awards under share option plans

The average share prices at the date of options being granted, the average exercise price of options granted and the estimated average fair value of the options granted during each of the two financial years ended 31 March were as follows:

	2010	2009
Average share price	**676.0p**	684.0p
Average exercise price	**520.0p**	488.0p
Average fair value	**161.1p**	153.7p

These amounts have been calculated in respect of options where the exercise price is less than the market price at the date of grant.

28. Share options and reward plans continued

Share options continued

The fair values of the options granted were estimated using the following principal assumptions:

	2010	2009
Dividend yield (%)	**5.0**	5.0
Volatility (%)	**22.4-26.1**	22.4-26.1
Risk-free investment rate (%)	**2.5**	2.5
Average life (years)	**4.0**	4.2

The fair values of awards under the Sharesave scheme have been calculated using the Black-Scholes European model. This is considered appropriate given the short exercise window of sharesave options. The fair value of awards made in 2008 have been calculated by reference to the 2006 Black-Scholes European model calculation.

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.

Awards under other share scheme plans

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

	2010	2009
Average share price	**598.2p**	670.1p
Average fair value	**355.6p**	458.1p

The fair values of the awards granted were estimated using the following principal assumptions:

	2010	2009
Dividend yield (%)	4.4	4.4
Risk-free investment rate (%)	2.5	2.5

Fair values have been calculated using a Monte Carlo simulation model for awards with total shareholder return performance conditions. A Monte Carlo simulation model calculation is carried out every three years. In the intervening years fair values are calculated by reference to the previous full Monte Carlo simulation model calculation. Consequently, the fair value of awards made in 2010 have been calculated by reference to the 2009 Monte Carlo simulation model calculation and the fair value of awards made in 2008 have been calculated by reference to the 2006 Monte Carlo simulation model calculation. Fair values of awards with performance conditions based on earnings per share have been calculated using the share price at date of grant less the present value of dividends foregone during the performance period.

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

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 principal subsidiary undertakings included in the consolidated financial statements are NG Leasing Limited, whose principal activity is vehicle leasing, and NGET Finance (No 1) plc, a finance company. Both these companies are wholly owned and incorporated in Great Britain.

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.

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Appendix 1 – Corporate governance

Corporate governance

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

National Grid's corporate governance policies are described in the National Grid plc Annual Report and Accounts 2009/10 under Corporate Governance on page 84.

The Board of National Grid plc considers that it complied in full with the Combined Code during 2009/10.

Board of NGET

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

The Board of NGET normally meets 6 times a year. There are no non-executive or independent directors. The Board does not have a separately appointed Chairman. Meetings are chaired by a member of the Board, usually Nick Winser when present, otherwise as appropriate.

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

Continuous improvement and development of Board and Board committee processes and procedures is key to ensuring that NGET's governance structures are in line with best practice. Over and above procedures for evaluating individual Directors' performance, the Board have reviewed the need for a process for evaluation of Board performance and an internal process involving an anonymous questionnaire to evaluate Board performance will be established in the coming year.

Attendance at meetings of the NGET Board during 2009/10, expressed as number of meetings attended out of number eligible to attend, is set out below.

	Attendance
Nick Winser (chair)	4 of 7
Malcolm Cooper	6 of 7
Mark Fairbairn	6 of 7
Stuart Humphreys	7 of 7
Paul Whittaker	5 of 7
Helen Mahy/Karen Clayton (Company Secretary and general counsel)	6 of 7

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

The Board of NGET 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.

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 2009/10 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	3 of 4
Jonathan Munsey	Senior Counsel Energy & Regulation	2 of 2
Karen Clayton	UK General Counsel & Company Secretary	2 of 2
Louise Farnworth	HR business partner - Transmission	3 of 4
Mike Calviou	Director of Asset Management – UK Transmission (appointed January 2010)	1 of 1
Stuart Humphreys	Finance Director - Transmission	4 of 4
Alison Kay	Commercial Director - Transmission	4 of 4
Adam Mallalieu	Director of Safety, Health, Environment and Security (resigned October 2009)	0 of 3
Edward Syson	Director of Safety, Health, Environment and Security (appointed December 2009)	1 of 1
Chris Murray	Director of Asset Management - UK Transmission	3 of 4
Michael Dyke	Director of UK Construction	4 of 4
Masheed Saidi	Director of US Transmission (resigned October 2009)	0 of 2
Ellen Smith	Director of US Transmission (appointed November 2009))	2 of 2
Chris Train	Director of Network Operations - UK Transmission	4 of 4
Paul Whittaker	UK Director of Regulation	4 of 4

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

Treasury activities

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

More information on treasury policy is provided on page 17.

Internal control

The Board of National Grid plc takes overall responsibility for internal control in National Grid including its subsidiary companies. Details of the internal control process are set out on page 91 of the National Grid plc Annual Report and Accounts 2009/10.

Compliance management
Compliance management is undertaken on a National Grid wide basis. Details of the compliance management process are set out on page 92 of the National Grid plc Annual Report and Accounts 2008/09.

Internal audit
NGET does not have a separate internal audit function. Internal audit, where appropriate, is dealt with by National Grid's corporate audit function.

Risk management
The risk management process continues to be based on both bottom-up and top-down assessments of operational, financial and other business or project risks. From the bottom-up, NGET's business units prepare and maintain risk registers that capture key risks and the actions being taken to manage them. These risk registers are regularly reviewed and discussed by the executive committees for those business units. The key element in the top-down assessments of the enterprise-wide risk profile is the involvement of Directors and other senior management at critical stages in the review process. Their review and debate of bottom-up assessments produces the overall evaluations of the risks that are faced by NGET. In addition, the Executive, the Risk and Responsibility and the Audit Committees of National Grid plc review National Grid's overall risk profile twice a year. The Audit Committee of National Grid plc also reviews the risk management process at least once a year and reports on this to the Board of National Grid plc.

Further information on risk management and risk factors can be found in the Operating and Financial Review under Principal risks and uncertainties on page 19.

National Grid Electricity Transmission plc

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Appendix 2 – Additional analysis for Operating and Financial Review

Financial performance

The following section supplements the *Financial performance* and *Financial position and financial management* sections of the NGET OFR by providing information on the regulated Transmission business only.

Profit for the year from continuing operations

Profit for the year from continuing operations increased from £382 million in 2008/09 to £464 million in 2009/10 as a consequence of the changes in operating profit, net finance costs, exceptional finance costs and remeasurements, and taxation described in the following sections.

Adjusted earnings

	Years ended 31 March	
Transmission business	**2010**	2009
	£m	£m
Adjusted operating profit	**802**	717
Net finance costs excluding exceptional items and remeasurements	**(153)**	(186)
Adjusted profit before taxation	**649**	531
Taxation excluding taxation on exceptional items and remeasurements	**(185)**	(149)
Adjusted profit from continuing operations	**464**	382

Earnings

	Years ended 31 March	
Transmission business	**2010**	2009
	£m	£m
Total operating profit	**788**	708
Net finance costs	**(143)**	(218)
Profit before taxation	**645**	490
Taxation	**(184)**	(153)
Profit from continuing operations	**461**	337

Adjusted profit measures

The following tables reconcile the adjusted profit measure to the corresponding total profit measure in accordance with IFRS.

Reconciliation of adjusted operating profit to total operating profit

	Years ended 31 March	
Transmission business	**2010**	2009
	£m	£m
Adjusted operating profit	**802**	717
Exceptional items	**(14)**	(9)
Total operating profit	**788**	708

Adjusted operating profit is presented on the face of the consolidated income statement, under the heading operating profit before exceptional items.

Reconciliation of adjusted profit before taxation to profit before taxation

	Years ended 31 March	
Transmission business	**2010**	2009
	£m	£m
Adjusted profit before taxation	**649**	531
Exceptional items	**(14)**	(9)
Derivative financial remeasurements	**10**	(32)
Total profit before taxation	**645**	490

Adjusted profit before taxation is presented on the face of the consolidated income statement, under the heading profit before taxation before exceptional items and remeasurements.

Reconciliation of adjusted earnings to earnings (profit for the year from continuing operations)

	Years ended 31 March	
Transmission business	**2010**	2009
	£m	£m
Adjusted earnings	**464**	382
Exceptional items	**(10)**	(22)
Derivative financial remeasurements	**7**	(23)
Earnings	**461**	337

Adjusted earnings is presented on the face of the consolidated income statement, under the heading profit from continuing operations after taxation before exceptional items and remeasurements.

Operating profit

Operating profit for 2009/10 and 2008/09 for the regulated Transmission business was as follows:

	Years ended 31 March	
Transmission business	**2010**	2009
	£m	£m
Revenue	**2,437**	2,556
Other operating income	**-**	-
Operating costs excluding exceptional items	**(1,635)**	(1,839)
Adjusted operating profit	**802**	717
Exceptional items	**(14)**	(9)
Total operating profit	**788**	708

Operating profit for 2009/10 and 2008/09 for NGET analysed between the Transmission business and other activities was as follows:

NGET	Years ended 31 March 2010 £m	2009 £m
Revenue - Transmission business	**2,437**	2,556
Revenue - other activities	**47**	45
Revenue - NGET	**2,484**	2,601
Other operating income - other activities	**-**	6
Operating costs excluding exceptional items - Transmission business	**(1,635)**	(1,839)
Operating costs excluding exceptional items - other activities	**(44)**	(39)
Operating costs excluding exceptional items - NGET	**(1,679)**	(1,878)
Adjusted operating profit - Transmission business	**802**	717
Adjusted operating profit - other activities	**3**	12
Adjusted operating profit - NGET	**805**	729
Exceptional items - Transmission business	**(14)**	(9)
Exceptional items - other activities	**-**	1
Exceptional items - NGET	**(14)**	(8)
Total operating profit - Transmission business	**788**	708
Total operating profit - other activities	**3**	13
Total operating profit - NGET	**791**	721

2009/10 compared with 2008/09

Changes in revenue and other operating income, operating costs and operating profit for 2009/10 compared with 2008/09 for NGET as a whole can be summarised by regulatory business as follows:

NGET	Revenue £m	Operating costs £m	Operating profit £m
2008/09 operating profit	2,607	(1,886)	**721**
Add back 2008/09 exceptional items	-	8	**8**
2008/09 adjusted operating profit	2,607	(1,878)	**729**
Transmission business	(119)	204	**85**
Other activities	(4)	(5)	**(9)**
2009/10 adjusted operating profit	**2,484**	**(1,679)**	**805**
2009/10 exceptional items	**-**	**(14)**	**(14)**
2009/10 operating profit	**2,484**	**(1,693)**	**791**

The principal movements in Transmission business operating profit between 2008/09 and 2009/10 can be summarised as follows:

Transmission business	Revenue £m	Operating costs £m	Operating profit £m
2008/09 operating profit	2,556	(1,848)	**708**
Add back 2008/09 exceptional items	-	9	**9**
2008/09 adjusted operating profit	2,556	(1,839)	**717**
Allowed revenues	127	-	**127**
Timing of recoveries	(52)	-	**(52)**
BSIS	(197)	227	**30**
Depreciation and amortisation	-	(18)	**(18)**
Other	3	(5)	**(2)**
2009/10 adjusted operating profit	**2,437**	**(1,635)**	**802**
2009/10 exceptional items	**-**	**(14)**	**(14)**
2009/10 operating profit	**2,437**	**(1,649)**	**788**

Transmission business revenue decreased by £119 million to £2,437 million in 2009/10 compared to £2,556 million in 2008/09. This related to fall in the recovery of incentivised costs associated with balancing the system (BSIS) partially offset by an increase in allowed revenues.

Transmission business operating costs, excluding exceptional items, decreased by £204 million to £1,635 million in 2009/10 compared to £1,839 million in 2008/09, largely reflecting the fall in incentivised BSIS costs. Depreciation and amortisation increased by £18 million as a result of increasing capital investment and other items increased costs by £5 million.

Transmission business exceptional items of £14 million in 2009/10 and £9 million in 2008/09 comprise restructuring costs arising from planned cost reduction programmes.

Total operating profit for increased by £80 million to £788 million in 2009/10 compared to £708 million in 2008/09, due to the £85 million increase in adjusted operating profit offset by a £5 million increase in exceptional charges.

Net finance costs

Net finance costs excluding exceptional items and remeasurements was £153 million in 2009/10, compared with £186 million in 2008/09. The decrease primarily reflected a lower effective interest rate due to lower RPI and LIBOR rates, partially offset by an increase in net pension interest due to a fall in plan assets and lower expected returns on assets.

Taxation

The net tax charge of £184 million in 2009/10 comprised a £185 million charge on adjusted profit before tax and a £1 million credit on exceptional items and remeasurements. This compares with a net charge of £153 million in 2008/09, comprising a £149 million charge on adjusted profit before tax and a £4 million charge on exceptional items and remeasurements.

Cash flows

Cash flows from operating activities

Cash generated from operations was £986 million in 2009/10 compared with £1,085 million in 2008/09. This includes no cash outflows relating to exceptional items in 2009/10 and £5 million in 2008/09.

There was a net corporate tax payment in 2009/10 of £88 million compared with a payment of £189 million in 2008/09.

After reflecting cash flows relating to taxation, the net cash inflow from operating activities was £898 million in 2009/10, compared with £896 million in 2008/09.

Cash flows from investing activities

Cash outflows from investing activities were £640 million in 2009/10 compared to £271 million in 2008/09. Cash outflows to purchase property, plant and equipment and intangible fixed assets, net of disposal proceeds, were £938 million in 2009/10 compared to £857 million in 2008/09, as a result of the increase in capital investment. Interest received was £5 million in 2009/10 compared to £30 million in 2008/09. Net cash inflows from sale of financial investments were £293 million in 2009/10 compared to inflows on the sale of financial investments of £556 million in 2008/09.

Cash flows from financing activities

The net cash outflow from financing activities was £305 million in 2009/10 compared to £254 million in 2008/09. This reflected net inflows from loans of £14 million (2008/09: £200 million) and payments of interest of £189 million (2008/09: £184 million).

Financial position

Balance sheet

The balance sheet at 31 March 2010 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	6,809	-	6,809
Current assets and liabilities	177	(597)	(420)
Other non-current assets and liabilities	-	(256)	(256)
Pension obligations	-	(487)	(487)
Deferred tax	-	(755)	(755)
Total before net debt	6,986	(2,095)	4,891
Net debt	544	(4,766)	(4,222)
Total as at 31 March 2010	**7,530**	**(6,861)**	**669**
Total as at 31 March 2009	7,126	(6,681)	445

The £224 million increase in net assets from £445 million at 31 March 2009 to £669 million at 31 March 2010 resulted from the profit for the year from continuing operations of £464 million, net expense recognised directly in equity of £110 million, and funding transfers of £130 million. Funding transfers are reallocations between the regulated Transmission business and other activities of NGET and principally relate to dividend payments made by the Company.

Net debt

Net debt increased by £346 million from £3,876 million at 31 March 2009 to £4,222 million at 31 March 2010. Cash flows from operations net of tax of £896 million were offset by capital expenditure, net of adjustments on disposal, of £939 million, dividends paid of £150 million and net interest paid £184 million, together with fair value and other adjustments of £29 million.

At 31 March 2010, net debt was made up as follows:

Transmission business	Years ended 31 March 2010 £m	2009 £m
Borrowings (excluding bank overdrafts)	4,653	4,708
Bank overdrafts	13	4
Derivative financial instruments	(51)	(89)
Financial investments	(67)	(360)
Cash and cash equivalents	(326)	(387)
Allocated net debt	4,222	3,876

All NGET's net debt is allocated to the regulated Transmission business.

National Grid Electricity Transmission plc
Regulatory accounting statements 2009/10
Appendix 3 – Analysis of statutory accounts by regulatory business

Consolidated income statement

for the years ended 31 March

	Notes	Transmission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Transmission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Revenue		**2,437**	**47**	**2,484**	2,556	45	2,601
Other operating income		**-**	**-**	**-**	-	6	6
Operating costs	3	**(1,649)**	**(44)**	**(1,693)**	(1,848)	(38)	(1,886)
Operating profit							
Before exceptional items		**802**	**3**	**805**	717	12	729
Exceptional items	4	**(14)**	**-**	**(14)**	(9)	1	(8)
Total operating profit		**788**	**3**	**791**	708	13	721
Interest income and similar income	6	**77**	**1**	**78**	117	2	119
Interest expense and other finance costs							
Before exceptional items and remeasurements	6	**(230)**	**(1)**	**(231)**	(303)	(1)	(304)
Exceptional items and remeasurements	4, 6	**10**	**-**	**10**	(32)	-	(32)
	6	**(220)**	**(1)**	**(221)**	(335)	(1)	(336)
Profit before taxation							
Before exceptional items and remeasurements		**649**	**3**	**652**	531	13	544
Exceptional items and remeasurements	4, 6	**(4)**	**-**	**(4)**	(41)	1	(40)
Total profit before taxation		**645**	**3**	**648**	490	14	504
Taxation							
Before exceptional items and remeasurements	7	**(185)**	**1**	**(184)**	(149)	(4)	(153)
Exceptional items and remeasurements	4, 7	**1**	**-**	**1**	(4)	1	(3)
Total taxation	7	**(184)**	**1**	**(183)**	(153)	(3)	(156)
Profit after taxation							
Before exceptional items and remeasurements		**464**	**4**	**468**	382	9	391
Exceptional items and remeasurements	4	**(3)**	**-**	**(3)**	(45)	2	(43)
Profit for the year		**461**	**4**	**465**	337	11	348

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	Trans-mission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Trans-mission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Profit for the year		**461**	**4**	**465**	337	11	348
Other comprehensive income:							
Actuarial net losses		**(151)**	**(2)**	**(153)**	(77)	-	(77)
Deferred tax on actuarial net gains and losses	19	**42**	**1**	**43**	22	-	22
Net loss/(gain) taken to equity in respect of cash flow hedges		**14**	**-**	**14**	(33)	-	(33)
Tax on items taken directly to or transferred from equity	7	**(4)**	**-**	**(4)**	9	-	9
Other comprehensive income for the year		**(99)**	**(1)**	**(100)**	(79)	-	(79)
Total comprehensive income for the year		**362**	**3**	**365**	258	11	269

Consolidated balance sheet

at 31 March

	Notes	Transmission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Transmission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Non-current assets							
Intangible assets	9	**43**	**-**	**43**	49	-	49
Property, plant and equipment	10	**6,766**	**3**	**6,769**	5,981	4	5,985
Derivative financial assets		**134**	**-**	**134**	134	-	134
Total non-current assets		**6,943**	**3**	**6,946**	6,164	4	6,168
Current assets							
Inventories	12	**28**	**5**	**33**	29	2	31
Trade and other receivables	13	**149**	**12**	**161**	152	25	177
Financial investments	14	**67**	**-**	**67**	360	-	360
Derivative financial assets	11	**17**	**-**	**17**	34	-	34
Cash and cash equivalents	15	**326**	**-**	**326**	387	-	387
Total current assets		**587**	**17**	**604**	962	27	989
Total assets		**7,530**	**20**	**7,550**	7,126	31	7,157
Current liabilities							
Borrowings	16	**(334)**	**-**	**(334)**	(89)	-	(89)
Derivative financial liabilities	11	**(11)**	**-**	**(11)**	(24)	-	(24)
Trade and other payables	17	**(587)**	**(17)**	**(604)**	(550)	(20)	(570)
Provisions	20	**(10)**	**-**	**(10)**	(6)	-	(6)
Total current liabilities		**(942)**	**(17)**	**(959)**	(669)	(20)	(689)
Non-current liabilities							
Borrowings	16	**(4,332)**	**-**	**(4,332)**	(4,623)	-	(4,623)
Derivative financial liabilities	11	**(89)**	**-**	**(89)**	(55)	-	(55)
Other non-current liabilities	18	**(246)**	**-**	**(246)**	(208)	(2)	(210)
Deferred tax liabilities	19	**(755)**	**(1)**	**(756)**	(711)	(4)	(715)
Pension obligations	5	**(487)**	**(6)**	**(493)**	(403)	(5)	(408)
Provisions	20	**(10)**	**-**	**(10)**	(12)	-	(12)
Total non-current liabilities		**(5,919)**	**(7)**	**(5,926)**	(6,012)	(11)	(6,023)
Total liabilities		**(6,861)**	**(24)**	**(6,885)**	(6,681)	(31)	(6,712)
Net assets		**669**	**(4)**	**665**	445	-	445
Total equity		**669**	**(4)**	**665**	445	-	445

Consolidated statement of changes in equity

for the years ended 31 March

	Total equity		
	Trans-mission business £m	Other activities £m	Total NGET plc £m
At 31 March 2008	457	19	476
Total recognised income and expense for the year	258	11	269
Equity dividends	(270)	(30)	(300)
Share-based payments	1	-	1
Tax on share-based payments	(1)	-	(1)
At 31 March 2009	445	-	445
Total recognised income and expense for the year	362	3	365
Equity dividends	(143)	(7)	(150)
Share-based payments	4	-	4
Tax on share-based payments	1	-	1
At 31 March 2010	**669**	**(4)**	**665**

Consolidated cash flow statement

for the years ended 31 March

	Notes	Transmission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Transmission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Cash flows from operating activities							
Total operating profit		**788**	**3**	**791**	708	13	721
Adjustments for:							
Exceptional items and remeasurements		**14**	**-**	**14**	9	(1)	8
Depreciation and amortisation		**240**	**-**	**240**	221	1	222
Profit on sale of tangible and intangible assets		**3**	**-**	**3**	(7)	10	3
Share based payment charge		**3**	**-**	**3**	2	-	2
Changes in working capital		**35**	**-**	**35**	254	18	272
Changes in pension obligations		**(97)**	**(1)**	**(98)**	(97)	(1)	(98)
Cash flows relating to exceptional items		**-**	**(2)**	**(2)**	(5)	-	(5)
Cash generated from operations		**986**	**-**	**986**	1,085	40	1,125
Tax (paid)/received		**(88)**	**(2)**	**(90)**	(189)	(3)	(192)
Net cash inflow from operating activities		**898**	**(2)**	**896**	896	37	933
Cash flows from investing activities							
Purchases of intangible assets		**(8)**	**-**	**(8)**	(8)	-	(8)
Purchases of property, plant and equipment		**(932)**	**-**	**(932)**	(853)	-	(853)
Disposal of property, plant and equipment		**2**	**(1)**	**1**	4	(8)	(4)
Interest received		**5**	**-**	**5**	30	1	31
Purchases of financial investments		**(64)**	**-**	**(64)**	(339)	-	(339)
Disposal of financial investments		**357**	**-**	**357**	895	-	895
Net cash flow used in investing activities		**(640)**	**(1)**	**(641)**	(271)	(7)	(278)
Cash flows from financing activities							
Proceeds from loans received		**34**	**-**	**34**	2,298	-	2,298
Repayment of loans		**(18)**	**-**	**(18)**	(2,125)	-	(2,125)
Net movements in short-term borrowings and derivatives		**(2)**	**-**	**(2)**	27	-	27
Interest paid		**(189)**	**-**	**(189)**	(184)	-	(184)
Transfers (i)		**(153)**	**3**	**(150)**	(270)	(30)	(300)
Net cash flow from financing activities		**(328)**	**3**	**(325)**	(254)	(30)	(284)
Net increase/(decrease) in cash and cash equivalents		**(70)**	**-**	**(70)**	371	-	371
Cash and cash equivalents at the start of the year (i)		**383**	**-**	**383**	12	-	12
Net cash and cash equivalents at the end of the year (i)	15	**313**	**-**	**313**	383	-	383

(i) Transfers represent the reallocation of balances between the regulated Transmission business and other businesses carried on by NGET, principally arising from dividend payments made by NGET.

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

1. Segmental analysis

Information on NGET's ultimate parent company relates to NGET as a legal entity and therefore no further information is required.

2. Other operating income

Information on NGET's ultimate parent company relates to NGET as a legal entity and therefore no further information is required.

3. Operating costs

	Transmission business	Other activities	Total NGET plc	Transmission business	Other activities	Total NGET plc
	2010	**2010**	**2010**	2009	2009	2009
	£m	**£m**	**£m**	£m	£m	£m
Before exceptional items						
Depreciation of property, plant and equipment	**225**	**-**	**225**	205	1	206
Amortisation of intangible assets	**15**	**-**	**15**	16	-	16
Payroll costs	**90**	**7**	**97**	110	7	117
Other operating charges:						
Rates	**108**	**-**	**108**	101	2	103
Electricity transmission services scheme direct costs	**691**	**-**	**691**	904	-	904
Payments to Scottish electricity transmission network owners	**309**	**-**	**309**	290	-	290
Other	**197**	**37**	**234**	213	29	242
	1,635	**44**	**1,679**	1,839	39	1,878
Exceptional items						
Depreciation of property, plant and equipment	**-**	**-**	**-**	-	-	-
Amortisation of intangible assets	**-**	**-**	**-**	-	-	-
Payroll costs	**5**	**-**	**5**	1	-	1
Other operating charges:						
Rates	**-**	**-**	**-**	-	-	-
Electricity transmission services scheme direct costs	**-**	**-**	**-**	-	-	-
Payments to Scottish electricity transmission network owners	**-**	**-**	**-**	-	-	-
Other	**9**	**-**	**9**	8	(1)	7
	14	**-**	**14**	9	(1)	8
After exceptional items						
Depreciation of property, plant and equipment	**225**	**-**	**225**	205	1	206
Amortisation of intangible assets	**15**	**-**	**15**	16	-	16
Payroll costs	**95**	**7**	**102**	111	7	118
Other operating charges:						
Rates	**108**	**-**	**108**	101	2	103
Electricity transmission services scheme direct costs	**691**	**-**	**691**	904	-	904
Payments to Scottish electricity transmission network owners	**309**	**-**	**309**	290	-	290
Other	**206**	**37**	**243**	221	28	249
	1,649	**44**	**1,693**	1,848	38	1,886
Operating costs include:						
Consumption of inventories	**5**	**-**	**5**	6	-	6
Research expenditure	**6**	**-**	**6**	8	-	8
Operating lease rentals - other	**7**	**-**	**7**	6	-	6

Payroll costs

	2010	**2010**	**2010**	2009	2009	2009
	£m	**£m**	**£m**	£m	£m	£m
Wages and salaries	**102**	**6**	**108**	111	6	117
Social security costs	**11**	**1**	**12**	11	1	12
Other pension costs	**16**	**-**	**16**	14	-	14
Share-based payments	**3**	**-**	**3**	2	-	2
Severance costs (excluding pension costs)	**3**	**-**	**3**	3	-	3
	135	**7**	**142**	141	7	148
Less: payroll costs capitalised	**(40)**	**-**	**(40)**	(30)	-	(30)
	95	**7**	**102**	111	7	118

4. Exceptional items and remeasurements

	Trans-mission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Trans-mission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Exceptional items - restructuring costs	**(14)**	**-**	**(14)**	(9)	1	(8)
Total exceptional items included within operating profit	**(14)**	**-**	**(14)**	(9)	1	(8)
Remeasurements - net (losses)/gains on derivative financial instruments	**10**	**-**	**10**	(32)	-	(32)
Total exceptional items and remeasurements included within finance costs	**10**	**-**	**10**	(32)	-	(32)
Total exceptional items and remeasurements before taxation	**(4)**	**-**	**(4)**	(41)	1	(40)
Exceptional tax item - deferred tax charge arising from change in the IBA	**-**	**-**	**-**	(15)	-	(15)
Tax on exceptional items - restructuring costs	**4**	**-**	**4**	2	1	3
Tax on remeasurements - derivative financial instruments	**(3)**	**-**	**(3)**	9	-	9
Tax on exceptional items and remeasurements	**1**	**-**	**1**	(4)	1	(3)
Total exceptional items and remeasurements after taxation	**(3)**	**-**	**(3)**	(45)	2	(43)
Total exceptional items after taxation	**(10)**	**-**	**(10)**	(22)	2	(20)
Total remeasurements after taxation	**7**	**-**	**7**	(23)	-	(23)
Total exceptional items and remeasurements after taxation	**(3)**	**-**	**(3)**	(45)	2	(43)

5. Pensions

Substantially all of NGET's employees are members of the National Grid Electricity Group of the Electricity Supply Pension Scheme which is a defined benefit pension scheme. 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.

The amounts recognised in the consolidated income statement with respect to pensions are as follows:

	Trans-mission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Trans-mission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Defined benefit scheme costs						
Current service cost	**13**	**-**	**13**	12	-	12
Curtailment gains on redundancies	**(1)**	**-**	**(1)**	(1)	-	(1)
Cost of contractual termination on redundancies	**3**	**-**	**3**	2	-	2
Other augmentation	**1**	**-**	**1**	1	-	1
Total in payroll costs - continuing	**16**	**-**	**16**	14	-	14
Interest cost	**102**	**1**	**103**	111	1	112
Expected return on plan assets	**(73)**	**(1)**	**(74)**	(92)	(1)	(93)
Total in finance costs - continuing	**29**	**-**	**29**	19	-	19

The amounts recognised in the consolidated statement of recognised income and expense with respect to pensions are as follows:

	2010 £m	2010 £m	2010 £m	2009 £m	2009 £m	2009 £m
Actuarial loss during the year	**(151)**	**(2)**	**(153)**	(77)	-	(77)
Adjustment to actuarial (loss)/gain relating to prior year	**-**	**-**	**-**	-	5	5
Cumulative actuarial (loss)/gain	**(183)**	**(2)**	**(185)**	(32)	-	(32)

The amounts recognised in the consolidated balance sheet with respect to pensions are as follows:

	2010 £m	2010 £m	2010 £m	2009 £m	2009 £m	2009 £m
Present value of funded obligations	**(1,978)**	**(26)**	**(2,004)**	(1,519)	(20)	(1,539)
Fair value of plan assets	**1,511**	**20**	**1,531**	1,130	15	1,145
	(467)	**(6)**	**(473)**	(389)	(5)	(394)
Present value of unfunded obligations	**(20)**	**-**	**(20)**	(14)	-	(14)
Net liability in the balance sheet	**(487)**	**(6)**	**(493)**	(403)	(5)	(408)
Changes in the present value of the defined benefit obligation						
Opening defined benefit obligation (including unfunded obligations)	**(1,533)**	**(20)**	**(1,553)**	(1,707)	(23)	(1,730)
Current service cost	**(13)**	**-**	**(13)**	(12)	-	(12)
Interest cost	**(102)**	**(1)**	**(103)**	(111)	(1)	(112)
Actuarial gains	**(426)**	**(6)**	**(432)**	221	3	224
Net increase in liabilities from redundancies	**(3)**	**-**	**(3)**	(1)	-	(1)
Employee contributions	**(4)**	**-**	**(4)**	(6)	-	(6)
Benefits paid (including unfunded obligations)	**87**	**1**	**88**	81	1	82
Net transfers	**(3)**	**-**	**(3)**	3	-	3
Other augmentations	**(1)**	**-**	**(1)**	(1)	-	(1)
Closing defined benefit obligation (including unfunded obligations)	**(1,998)**	**(26)**	**(2,024)**	(1,533)	(20)	(1,553)
Changes in the fair value of plan assets						
Opening fair value of plan assets	**1,130**	**15**	**1,145**	1,304	17	1,321
Expected return on plan assets	**73**	**1**	**74**	92	1	93
Actuarial losses	**275**	**4**	**279**	(298)	(3)	(301)
Employer contributions	**113**	**1**	**114**	110	1	111
Employee contributions	**4**	**-**	**4**	6	-	6
Benefits paid (including unfunded obligations)	**(87)**	**(1)**	**(88)**	(81)	(1)	(82)
Net transfers	**3**	**-**	**3**	(3)	-	(3)
Closing fair value of plan assets	**1,511**	**20**	**1,531**	1,130	15	1,145
Actual return on plan assets	**348**	**5**	**353**	(205)	(3)	(208)
Expected contributions to defined benefit plans in the following year	**22**	**-**	**22**	19	-	19

6. Finance income and costs

The following information analyses finance income and costs further between the Transmission business and other activities:

	Trans-mission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Trans-mission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Interest income and similar income						
Expected return on pension plan assets	**73**	**1**	**74**	90	1	91
Interest income on financial instruments:						
Interest income from bank deposits and other financial assets	**4**	**-**	**4**	27	-	27
Interest receivable on finance leases	**-**		**-**	-	1	1
Interest income and similar income	**77**	**1**	**78**	117	2	119
Interest expense and other financial costs						
Interest on pension plan obligations	**(102)**	**(1)**	**(103)**	(111)	(1)	(112)
Interest expense on financial liabilities held at amortised cost:						
Interest on bank loans and overdrafts	**(21)**	**-**	**(21)**	(23)	-	(23)
Interest on other borrowings	**(161)**	**-**	**(161)**	(233)	-	(233)
Interest on derivatives	**1**	**-**	**1**	(8)	-	(8)
Less: interest capitalised	**53**	**-**	**53**	72	-	72
Interest expense	**(230)**	**(1)**	**(231)**	(303)	(1)	(304)
Net (losses)/gains on derivative financial instruments included in remeasurements:						
Ineffectiveness on derivatives designated as fair value hedges	**27**	**-**	**27**	(34)	-	(34)
Ineffectiveness on derivatives designated as cash flow hedges	**(11)**	**-**	**(11)**	4	-	4
On derivatives not designated as hedges or ineligible for hedge accounting	**(6)**	**-**	**(6)**	(2)	-	(2)
Net (losses)/gains on derivative financial instruments included in remeasurements	**10**	**-**	**10**	(32)	-	(32)
Interest expense and other finance costs	**(220)**	**(1)**	**(221)**	(335)	(1)	(336)
Net finance costs	**(143)**	**-**	**(143)**	(218)	1	(217)
Comprising:						
Interest income and similar income	**77**	**1**	**78**	117	2	119
Interest expense and other finance costs						
Before exceptional items and remeasurements	**(230)**	**(1)**	**(231)**	(303)	(1)	(304)
Exceptional items and remeasurements	**10**	**-**	**10**	(32)	-	(32)
	(220)	**(1)**	**(221)**	(335)	(1)	(336)
	(143)	**-**	**(143)**	(218)	1	(217)

7. Taxation

The following analyses taxation further between the Transmission business and other activities:

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

	Trans-mission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Trans-mission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Before exceptional items and remeasurements						
United Kingdom						
Corporation tax at 28% (2009: 28%)	**100**	**-**	**100**	87	4	91
Corporation tax adjustment in respect of prior years	**4**	**-**	**4**	4	-	4
	104	**-**	**104**	91	4	95
Deferred tax	**83**	**1**	**84**	62	-	62
Deferred tax charge arising from changes in the IBAs regime	**-**	**-**	**-**	-	-	-
Deferred tax adjustment in respect of prior years	**(2)**	**(2)**	**(4)**	(4)	-	(4)
	81	**(1)**	**80**	58	-	58
Total tax charge	**185**	**(1)**	**184**	149	4	153
Exceptional items and remeasurements						
United Kingdom						
Corporation tax at 28% (2009: 28%)	**(1)**	**-**	**(1)**	(11)	(1)	(12)
Corporation tax adjustment in respect of prior years	**-**	**-**	**-**	-	-	-
	(1)	**-**	**(1)**	(11)	(1)	(12)
Deferred tax	**-**	**-**	**-**	-	-	-
Deferred tax charge arising from changes in the IBAs regime	**-**	**-**	**-**	15	-	15
Deferred tax adjustment in respect of prior years	**-**	**-**	**-**	-	-	-
	-	**-**	**-**	15	-	15
Total tax charge	**(1)**	**-**	**(1)**	4	(1)	3
Total						
United Kingdom						
Corporation tax at 28% (2009: 28%)	**100**	**(1)**	**99**	76	3	79
Corporation tax adjustment in respect of prior years	**4**	**-**	**4**	4	-	4
	104	**(1)**	**103**	80	3	83
Deferred tax	**84**	**-**	**84**	62	-	62
Deferred tax charge arising from changes in the IBAs regime	**-**	**-**	**-**	15	-	15
Deferred tax adjustment in respect of prior years	**(4)**	**-**	**(4)**	(4)	-	(4)
	80	**-**	**80**	73	-	73
Total tax charge	**184**	**(1)**	**183**	153	3	156

7. Taxation (continued)

Taxation on items (credited)/charged to equity

	Trans-mission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Trans-mission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Deferred tax credit on revaluation of cash flow hedges	**4**	**-**	**4**	(9)	-	(9)
Deferred tax (credit)/charge on actuarial gains/losses	**(42)**	**(1)**	**(43)**	(22)	-	(22)
Tax (credit)/charge recognised in consolidated statement of comprehensive inccome	**(38)**	**(1)**	**(39)**	(31)	-	(31)
Deferred tax charge on share-based payments recognised directly in equity	**-**	**-**	**-**	2	-	2
Corporation tax credit on share-based payments recognised directly in equity	**(1)**	**-**	**(1)**	(1)	-	(1)
	(39)	**(1)**	**(40)**	(30)	-	(30)

The tax charge for the year after exceptional items and remeasurements is higher (2009: lower) than the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are explained below:

Before exceptional items and measurements	Trans-mission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Trans-mission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Profit before taxation						
Before exceptional items and remeasurements	**649**	**3**	**652**	531	13	544
Exceptional items and remeasurements	**-**	**-**	**-**	-	-	-
Profit before taxation from continuing operations	**649**	**3**	**652**	531	13	544
Profit on continuing operations multiplied by the rate of corporation tax in the UK of 28% (2009: 28%)	**182**	**1**	**183**	149	3	152
Effects of:						
Expenses not deductible for tax purposes	**2**	**-**	**2**	-	1	1
Non-taxable income	**-**	**-**	**-**	-	-	-
Prior year adjustments	**1**	**(2)**	**(1)**	-	-	-
Total taxation from continuing operations	**185**	**(1)**	**184**	149	4	153
	%		**%**	%		%
At the effective income tax rate	**28.5**		**28.2**	28.1		28.1
After exceptional items and measurements						
Profit before taxation						
Before exceptional items and remeasurements	**649**	**3**	**652**	531	13	544
Exceptional items and remeasurements	**(4)**	**-**	**(4)**	(41)	1	(40)
Profit before taxation from continuing operations	**645**	**3**	**648**	490	14	504
Profit on continuing operations multiplied by the rate of corporation tax in the UK of 28% (2009: 28%)	**181**	**1**	**182**	137	4	141
Effects of:						
Expenses not deductible for tax purposes	**2**	**-**	**2**	-	16	16
Non-taxable income	**-**	**-**	**-**	16	(17)	(1)
Prior year adjustments	**1**	**(2)**	**(1)**	-	-	-
Total taxation from continuing operations	**184**	**(1)**	**183**	153	3	156
	%		**%**	%		%
At the effective income tax rate	**28.5**		**28.2**	31.2		31.0

8. Dividends

Information on dividends relates to NGET as a legal entity and therefore no further information is required.

9. Intangible assets

The following information analyses intangible assets further between the Transmission business and other activities:

	Trans-mission business	Other activities	Total NGET plc
	Software £m	Software £m	Software £m
Non-current			
Cost at 1 April 2008	160	-	160
Additions	9	-	9
Cost at 31 March 2009	169	-	169
Additions	8	-	8
Reclassifications (i)	(3)	-	(3)
Cost at 31 March 2010	174	-	174
Amortisation at 1 April 2008	(104)	-	(104)
Amortisation charge for the year	(16)	-	(16)
Amortisation at 31 March 2009	(120)	-	(120)
Amortisation charge for the year	(15)	-	(15)
Reclassifications (i)	4	-	4
Amortisation at 31 March 2010	(131)	-	(131)
Net book value at 31 March 2010	**43**	-	**43**
Net book value at 31 March 2009	49	-	49

10. Property, plant and equipment

The following provides information on the analysis of Property, Plant and Equipment between the Transmission business and other activities:

	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 £m	Total NGET plc £m
Cost at 1 April 2008	127	6,643	1,247	88	8,105	30	8,135
Additions	28	602	223	2	855	-	855
Disposals	-	(73)	-	(1)	(74)	5	(69)
Transfers	4	4	(3)	(5)	-	-	-
Reclassifications	21	-	-	-	21	(21)	-
Cost at 31 March 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
Depreciation at 1 April 2008	(17)	(2,681)	-	(70)	(2,768)	(13)	(2,781)
Depreciation charge for the year	(4)	(192)	-	(9)	(205)	(1)	(206)
Transfers	(8)	-	-	-	(8)	8	-
Disposals	-	27	-	28	55	(4)	51
Depreciation at 31 March 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)
Net book value at 31 March 2010	**178**	**4,930**	**1,636**	**22**	**6,766**	**3**	**6,769**
Net book value at 31 March 2009	151	4,330	1,467	33	5,981	4	5,985

The net book value of land and buildings comprised:

	2010 £m	**2010 £m**	**2010 £m**	2009 £m	2009 £m	2009 £m
Freehold	**139**	**1**	**140**	109	1	110
Long leasehold (over 50 years)	**3**	**-**	**3**	3	-	3
Short leasehold (under 50 years)	**36**	**2**	**38**	39	1	40
	178	**3**	**181**	151	2	153

11. Derivative financial instruments

Derivative financial instruments relate entirely to the Transmission business and therefore no further analysis of note 11 is required.

12. Inventories

The following analyses inventories further between the Transmission business and other activities:

	Transmission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Transmission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Raw materials and consumables	**28**	**5**	**33**	29	2	31

13. Trade and other receivables

The following analyses trade and other receivables further between the Transmission business and other activities:

	Transmission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Transmission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Trade receivables	**11**	**2**	**13**	9	7	16
Amounts owed by fellow subsidiaries	**17**	**-**	**17**	20	-	20
Other receivables	**3**	**-**	**3**	4	4	8
Prepayments and accrued income	**118**	**10**	**128**	119	14	133
	149	**12**	**161**	152	25	177

14. Financial investments

The following analyses financial investments between the Transmission business and other activities:

	Transmission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Transmission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Current						
Loans and receivables - amounts due from fellow subsidiaries	**2**	**1**	**3**	21	-	21
Available-for-sale investments	**65**	**(1)**	**64**	339	-	339
Total financial and other investments	**67**	**-**	**67**	360	-	360

15. Cash and cash equivalents

The following analyses cash and cash equivalents between Transmission business and other activities:

	Transmission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Transmission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Cash at bank	**-**	**-**	**-**	(1)	1	-
Short-term deposits	**326**	**-**	**326**	388	(1)	387
Cash and cash equivalents excluding bank overdrafts	**326**	**-**	**326**	387	-	387
Bank overdrafts	**(13)**	**-**	**(13)**	(4)	-	(4)
Net cash and cash equivalents	**313**	**-**	**313**	383	-	383

16. Borrowings

Borrowings relate entirely to the Transmisson business and therefore no further analysis of note 16 is required.

17. Trade and other payables

The following analyses trade and other payables between the Transmission business and other activities:

	Trans-mission business	Other activities	Total NGET plc	Trans-mission business	Other activities	Total NGET plc
	2010	**2010**	**2010**	2009	2009	2009
	£m	**£m**	**£m**	£m	£m	£m
Trade payables	**352**	**10**	**362**	314	10	324
Amounts owed to fellow subsidiaries	**98**	**1**	**99**	82	1	83
Social security and other taxes	**39**	**-**	**39**	31	-	31
Other payables	**27**	**-**	**27**	26	-	26
Deferred income	**71**	**6**	**77**	97	9	106
	587	**17**	**604**	550	20	570

18. Other non-current liabilities

The following analyses other non-current liabilities between the Transmission business and other activities:

	Trans-mission business	Other activities	Total NGET plc	Trans-mission business	Other activities	Total NGET plc
	2010	**2010**	**2010**	2009	2009	2009
	£m	**£m**	**£m**	£m	£m	£m
Other payables	**12**	**-**	**12**	-	-	-
Deferred income	**234**	**-**	**234**	208	2	210
	246	**-**	**246**	208	2	210

19. Deferred tax assets and liabilities

The following are the major deferred tax asets and liabilities recognised and the movements thereon, during the current and prior years, analysed between the Transmission business and other activities:

	Accelerated tax depreciation £m	Employee share options £m	Pensions £m	Financial instruments £m	Other net temporary differences £m	Total Transmission business £m	Other activities £m	Total NGET plc £m
Deferred tax assets at 31 March 2008	-	(7)	(113)	(8)	(10)	(138)	(1)	(139)
Deferred tax liabilities at 31 March 2008	805	-	-	-	-	805	4	809
At 1 April 2008	805	(7)	(113)	(8)	(10)	667	3	670
Charged/(credited) to income statement	50	-	21	-	2	73	-	73
Charged/(credited) to equity	-	2	(22)	(9)	-	(29)	1	(28)
At 31 March 2009	855	(5)	(114)	(17)	(8)	711	4	715
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
Charged/(credited) 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
	912	(3)	(136)	(13)	(5)	755	1	756

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 (2009: £nil).

20. Provisions

The following analyses provisions between the Transmission business and other activities:

	Environmental £m	Other £m	Trans-mission business £m	Other activities £m	Total NGET plc £m
At 1 April 2008	2	13	15	-	15
Additions	-	5	5	-	5
Utilised	-	(2)	(2)	-	(2)
At 31 March 2009	2	16	18	-	18
Additions	-	7	7	-	7
Utilised	(1)	(4)	(5)	-	(5)
At 31 March 2010	**1**	**19**	**20**	**-**	**20**

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

	2010 £m	**2010 £m**	**2010 £m**	2009 £m	2009 £m	2009 £m
Current	**10**	**-**	**10**	6	-	6
Non-current	**10**	**-**	**10**	12	-	12
	20	**-**	**20**	18	-	18

21. Share capital

Information on NGET's ultimate parent company relates to NGET as a legal entity and therefore no further information is required.

22. Consolidated cash flow statement

The following provides information on the net debt relating to the Transmission business and to other activities, where relevant:

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

	Trans-mission business	Other activities	Total NGET plc	Trans-mission business	Other activities	Total NGET plc
	2010	**2010**	**2010**	2009	2009	2009
	£m	**£m**	**£m**	£m	£m	£m
Movement in cash and cash equivalents	**(70)**	**-**	**(70)**	371	-	371
Increase in financial investments	**(293)**	**-**	**(293)**	(556)	-	(556)
Increase in borrowings and derivatives	**(14)**	**-**	**(14)**	(200)	-	(200)
Net interest paid	**184**	**-**	**184**	155	-	155
Change in net debt resulting from cash flows	**(193)**	**-**	**(193)**	(230)	-	(230)
Changes in fair value of financial assets and liabilities	**24**	**-**	**24**	(65)	-	(65)
Net interest charge	**(177)**	**-**	**(177)**	(237)	-	(237)
Other non-cash movements	**-**	**-**	**-**	(8)	8	-
Movement in net debt (net of related derivative financial instruments) in the year	**(346)**	**-**	**(346)**	(540)	8	(532)
Net debt at start of year	**(3,876)**	**-**	**(3,876)**	(3,336)	(8)	(3,344)
Net debt (net of related derivative financial instruments) at end of year	**(4,222)**	**-**	**(4,222)**	(3,876)	-	(3,876)

(b) Analysis of changes in net debt - Transmission business

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Trans-mission business £m
At 1 April 2008	9	-	9	914	(4,301)	42	(3,336)
Cash flow	375	(4)	371	(583)	(106)	88	(230)
Fair value gains and losses	-	-	-	-	(32)	(33)	(65)
Interest charges	-	-	-	27	(256)	(8)	(237)
Other non-cash movements	3	-	3	2	(13)	-	(8)
At 31 March 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)**

(c) Analysis of changes in net debt - reconciliation to NGET plc

	Trans-mission business £m	Other activities £m	Total NGET plc £m
At 1 April 2008	(3,336)	(8)	(3,344)
Cash flow	(230)	-	(230)
Fair value gains and losses	(65)	-	(65)
Interest charges	(237)	-	(237)
Other non-cash movements	(8)	8	-
At 31 March 2009	(3,876)	-	(3,876)
Cash flow	(193)	-	(193)
Fair value gains and losses	24	-	24
Interest charges	(177)	-	(177)
At 31 March 2010	**(4,222)**	**-**	**(4,222)**

Notes to the consolidated financial statements - supplementary information

23. Commitments and contingencies

The following analyses commitments and contingencies between the Transmission business and other activities:

(a) Future capital expenditure

	Transmission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Transmission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Contracted for but not provided	**921**	**-**	**921**	763	-	763

(b) Lease commitments

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

	Transmission business 2010 £m	Other activities 2010 £m	Total NGET plc 2010 £m	Transmission business 2009 £m	Other activities 2009 £m	Total NGET plc 2009 £m
Amounts due:						
In one year or less	**10**	-	**10**	7	-	7
In more than one year, but not more than two years	**7**	-	**7**	6	-	6
In more than two years, but not more than three years	**5**	-	**5**	5	-	5
In more than three years, but not more than four years	**5**	-	**5**	4	-	4
In more than four years, but not more than five years	**5**	-	**5**	5	-	5
In more than five years	**31**	-	**31**	36	-	36
	63	-	**63**	63	-	63

24. Related party transactions

Related party transactions are reported for NGET as a whole and therefore no further analysis of note 24 is required.

25. Actuarial information on pensions
Actuarial information on pensiosn is provided for NGET as a whole and therefore no further analysis or supplemntary information on note 25 is required.

26. Supplementary information on derivative financial instruments
Derivative financial instruments relate entirely to the Transmission business and therefore no further analysis or supplementary information on note 26 is required.

27. Financial risk
Derivative financial instruments relate entirely to the Transmission business and therefore no further analysis or supplementary information on note 27 is required.

28. Share options and reward plans
Information on the share option and award plans operated by NGET relates to NGET as a whole and therefore no further analysis or information relating to note 28 is required.

29. Ultimate parent company
Information on NGET's ultimate parent company relates to NGET as a legal entity and therefore no further information is required.

30. Subsidiary undertakings
Information on NGET's subsidiary undertakings relates to NGET as a legal entity and therefore no further information is required.

Appendix 4
Analysis of Charges and apportionments

31. Charges and apportionments continued
Statement required by the Transmission Licence,
Condition B1, Part B, paragraph 3(b)(viii)(aa) and (bb)

In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, note 28 does not form part of the published regulatory accounting statements.

31. Charges and apportionments continued
Statement required by the Transmission Licence, Condition B1, Part B, paragraph 3(b)(viii)(cc)

In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, note 28 does not form part of the published regulatory accounting statements.

31. Charges and apportionments continued
Statement required by the Transmission Licence,
Condition B1, Part B, paragraph 3(b)(viii)(cc) continued

In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, note 28 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 Transmssion plc, or 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

BETTA
The British Electricity Trading and Transmission Arrangements, being the regulations that govern our role as operator of the electricity networks in Great Britain, together with those of other market participants.

BSIS
The Balancing Services Incentive Scheme, an incentive arrangement applicable to our electricity transmission arrangements.

FRS
UK Financial Reporting Standard.

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_2 equivalent
Measure of greenhouse gas emissions in relation to the impact of carbon dioxide.

TW
Terawatt, 10^{12} watts.

TWh
Terawatt hours.

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