National Grid Electricity Transmission plc
Regulatory accounting statements 2011/12

Contents

About these regulatory accounting statements

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

Scope of the regulatory accounting statements

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

Content of the regulatory accounting statements

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

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

Relationship of regulatory accounting statements with statutory accounts

The financial information contained in these regulatory accounting statements does not constitute statutory accounts within the meaning of section 404 of the Companies Act 2006. Statutory accounts for the Company for the year ended 31 March 2012, to which the financial information relates, have been delivered to the registrar of Companies.

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

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

Basis of preparation of regulatory accounting statements

These regulatory accounting statements contain arbitrary apportionments of certain revenues, costs, assets, liabilities and shareholder's equity of the Company which are not specifically attributable to the regulatory transmission business, but which nevertheless, we are required to report against that business. Further details of these items are provided in the Basis of preparation on page 42.

Business Review

Our business

National Grid Electricity Transmission is a subsidiary of National Grid plc (National Grid), based in the UK, where we own and operate regulated electricity transmission networks. We play a vital role in connecting millions of people safely, reliably and efficiently to the energy they use.

Management structure

The overall management and governance of National Grid Electricity Transmission is the responsibility of its Board of Directors. Strategic direction is determined by our parent company, National Grid. Our Directors are listed on page 38.

The Transmission Executive Committee is a joint committee with National Grid Gas plc and is responsible for day to day management of our Electricity Transmission business. The membership of this committee comprises Directors and senior business managers. The committee is chaired by Nick Winser, who also sits on the Board and Executive Committee of National Grid, and is the National Grid Executive Director, UK.

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

More information on the management structure of National Grid can be found in the National Grid Annual Report and Accounts 2011/12 and on National Grid's website at www.nationalgrid.com.

Our business model

Driven by strategy

We share the National Grid vision and strategy.

Vision

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

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

- our drive for **operational excellence**;
- embedding **innovation and efficiency** in our corporate culture;
- understanding the needs of our stakeholders and shaping energy policy through **external engagement**; and
- maintaining a **disciplined investment** programme to grow our regulated asset base.

Our strategy aims to enhance our reputation as an operator and owner of electricity networks, delivering quality and reliable service for a reasonable cost in a sustainable way. Delivering our strategy will provide a competitive advantage through attractive regulatory arrangements.

Operating at the highest levels of safety, reliability, efficiency and customer service is fundamental to the strength of our reputation with our customers, communities and regulators. **Operational excellence** will help us to strengthen this reputation and to deliver the outputs that underpin our core revenue streams. It also helps in maximising income under our incentive schemes and controlling costs. By delivering it we can improve cash returns and manage the risks of our business most effectively.

Innovation and efficiency underpin operational excellence. They drive incentive performance, give access to investment and growth opportunities, and aid regulatory engagement. We continue to track, and where appropriate participate in, emerging technologies that are likely to have an impact on our business. More than ever before, being successful will require us to embed an innovative mindset within our organisational culture. Innovation extends to the way we finance our operations; delivering enhanced returns and increasing available cash while managing risk.

Policy decisions by regulators, governments and others directly affect our regulated businesses. **External engagement** with customers, regulators, governments and wider industry is critical to understanding their expectations and thereby delivering service that meets their needs. We must engage effectively on climate change and the future energy mix to deliver networks fit for a low carbon economy. We engage with regulators to ensure operational excellence is rewarded with the opportunity to deliver attractive revenue streams and mechanisms to manage uncertainty.

Equity growth is driven by efficient capital investment in our regulated networks, which will grow our regulated asset base. A **disciplined investment** programme is critical to delivering customers' needs through reliable and affordable networks. We must be clear about how and when any investment will be remunerated and ensure we only invest where we can reasonably expect to earn an adequate return.

Our business model

What we do: UK electricity industry

The UK electricity industry has four main sectors.

Generation and interconnectors – other companies
Generation is concerned with the production of electricity from coal, gas, oil, nuclear power plants and renewable resources including hydroelectric plants and wind farms. Generation voltage is typically 22 kV, and generators normally have their own transformers to increase the voltage to transmission voltages.

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

We do not own or operate electricity generation assets and do not have ownership interest in any of the interconnectors.

Electricity cannot currently be stored efficiently and instead is only generated when required. Generators sell the electricity they produce in the wholesale market with the majority being sold to electricity suppliers in bilateral contracts. Electricity produced by the generators is transported by transmission and distribution networks to the end user.

We are not an electricity supply company; we do not buy or sell the electricity we transport.

Capacity on interconnectors is sold through auctions over various timescales.

Transmission – National Grid Electricity Transmission and others
The national electricity transmission system (NETS) typically comprises the assets from connection to the generator's transformer as far as the substation at which the voltage is stepped down to 132 kV or lower for distribution (distribution entry points). The NETS consists mainly of overhead lines, underground cables and substations.

We own and operate the transmission network in England and Wales; the Scottish networks are owned by other companies. We are system operator for Great Britain, including the offshore networks.

The transmission system in England and Wales is generally 400 kV and 275 kV, with the Scottish system owners also including 132 kV assets as transmission.

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

Generators, distribution network operators (DNOs) and suppliers pay transmission network owners and operators for the right to connect their assets to the NETS and use the system to transport electricity on their behalf. The connection and use of system charges reflect the costs of providing, maintaining and operating connection assets and are reviewed annually. These charges are collected by us and, where relevant passed through to the Scottish transmission network owners and offshore transmission owners.

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

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

Distribution – other companies
Distribution systems are lower voltage networks of overhead wires, underground cables and substations. Distribution system entry points (also referred to as grid supply points) connect distribution networks to the transmission network, from where they are connected to end users. Electricity is carried at 132 kV or lower in 14 electricity distribution networks, owned and operated by seven DNOs.

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

We do not own or operate electricity distribution networks.

Suppliers pay DNOs for the right to connect to and use their distribution networks. Those costs are passed on by the suppliers to their end user customers. Each of the 14 distribution networks are regional monopolies and Ofgem regulates their revenues through price controls.

Supply – other companies
The supply of electricity involves the purchase of electricity in bulk from generators and its sale on to customers. It also involves customer services, billing and the collection of customer accounts.

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

We do not sell electricity to end users.

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

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

Of the average residential electricity bill, as at May 2012, transmission charges represented approximately 5% and distribution charges approximately 18%. The majority of the bill is the cost of the electricity itself.

Our operating environment

We operate in a complex environment with a number of external factors affecting our operations.

Energy policy

UK energy policy

The Climate Change Act 2008 requires the UK to cut greenhouse gas emissions (GHG) by 34% from the 1990 levels by 2020 and 80% by 2050. Continuing the drive toward these goals, in December 2011, DECC published its technical update for the Electricity Market Reform bill, which was confirmed in the Queen's speech on 9 May 2012 and is expected to be passed into legislation during the current parliamentary session. The changes proposed by this legislation will be instrumental in shaping investment in new generation capacity over the coming decade, which, in turn, underpins our expected capital investment plans.

DECC remains committed to reducing the costs of renewable generation and published a joint report with Ofgem in March 2012 highlighting that offshore and onshore development must be considered together when looking at network development needs. Our role as system operator includes offshore networks and we will play a key role in ensuring onshore and offshore network development is coordinated.

EU energy policy

With the implementation of the 3rd Energy Package in 2011, the development of the European Infrastructure Package in 2012 and emerging EU thinking on a roadmap to 2050 (ie moving beyond the 2020 CO_2 targets), the EU is another factor in the development of energy policy in the UK. The 3rd Energy Package is largely associated with the development of EU level codes, to establish EU wide rules on technical and commercial issues relating to cross border trade. These codes are the responsibility of the European networks for transmission system operators for electricity and the European networks for transmission system operators for gas, and we have been working closely with the former. In the years to come, we expect policy to develop around greater interconnection in the electricity market and networks in the North Sea.

Economic environment

The economic uncertainty within the eurozone has led to volatility in financial markets during the year. However, we have not experienced any adverse effects. Instead, as the UK is seen as a safe haven, its bond yields have fallen and this has had a positive effect on our cost of debt. We continue to monitor developments, as it may affect our ability to access capital markets or the financial strength of our counterparties.

Inflation in the UK has declined from its peak in September 2011, but remains above the long-term trend. Our regulated revenues are linked to inflation and this has therefore led to higher revenues (see below for an explanation of the regulatory regime). We also have index-linked debt so our financing cost increases with inflation, providing a partial economic offset.

Regulatory environment

The Electricity Act 1989, as amended (the Act), provides the fundamental legal framework for electricity companies. It establishes the licences for electricity generation, transmission, distribution and supply. Our licence established under the Act requires us to develop, maintain and operate an economic and efficient network and to facilitate competition in the supply of electricity in Great Britain. It also gives the licensed business statutory powers, such as the right to bury our cables under public highways and the ability to use compulsory powers to purchase land to enable the conduct of our business.

Energy networks are regulated by Ofgem which operates under the direction and governance of the Gas and Electricity Markets Authority. Ofgem has established price control mechanisms that set the amount of revenue that can be earned by our regulated businesses.

Price control regulation is designed to ensure our interests, as a monopoly, are balanced with those of our customers. Ofgem allows us to charge reasonable, but not excessive prices, giving us a future level of revenue sufficient to meet our statutory duties and licence obligations, and also to make a reasonable return on our investment.

The price control includes a number of mechanisms to achieve its objectives, including financial incentives designed to encourage us to: continuously improve the cost and effectiveness of our services; manage and operate our networks; provide quality customer service; and invest in the development of the network in a manner that ensures the long-term security of supply.

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

Current price controls

The price controls for our transmission business were extended for one year and will now expire on 31 March 2013. The extension included real increases in revenues for electricity transmission next year and a base real vanilla return of 4.75%. The revenue increase partly reflects the capital investment we have made over the current price control period which forms part of our total RAV, which at 31 March 2012 was over £9 billion.

The current price control mechanism establishes the amount of money that can be earned by our regulated businesses which is restricted by what is referred to as an RPI-X price control. The RPI-X allowance is based on Ofgem's estimates of efficient operating expenditure (opex), capital expenditure (capex), together with an allowance for depreciation and an allowed rate of return on capital invested in our businesses. The RPI-X price control takes the RPI as its inflation benchmark and subtracts X, an efficiency factor, from it. For example, at a time when annual inflation was 3%, a value for X of 2% would allow our regulated businesses to raise prices by no more than 1%.

The RAV, which represents the value ascribed by Ofgem to the capital employed in our regulated businesses, is adjusted to reflect asset additions, removals, depreciation and the rate of inflation.

Current regulatory building blocks

Revenue is the sum of:

- Allowed return on RAV
- Depreciation of RAV
- Controllable operating costs
- Other costs, eg tax
- Performance against incentives

Future price controls

It is estimated that we will need to invest over £21 billion during the RIIO period to facilitate the move to a low carbon economy. This will include the electricity networks developing smarter grids, meeting environmental challenges and securing energy supplies.

In light of the challenges around the evolving energy environment and the significant investments required, Ofgem have introduced a new regulatory price control framework to replace the existing framework which has been in use for over 20 years. This is known as RIIO: revenue = incentives + innovation + outputs.

Under this regime, networks will be encouraged to deliver outputs, such as agreed levels of safety, reliability and environmental performance, while ensuring timely connections for customers and improving on customer satisfaction. The networks will be incentivised to deliver these innovatively and efficiently. During the price control review process, Ofgem will assess what an efficient level of expenditure would be to deliver these outputs and will then set the revenue levels accordingly.

The RIIO price control will last for eight years with a mid-period review at four years.

The fundamentals of how our revenue will be derived under RIIO are not that different, but the mechanics of how capex and opex (totex) are treated has changed. A fixed proportion of totex goes into the RAV ('slow' money) with the remainder remunerated within the year ('fast' money).

Proposed regulatory building blocks

Revenue is the sum of:

- Allowed return on RAV ('slow' money)
- Depreciation of RAV ('slow' money)
- Fast money (totex less proportion included in RAV)
- Other costs, e.g. tax
- Performance against incentives

We have developed our business plans in conjunction with our stakeholders and have reflected their views and feedback in our updated plans, submitted to Ofgem in March 2012. Full details of these business plans can be found on National Grid's website.

Ofgem issued its initial proposals for the first RIIO control period in July 2012 and will issue its final proposals in December 2012. We will continue to work with Ofgem as the RIIO price controls are finalised, to secure positive opportunities to invest for long-term profitable growth and reasonable returns.

Managing uncertainty

With an eight year price control period replacing the previous five year controls, there will inevitably be a larger exposure to potential variance against our forecasts; for example, on our electricity transmission business a different mix of generators may look to connect to the system than those we have assumed in our baseline plan. In order to understand the impact that different outcomes might have, we have modelled a range of credible future demand and generation scenarios using the scenarios developed with stakeholders through National Grid's UK Future Energy Scenarios process.

Building on our existing risk management approach, we have developed an innovative risk model to better understand the risks that our business will face, how those risks might best be managed, and to evaluate the relationship between uncertainty mechanisms and the required rate of return. We have shared this model with stakeholders, including Ofgem, who have been broadly supportive of it.

Following discussions with stakeholders, we have proposed a number of regulatory mechanisms which would adjust our allowed investment levels over the period of the price control, to ensure there are no inappropriate windfall gains or losses for our networks or consumers, as a result of reality diverging from the assumptions we have made in forecasting the next eight years. In doing this, we have maintained the principle that risks should be borne by the party best able to manage them.

Further information on these mechanisms and the risks they seek to reduce is available on our price control stakeholder engagement website: www.talkingnetworkstx.com.

Delivering our strategy

The following diagram demonstrates the alignment between the elements of our strategy, the strategic objectives that will enable us to deliver it, the risks we face and what we have delivered this year. Use this as a road map to the content on pages 8 to 20.

Our strategy			
Operational excellence	**Innovation & efficiency**	**Engaging externally**	**Disciplined investment**

How do we deliver?

See page 8

In this section we discuss the objectives that will enable us to deliver our strategy.

People
Our people are the foundation of everything we do. We are committed to developing our employees to the best of their abilities and attracting new talent from diverse backgrounds to meet the requirements of our business.

Safety & reliability
Providing a safe and reliable network is our primary objective. It is what our customers expect.

Environmental responsibility
As a responsible business, we are committed to protecting the environment for current and future generations.

Stakeholder engagement
Stakeholders' views form an integral part of the way we do business and make decisions.

Financial outperformance
We aim to maximise our returns within the constraints of our regulatory agreements, while continuing to invest for future growth.

Measuring performance – our KPIs

See page 12

This section highlights our key performance indicators with comparison to last year. Analysis of the performance can be found in the relevant sections under How do we deliver?

Risks to delivery

See page 13

In this section we discuss the principal risks that may prevent us from delivering our strategy and how we respond to those risks.

Harmful activities
Aspects of our business are potentially dangerous or could damage the environment.

Infrastructure and IT systems
Our network or system security may fail.

Law and regulation
Changes in law and regulation may affect our performance.

Business performance
Future business performance may not meet expectations.

Cost escalation
Costs or cash outflows may increase faster than revenue.

Financing and liquidity
Our future growth requires access to capital markets at commercially acceptable interest rates.

Customer and counterparty risk
Customers and counterparties may not perform their obligations.

Employees and others
We need to attract and retain a diverse mix of talented people and ensure they are engaged to act in our best interests.

Priorities for 2011/12

These were some of the areas of focus during the year.

Our case studies provide more information.

Operational excellence	Innovation & efficiency	Engaging externally	Disciplined investment
Progressed our transformation in information systems (IS) and support. See A step change in IS page 18	Evaluated ways to reduce the cost of procured materials. See Robot technology enhances our operation page 19	Working with the Government on new legislation. See Electricity market reform page 19	Delivered the investment programme. See London power tunnels page 20
	Looked for ways to reduce the visual impact of overhead transmission lines. See New designs on the horizon page 18	Submitted business plans under new RIIO price control framework. See Talking networks page 19	Accelerated employee programmes to build a skilled and engaged workforce. See Investing in our people page 20

What we delivered this year

See page 18

In this section we use case studies to provide a detailed insight into some of the focus areas and our achievements during the year.

Delivering our strategy

How do we deliver?

Our people are the foundation of what we do. It is through their actions that we will deliver our strategy; ensuring we have a skilled, engaged and dedicated workforce is essential to this. Delivering a safe and reliable network is the number one priority for our people. We also remain committed to being an innovative leader in energy management and to safeguarding our global environment for future generations.

The relationships we hold with our regulators, customers and communities continue to be important; we have made changes to forge even deeper relationships and broaden our engagement with stakeholders.

We continue to invest to create organic growth. Any investment we make will fit with our strategic goals, deliver a reasonable return and maintain the balance and spread of our businesses.

People

We are committed to developing our employees to the best of their abilities and to ensuring we have access to the widest possible pool of talent to meet the current and future requirements of our business.

Building an engaged workforce
We measure how engaged our people are through our employee engagement index, calculated from our employee survey results. National Grid's 2012 employee survey included 68 questions and was completed by 84% of employees. The results allow us to identify specific areas where we are performing well and those areas we need to improve. Our employee engagement scores have increased compared with the last survey in 2010.

We want to make sure our people are as fully engaged as they can be. To demonstrate our ongoing commitment to this important area, one of our 2012/13 shared priorities is to increase levels of employee engagement across all our teams. National Grid has created a company wide framework called engaging for performance that explains what we believe contributes to increasing engagement, which in turn results in higher levels of performance.

Survey reports are produced at business unit, function and team levels and associated action plans are created. The engaging for performance framework provides managers with access to practical and easy to use tools and guidance to support them when developing team action plans.

Communicating for success
Good communication helps employee engagement and we have multiple communication channels to ensure our employees have access to information that is relevant to them and so that they feel connected to the business. We use our intranet site to make announcements, share our achievements, and to communicate what we have learnt and other information useful to our people. National Grid also has various open forums where senior leaders share key topics relevant to our business. These provide our people with the opportunity to ask questions and connect with leadership. National Grid produces a monthly magazine and we use various team forums and communication methods such as email broadcasts and discussion boards.

Aligning individual and corporate goals
Our strategy is cascaded to employees. This ensures that the objectives of each employee align with those of National Grid and the actions required to deliver the strategy are allocated to and shared by all our people, connecting them to our corporate goals.

Our performance, talent and reward management process for managers, links incentive compensation to an assessment of both what the individual has achieved and how those outcomes have been achieved, with reference to their individual objectives. This provides ongoing incentive for all managers to contribute to the achievement of our strategic goals and ensures that our top performers are recognised for their contributions.

Building capability
We have reviewed the leadership, business and technical capabilities that we will need to ensure we are successful, including: driving process excellence; innovation; and stakeholder management. We are designing tools and processes to help elevate our capabilities in those areas and they will be supported by training programmes and other learning opportunities. We have invested in a range of technologies that will enhance the learning experience and reduce the cost associated with training delivery. We endeavour to continually improve the quality of our new talent development programmes and National Grid's focus on this has external recognition, including 2010 Ofsted grade 1 outstanding performance rating and UK Learning and Skills Improvement Service Beacon status.

National Grid's graduate scheme is well regarded and we have continued to be an employer of choice. In 2012, National Grid was ranked 84 in the Times Top 100 graduate employers, an improvement on 2011 when we entered the Top 100 for the first time. Graduate retention levels are good, standing at 86%.

National Grid's foundations of leadership programme, aimed at the next generation of managers, continued to run throughout 2011. For our female employees, we also continued to provide access to the Springboard and Spring Forward development programmes. National Grid appeared in the Times Top 50 Employers for Women 2012, appearing in the list since 2006.

Promoting inclusion and diversity
We aim to develop and operate our business with an inclusive and diverse culture, ensuring equal opportunity in recruitment, career development, training and reward for all employees

regardless of race, gender, nationality, age, disability, sexual orientation, gender identity, religion and background. Where existing employees become disabled, our policy is to provide continued employment and training wherever practical. A focus for 2011/12 was creating a level playing field in the organisation. These policies support the attraction and retention of the best people, improve effectiveness, deliver superior performance and enhance our success.

Our employee resource groups, which cover areas including gender, ethnicity, disability, faith, sexual orientation, veterans and new employees, continue to have good membership. These groups deliver opportunities for professional development, networking, supporting our community relations activities and increasing the broader understanding of inclusion and diversity through workshops, presentations and other educational events.

Information on our inclusion and diversity policies can be found on the corporate responsibility section of National Grid's website.

Attracting the best people

As a result of our extensive capital investment plans, we need to increase our employee numbers in key parts of our business, particularly engineers and other technical roles.

National Grid is establishing medium- and long-term talent pipelines and has launched an engineering entry programme for recent graduates with science, technology, engineering or maths (STEM) degrees. The two year comprehensive and structured training programme will provide a blend of practical experience with traditional training programmes and will help the recruits develop project management and development expertise, as well as increase their technical knowledge and gain specialist experience of the energy sector. On successful completion, they will be appointed to a permanent role.

With an ageing workforce and declining interest in STEM subjects by young people, pressure on recruitment will continue for many years. National Grid's long-term talent programmes will help to provide us with the expertise we need to be successful well into the future. This year in the UK, National Grid worked with more than 3,900 school students giving them an insight into engineering, the energy sector and National Grid. National Grid delivered 22 open days, ran two residential work experience week courses for nearly 100 15 year olds at its training centre, supported seven engineering education scheme projects, delivered 30 STEM enhancement days and many talks in schools.

Safety and reliability

Providing safe and reliable services is what our customers expect.

Keeping our people and the public safe

Our employee lost time injury frequency rate was 0.14, compared with 0.13 in 2010/11.

We recognise the need to reinvigorate and reinforce our safety agenda across the organisation. All our senior leadership team are asked to be visible safety leaders, actively engaging with employees, to drive our safety ambition forward and ensuring lessons learnt from any incidents are acted on where appropriate.

Further development of our safety culture will be critical to navigating the heightened risks that come with our expanding capital investment programme. Key parts of the business have undertaken safety culture surveys to capture what our employees think about how we manage safety and help us identify areas where we need to improve. We are committed to ensuring that everyone has the expertise, and exhibits the right behaviours, to work safely and without harm. We will also leverage our size, and learn from our partners, to identify best practices and ensure these are shared and implemented across our business.

A recent area of focus has been deploying a major accident hazard framework and risk methodology, and standards that build greater structure into process safety and risk management. The requirements are being discussed with all of our relevant businesses and teams to ensure they are implemented and applied consistently. A review process has been established using technical specialists and third party independent assessors, to aid sharing and consistent application of standards.

National Grid's Executive Committee monitors progress against our safety goals monthly and the governance arrangements for the oversight of safety are being strengthened.

Delivering reliability

Our licences and regulatory agreements set out reliability targets and these are linked to our revenue streams. We are pleased to report that we have met all our reliability targets for the year.

Reliability is achieved through four interrelated actions: planning our capital investments to meet changing demand and supply patterns; designing and building robust networks; risk based maintenance and replacement programmes; and detailed and tested incident response plans.

National Grid's UK Future Energy Scenarios publication, available from its website, outlines our forecasts for energy needs in the UK up to 2050. We use this to inform our capital investment plans and ensure our networks will deliver what is required in the future.

Our construction teams work closely with our engineers to ensure that the networks designed, and built will meet internal and external technical specifications and deliver the required levels of reliability, once brought into service. Our Electricity Transmission business is PAS 55 and ISO 9001 certified, and has detailed procedures in place governing a project throughout each phase of scoping, design, commissioning and the transition to normal operations. Key roles on each project are defined and owners assigned, along with appropriate independent checks to ensure quality is maintained.

We collect and analyse a large quantity of data relating to network reliability including faults, failures and defect information. Using this information, asset health indices are assigned to the major equipment groups. These are then considered together with safety, system and environmental criticality to give replacement priorities that feed into our maintenance and replacement programmes.

Environmental responsibility

As a responsible business, we are committed to protecting the environment for current and future generations.

Investing in and running electricity networks means we use energy and raw materials, and produce waste. Our goal is to reduce any adverse effect we may have and we look for ways to improve the environment. We embrace new technology and methods to use resources more efficiently and sustainably, seek to responsibly refurbish existing assets and reduce waste through recycling and materials efficiency.

Reducing greenhouse gases

We have continued with our climate change and energy efficiency programmes and remain committed to National Grid's targets of a 45% reduction in Scope 1 and 2 greenhouse gas (GHG) emissions by 2020 and 80% by 2050. Refer to the glossary on page 106 for a definition of Scope 1 and 2 emissions. We continue to look for new technology or more efficient equipment that will help us achieve these goals and we have outperformed a number of targets for emissions during the year, including some tied to incentive revenues. Our total Scope 1 and 2 emissions for 2011/12 were 325 thousand tonnes carbon dioxide equivalent. This represents a 36% reduction on our 1990 base line. We have refreshed our rolling five year greenhouse gas reduction plans and we have many challenges through the next few years that will require considerable focus in the business.

We have a number of ongoing initiatives that have helped achieve these results. These include a continued focus on reducing the losses of SF_6, a powerful greenhouse gas, from high voltage switchgear on our system, through improved leak detection and repair processes and continue research to identify alternatives.

Supporting the move to a low carbon economy

We are already developing networks to facilitate new generation, such as commissioning Cleve Hill substation to enable London Array Limited to connect the world's largest wind farm.

Stakeholder engagement

Stakeholders' views form an integral part of the way we do business and make decisions.

Meeting the needs of stakeholders

Our stakeholder engagement principles include:

- **Integrity:** We will be open and engaging so we can develop a clear understanding of what our stakeholders want us to deliver.
- **Accountability:** We will inform stakeholders of how their views have been taken into account and, if they have not, the reasons why.
- **Transparency:** We will conduct our engagement activities in a transparent manner, ensuring all relevant information is readily available and understandable to all stakeholders.
- **Inclusivity:** We recognise the need to increase engagement with the broadest possible range of our stakeholders and we will seek their views.

For example, in the course of developing our transmission business plans for RIIO-T1, we held 22 workshops, talking directly to several hundred stakeholders with a broad range of interests. We produced three written consultations, held numerous forums and focus groups, undertook in-depth telephone interviews and surveyed opinions from customers. We used an independent third party to facilitate our stakeholder engagement so we could be sure we were not unwittingly influencing, misunderstanding or misinterpreting what our stakeholders were saying.

Our regulators remain an important area of focus for our stakeholder engagement activities. National Grid has opened an office in Brussels to establish a stronger and more visible presence with EU institutions and policy makers on key strategic issues facing us in the years to come.

Industry engagement

Participation by our employees on other bodies allows us to engage more broadly, and we aim to be supportive of roles on industry boards and other groups where it does not disrupt responsibilities to National Grid.

Improving customer service

We recognise the importance of good customer and community relationships and in September 2011, we published our UK Transmission customer commitment on our website.

Working with our communities

We have extended our outreach to include the communities in which our key suppliers operate. The Global SpirIT initiative raises funds for the education of under-privileged children in India, where we have been working with IT suppliers for over 17 years.

Financial outperformance

We aim to maximise our returns within the constraints of our regulatory agreements, while continuing to invest for future growth.

We have seen a good financial performance this year with our financial KPI continuing to exceed the target.

Capital investment programme

A feature of our price controls is that we earn a return on our regulated asset base. As a result, as our regulated asset base increases, our returns should similarly increase. We continue to invest in our regulated asset base and our RIIO submissions have reflected a need for investment over the eight year price control in excess of £18 billion. This is dependent on the location and number of new connections required and, if achieved, will represent an average annual growth rate in our regulated asset value of around 11%.

This amount of investment will not be without its challenges: obtaining planning permission for major projects is time consuming and can create delays; finding and developing enough people with the right skills will be difficult; and managing the costs of key inputs that are forecast to increase faster than the rate of inflation due to worldwide demand for these products, will also pose a challenge.

Remuneration from investment
We work closely with Ofgem and the Health and Safety Executive, to balance the needs of all stakeholders for a safe and reliable network, with a price control that provides the required return to allow us to operate our businesses effectively. We will only accept a price control settlement if we believe that it achieves this balance.

For more information on the features of our price controls, refer to pages 5 to 6.

Incentives and outperformance
Achieving output targets to earn incentive revenue is a key element of our ability to provide superior financial returns. Our price control plans have historically included a range of incentive mechanisms and under RIIO the importance of incentive revenue will increase. Examples of our current incentive mechanisms include:

- Transmission network reliability: if we achieve our reliability targets we can earn an incentive of up to 1% of revenue, however if we fail we can incur a penalty of up to 1.5%.
- Greenhouse gas emissions: we can earn incentive payments if certain greenhouse gas emissions are below targets.

Under our price controls, our revenues include an imputed cost of debt. We manage our interest rate risk using fixed- and floating-rate debt and derivative financial instruments including interest rate swaps, swaptions and forward rate agreements. Where we actively manage our interest rate risk, we seek to minimise total financing costs (being interest costs and changes in the market value of debt), subject to constraints. National Grid's Finance Committee regularly monitors performance by comparing the actual total financing costs with those of a comparable, passively managed, benchmark portfolio.

Increasing productivity
We are undertaking a number of transformation initiatives to improve the efficiency and effectiveness of our operations.

National Grid's global information services (IS) transformation project will replace ageing IS infrastructure that currently limits our ability to deliver reliable IT systems and inhibits the creation of platforms for growth. Under a partner provided approach, our IS services will offer a more flexible, cost effective, transparent and responsive delivery model. More information on this programme can be found in the case studies on page 18.

Our transformation initiatives contribute to our ability to support our future growth, improve operational performance and efficiency, and respond to the needs of our stakeholders.

Managing costs
As discussed on pages 5 to 6, our allowed revenues are set in reference to an expected cost to deliver our services. We must manage our costs closely within that framework as, without the permission of our regulators, we may not be able to increase our revenues to compensate for cost overruns. We set budgets and assign owners for cost centres within the business who are responsible for delivering set outputs within that budget.

2012/13 priorities

At the beginning of each year, we set ourselves priorities; achieving these will help us deliver our strategy. Our priorities for 2012/13 are:

- deliver the core Electricity Transmission investment programme;
- agree a RIIO price control for transmission that allows a reasonable return for investors;
- develop and implement the right processes and organisational model that will allow us to be successful under RIIO and maintain our credit ratings;
- deepen relationships with important European stakeholders and raise our profile within the EU;
- deliver a step change improvement in safety performance across our organisation;
- increase levels of employee engagement across all teams;
- deliver significant improvements in how we meet our customer commitments; and
- achieve our financial targets.

.

Delivering our strategy

Measuring performance – our KPIs

We measure the achievement of our objectives, make operational and investment decisions and reward our employees 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.

KPIs are used to measure our progress on strategic priorities, aligning with those activities that combine to deliver our strategy. Non-financial KPIs are often leading indicators of future financial performance as improvements in these measures build our competitive advantage, for example through attractive regulatory arrangements. Financial KPIs are trailing indicators of the success of past initiatives and specific programmes. They also highlight areas for further improvement and allow us to ensure our actions are culminating in sustainable long-term growth in shareholder value.

Commentary on our overall financial results can be found on pages 21 to 23, and information on the performance and financial results of each line of business is set out on pages 25 to 26.

Financial KPI

Strategic element	Measuring performance for	KPI	Definition and performance
All	Financial outperformance	Operational return	Electricity Transmission operational return against the target set by the regulator for the 5 year price control period **2011/12: 5.6%** 2010/11: 6.4% Target: 5.05%

Non-financial KPIs

Strategic element	Measuring performance for	KPIs	Definition and performance
Operational excellence	Safety and reliability	Employee lost time injury frequency rate	Injuries resulting in employees taking time off work per 100,000 hours worked on a 12 month basis **2011/12: 0.14** 2010/11: 0.13 Target: zero
		Network reliability	Reliability of Electricity Transmission network as a percentage against the target set by our regulator **2011/12: 99.999999%** 2010/11: 99.9999% Target: 99.9999%
All	People	Employee engagement index	Employee engagement index calculated using responses to National Grid's annual employee survey. Target is to improve. Transmission business **2011/12: 84%** 2010/11: not measured 2009/10: 77%
Innovation & efficiency	Environmental responsibility	Greenhouse gas emissions	Percentage reduction in greenhouse gas emissions. % reduction against 1990 baseline **2011/12: 36% reduction** 2010/11: 27% reduction

Delivering our strategy

Risks to delivery

Risks are managed within the National Grid risk and compliance management processes which are described below. Overall responsibility for management of risks lies with the Board of National Grid, which is committed to the long-term success of the Company and the protection of our reputation and assets. It ensures we maintain a sound system of internal control in order to safeguard the interests of shareholders.

National Grid's system of internal control

National Grid's system of internal control, and in particular its risk management process, has been designed to manage rather than eliminate material risks to the achievement of strategic and business objectives while also recognising that any such process can provide only reasonable, and not absolute, assurance against material misstatement or loss. This process complies with the Turnbull working party guidance, revised October 2005.

In accordance with the UK Corporate Governance Code and the schedule of matters reserved to the Board of National Grid, the Board of National Grid retains overall responsibility for our system of internal control and monitoring of its effectiveness. Our established system of internal control is based on thorough and systematic processes for the identification and assessment of business critical risks and their management and monitoring over time. In depth reports are provided from both line managers and internal assurance providers such as corporate audit, corporate risk and ethics and compliance. These reports are provided to the Committees of the Board of National Grid in relation to their specific areas of responsibility and they, in turn, provide reports to that Board.

The Board of National Grid reviews the effectiveness of our internal control process, including around financial reporting, on an annual basis, to ensure it remains robust and to identify any weaknesses. The latest review included the financial year to 31 March 2012.

National Grid's risk management process

National Grid's risk management process is designed to protect value and enhance performance by building vigilance, agility and resilience into our management process. The process ensures that risks are assessed against a uniform set of criteria, continuously managed and regularly reported in a visible and structured manner. The output informs management decisions and provides assurance to management and the Board of National Grid, helping to safeguard our assets and reputation.

Our risk management process is based on comprehensive bottom-up and top-down assessments of a wide range of risks, which typically include strategic, operational (including safety and reliability), financial and project risks. Our businesses and the functions that support them, prepare and maintain risk registers to capture their key risks and the actions being taken to manage them. Directors and other senior management review, challenge and debate these bottom-up results, producing an overall evaluation of the risks facing the Company. The Executive, Audit and Risk & Responsibility Committees of National Grid review the risk profile and any changes to it in accordance with their terms of reference, and the Audit Committee reviews the overall risk management process.

In the last year, a number of enhancements to the process were initiated. The National Grid corporate risk function was reorganised and brought into the strategic planning and corporate development function, to provide appropriate regional focus in line with National Grid's new operating model and to forge stronger links with strategic planning activities. The Board of National Grid considered the characteristics of corporate risk appetite and the outcome will determine the appropriate risk appetite for us in the pursuit and delivery of our strategy. New reporting formats, including dashboards incorporating risk timings and mitigation objectives, were developed and rolled out to focus the risk management debate toward future actions. Also, the implementation of a governance, risk and compliance system that will improve our ability to link risks, automate risk metrics and capture associated assurance data has commenced.

National Grid's compliance management process

National Grid's enterprise wide compliance management process is consistent with, and complementary to, its risk management process and provides assurance to senior management on the effectiveness of control frameworks to manage key internal and external obligations, and also highlights any instances of significant non-compliance with those obligations. External obligations are driven primarily by key legal and regulatory requirements, while internal obligations focus on compliance with National Grid's corporate policies and procedures.

In examining a business area's compliance performance, we look for any actual or potential instances of non-compliance, consult with other assurance providers, and frequently review the effectiveness of communications and training programmes. Before issuing an opinion on an area's compliance control framework, we obtain the views of experts in the field such as internal safety and environmental specialists.

The Executive, Risk & Responsibility and Audit Committees of National Grid each receive a report twice a year setting out key internal and external compliance obligations and any significant non-compliance with those obligations, together with compliance opinions and action plans to improve controls where necessary.

Principal risk factors

Our risk management process has identified the following principal 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. When appropriate, we implement processes, procedures and controls to minimise the likelihood of a risk occurring or the potential impact if it does occur. It is not possible to eliminate a risk and even where a response is in place and effective, a risk may still occur.

Risk factor	Details of the risk and examples of our responses
Harmful activities	Aspects of our activities are potentially hazardous or could damage the environment. We are exposed to costs and liabilities from our operations and properties, including those inherited from predecessor bodies, or formerly owned by us, and sites used for the disposal of our waste. 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 increasingly subject to regulation in relation to climate change and are affected by requirements to reduce our own carbon emissions as well as reduction in energy use by our customers. If the legal requirements become more onerous or our regulatory framework changes, then we may not be able to recover all the costs of complying with these laws and regulations. **Our responses** We have implemented safety and occupational health plans, programmes and procedures that are aimed at continuous improvements in safety performance. We continue to focus on process safety, which ensures that at all stages of the asset life cycle key safety considerations are taken into account. This includes the process and procedures that govern the development and design of the assets, the competence of the staff who will build, operate and maintain the assets and the quality of the materials used to construct them. During the life cycle of our assets we develop risk assessments and method statements to ensure the safety of those working on equipment, the public and the operational performance of the system are not compromised. More information on our safety initiatives can be found on page 9. We are working to reduce our greenhouse gas (GHG) emissions and promote their global reduction through support of mandatory reporting legislation. Our approach to GHG emission reductions is discussed on page 10. We maintain robust investigation and remediation programmes to clean up wastes. We have engineered controls in place to minimise or mitigate releases to the environment during remediation activities, including containment, alarms, spill response contracts and equipment.
Infrastructure and IT systems	We may suffer a major network failure or interruption, or may not be able to carry out critical non-network operations. This could cause us to fail to meet agreed standards of service, 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. **Our responses** Routine maintenance is supported by a risk-based asset replacement strategy. A global safety management process was initiated last year to reduce the likelihood of a major accident hazard. It focuses on industry best practice risk assessment techniques, which may proactively identify opportunities to improve asset integrity. We have robust demand forecasting processes and scenario analysis in place informed by broad consultation. We use this information to plan our future development activity to ensure our network has the capacity to meet customer demands and also make this analysis available to stakeholders to inform their actions. *UK Future Energy Scenarios*, available on National Grid's website, gives more information. We use industry best practices as part of our cyber security policies, processes and technologies and continually invest in cyber strategies that are commensurate with the changing nature of the security landscape.

Risk factor	Details of the risk and examples of our responses
Law and regulation	Changes in law or regulation or decisions by governmental bodies or regulators could materially adversely affect us. See pages 5 to 6 which explain our regulatory environment in detail. **Our responses** We actively participate in regulatory development and implementation to help shape favourable outcomes for National Grid's shareholders and the industry. We are proactively working with DECC on their proposals related to Electricity Market Reform. We are also working closely with Ofgem as they review our business plan submissions for RIIO-T1. Initial feedback has been favourable but final decisions are not due until later in the year and our engagement in this process will continue. National Grid recently opened an office in Brussels to establish a stronger and more visible presence with EU institutions and policy makers. We will inform the evolving discussion around European Network Codes, CO_2 reduction targets beyond 2020, the establishment of a North Sea grid and more.
Cost escalation	Changes in foreign currency rates or interest rates or could materially impact earnings or our financial condition. Our results and net debt position may be affected because a significant proportion of our borrowings, and derivative financial instruments are affected by changes in interest rates and exchange rates, in particular the euro to sterling and the dollar to sterling exchange rates. Furthermore, our cash flow may be materially affected as a result of settling hedging arrangements entered into to manage our exchange rate and interest rate exposure, or by cash collateral movements relating to derivative market values. Operating costs may increase faster than revenues. While income under our price controls is linked to the RPI, our operating costs may increase at a faster rate than RPI. The majority of our employees are members of a defined benefit pension scheme where the scheme assets are held independently of our own financial resources. If the scheme does not perform as currently expected, then we may be required to make additional contributions to the pension scheme which, to the extent they are not recoverable under our price controls, could adversely affect our results and financial condition. **Our responses** National Grid's treasury function manages our financial risks, including foreign currency and interest rate, to within acceptable boundaries and under policies and guidelines approved by the Finance Committees of National Grid and our Board. The treasury function is not operated as a profit centre. Debt and treasury positions are managed in a non-speculative manner with all transactions in financial instruments or products matched to an underlying current or anticipated business requirement. **Foreign currency risk:** Transaction risk is managed by hedging contractually committed foreign exchange transactions over a prescribed minimum size. Where foreign currency cash flow forecasts are uncertain and a judgement has to be made, we hedge a proportion based on the likelihood of them occurring, aiming to hedge substantially all such cash flows without over hedging. A hedge may be put in place where a foreign currency exposure is likely to occur, but where contracts have yet to be signed. Cover usually involves forward sale or purchase of foreign currencies and must always relate to forecast underlying operational cash flows. **Interest rate risk:** Interest rate risk is managed by seeking to minimise total financing costs (interest costs and changes in the market value of debt) subject to constraints. We do this by using fixed- and floating-rate debt and derivative financial instruments, including interest rate swaps, swaptions and forward rate agreements. We maintain a portion of our debt portfolio as inflation linked bonds. This provides a partial economic offset to the inflation risk associated with our UK inflation linked revenues. We measure the effectiveness of our interest rate risk management by comparing the actual total financing

<table>
<tr><th>Risk factor</th><th>Details of the risk and examples of our responses</th></tr>
<tr><td></td><td>costs with those of a passively managed benchmark portfolio. This is regularly monitored by the Finance Committee of National Grid.

Inflation: Actions to minimise the impact of inflation include: transformation initiatives designed to improve productivity or reduce the cost of delivering outputs; contracting for future needs where appropriate; and a multi-supplier tendering process to ensure costs are minimised.

Pensions: We negotiate recovery of pension costs from our regulators. Working with the pension schemes' trustees, we also manage the risks associated with our defined benefit pension schemes in two ways:
■ investing in assets that match the financial characteristics of the liabilities of the schemes; and
■ ensuring that contributions required to repair any deficits are spread over extended periods of time, to smooth the effects of market fluctuations.</td></tr>
<tr><td>Financing and liquidity</td><td>Maintenance and growth of our business requires access to capital markets at commercially acceptable interest rates.

Our business is financed through cash generated from our ongoing operations, bank lending facilities and the capital markets, particularly the long-term debt capital markets. Some of the debt we issue is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and borrowing costs. In addition, restrictions imposed by regulators may also limit how we service the financial requirements of our businesses.

Financial markets can be subject to periods of volatility and shortages of liquidity, which may be exacerbated by the eurozone crisis. 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 discretionary and uncommitted elements of our proposed capital investment programme may need to be reconsidered and the manner in which we implement our strategy may need to be reassessed. The occurrence of any such events could have a material adverse impact on our business, results and prospects.

Our regulatory agreements impose lower limits for the long-term senior unsecured debt credit ratings that we must hold. In addition, our regulatory arrangements impose restrictions on the way we can operate. These include regulatory requirements for us to maintain adequate financial resources within the Company. The inability to meet such requirements may have an adverse impact on our business and financial condition.

Our responses

We identify short-term liquidity and long-term funding requirements by regularly producing short- and long-term cash flow forecasts, along with undertaking financial headroom analysis.

To facilitate short- and long-term debt issuance, we maintain commercial paper and medium-term note programmes. We manage refinancing risk by limiting the amount of debt maturities on borrowings in any one financial year. Details of our long-term borrowings maturity profile is on page 30.

We also have both committed and uncommitted bank borrowing facilities that are available for general corporate purposes to support our liquidity requirements. The majority of our committed borrowing facilities are used to provide back up to our commercial paper programmes or other specific debt issuances. To date, these have never been drawn and there is no current intention to draw them in the future.

We consider restrictions imposed by regulatory agreements in preparing cash flow forecasts and determining our future funding requirements.

Details of the programmes and facilities we maintain can be found in the debt investors section of National Grid's website.</td></tr>
<tr><td>Customers and counterparties</td><td>Customers and counterparties may not perform their obligations. We have significant concentrations of receivables with a small number of large electricity utilities.

Our responses

Security deposits or other forms of collateral may be obtained, to reduce the risk from customer default.

The Finance Committee of National Grid has agreed a policy for managing counterparty risk that sets limits</td></tr>
</table>

Risk factor	Details of the risk and examples of our responses
	to the exposure we can have based on an individual counterparty's credit rating from independent rating agencies. Limits are monitored daily and amended as credit ratings change and are set on a portfolio basis to ensure that our total exposure is acceptable. Given the economic uncertainties in the eurozone, we consider other leading indicators of counterparty distress and reduce exposure below the approved limits, if appropriate. Where multiple financial transactions are entered into with a single counterparty, a netting arrangement is usually put in place to reduce our exposure to the credit risk arising. More information about managing counterparty risk is given in note 26(c) to the consolidated financial statements.
Employees and others	We need to attract and retain employees with the skills and experience required to deliver our strategy. We also need to ensure they and others acting on our behalf, are engaged to act in our best interests. **Our responses** To demonstrate our commitment to this important area, one of our 2012/13 priorities is to increase levels of employee engagement across all of our teams. We will use our engaging for performance framework, see page 8, to deliver this priority. We are confident that we understand our resource and skills gaps in our electricity transmission business and plans are in place to respond to these risks. Plans are not just aimed at recruiting qualified engineers with experience in our industry, but recognise that we must look more widely, identifying capable individuals we can train and develop to create a talent pipeline that will support our growth over time. We also continue to work closely with existing partners, and when appropriate, will seek to create new partnerships. Through our partnerships we can leverage external resources, expertise and best practices to supplement our internal knowledge and experience and ensure that we can deliver our planned capital investment programme. We maintain a strong commitment to ethical business conduct. National Grid's ethics and compliance office was established specifically to answer questions and address concerns about unethical behaviour affecting National Grid's businesses.

Information assurance

The Board of National Grid considers that it is imperative to have accurate and reliable information to enable informed and timely decisions to be taken that further our objectives. Key elements in managing information assurance risks include education, training and awareness.

These initiatives emphasise the importance of information security, the quality of data collection and the affirmation process that supports our business transactions, evidencing our decisions and actions. All communication channels, including training for doing the right thing, make it clear that the accurate and honest reporting of data and other information must never be compromised. These initiatives are supported by the letter of assurance process in which managers affirm, among other things, they have control frameworks in place to ensure data and other information is reported accurately. In line with ongoing transformation initiatives, we continue to monitor and evolve our control processes.

Delivering our strategy

What we delivered this year

As we enter each new year, we assess our strategy and set priorities for the coming period. These priorities cover a broad array of actions that will collectively, over time, deliver our strategy. Some examples of the actions taken this year can be found in the How we deliver section on pages 8 to 11. In this section, we provide a closer look at some of our priorities and how we have performed against them during the year.

Strategy: operational excellence

One of the priorities set for 2011/12 that underpinned our operational excellence strategic goals was deliver common key processes and execute on best practice initiatives.

We have made significant progress on a number of our transformation initiatives, as well as driving continuous improvements across the business, but there is more to do and process improvement underpins a number of our priorities for 2012/13.

A step change in IS

Our business is evolving to meet the demands of our customers and regulators; we have revised our organisational structure and sourcing strategies; and we are working to ensure that our IS are also positioned to support us. We are taking a new approach to system design and delivery, infrastructure and service delivery across our IS landscape with the following objectives:

- removing the reliance on an ageing infrastructure and complex application portfolio that limit our ability to deliver a reliable service and respond to growth opportunities;
- meeting the challenge of our customers and regulators to operate more efficiently and continue to deliver quality services at better value; and
- developing the capability and capacity to deliver more and better IS solutions and services to the business in response to our customers' needs.

National Grid's new IS operating model includes six strategic partners, to help the delivery of our investment plan, and levels of investment that would be unachievable if we did not significantly change our ways of working. Under this partner leveraged approach, IS will be able to offer a more flexible, agile, cost effective, transparent and responsive delivery model for its services. The benefits of the new model will be:

- operating through one common global infrastructure, standard processes and tools, which makes managing our systems simpler and more efficient;
- delivering higher quality at better value – which is being demanded from our customers and regulators;
- partnering with businesses across National Grid to better serve our customers;
- providing real cost transparency – helping the businesses to make more informed decisions around service levels and investments; and
- a significantly more secure and resilient IS environment protecting our assets and information.

Strategy: innovation and efficiency

One of the priorities set for 2011/12 that underpinned our innovation and efficiency strategic goals was deliver cost reductions by further leveraging support activity efficiencies, improve the buying experience and increase transparency of procurement savings.

On a day-to-day basis our priorities must be flexible. An issue that has sparked much debate is the visual impact of connecting our electricity transmission assets to new sources of supply – our innovative approach to the potential future of pylon design is discussed in this section.

We continue to explore new ways of creating procurement efficiencies, including evaluating new suppliers and expanding our sources of supply.

New designs on the horizon

Innovation is a key driver of our business. The issues around connecting energy sources to customers is an area where creative thinking is particularly important.

The use of overhead lines versus underground cables is one that can excite strong opinion, and is a matter for public debate. In January 2012, the Institute of Engineering and Technology published the Electricity Transmission Costing Study. It has been widely welcomed and we expect it to become an authoritative reference document. We believe this study supports our view; at very high voltages, it is much more expensive to underground, but the right balance between landscape and affordability needs to be achieved. Society needs to decide whether the extra cost of undergrounding, which passes through to us all in our electricity bills, is justifiable to protect our landscape.

The UK Government provides guidance on this through National Policy Statements and we are mindful of these when developing new connections. We look at every project individually, carefully considering all the options available – which in some instances can include subsea alternatives as well as underground cables and overhead lines. We also consult at an early stage with a wide range of stakeholders and the local community so that their views and opinions can help shape and influence the design of the project.

We are particularly keen to look at alternative designs for pylons and were delighted to work with the Royal Institute of British Architects and the DECC, to launch a competition to come up with a new pylon design that potentially better balanced structural needs and visual impact.

Danish company Bystrup's winning 'T' pylon is much shorter and visually very different from the existing 1920's design we are all familiar with. There is still significant work to be done with Bystrup's team of architects and engineers as well as designers and manufacturers of the innovative electrical components before we can be sure it is a fully workable concept. But we are excited by the possibilities and, if the T pylon proves successful we will add it to our portfolio of alternative pylon designs and plan to offer local communities the choice of design that best fits their landscape where appropriate. We want to make the right decisions – ones that meet society's energy demands and provide options to help create a sustainable future that we can all accept.

Robot technology enhances our operations

Enhancing our networks without affecting supply to customers is part of what we do and we continue to look for innovative ways to do it. With the latest developments, particularly in robot technology, we are now trialling a number of solutions.

LineScout, developed originally in Canada, is a remotely operated overhead line inspection robot that is capable of working on live electricity lines up to 735 kV. The LineScout robot can inspect overhead line conductors and fittings, using onboard high definition cameras. In addition, it is able to perform routine maintenance, such as recovery and relocation of bolted damper assemblies, temporary conductor strand repairs and the electrical resistance measurement of conductor joints. At all times LineScout is operating on live lines, controlled via our ground teams, provides a safe mode of operation and, equally importantly, enables customer supply to remain uninterrupted.

LineScout has been successful and we are continuing to work with our partners to explore further ways in which we can benefit from other technological developments.

Strategy: engaging externally

One of the priorities set for 2011/12 that underpinned our engaging externally strategy was to work with Ofgem, and other stakeholders to implement a successful rollover for TPCR4 and submit final proposals for RIIO-T1 plans.

The 2011 Electricity Market Reform white paper set out a significant reform programme for the UK electricity market. Our unique role in that market has now been recognised and, in our role as system operator, we have been appointed to run the new processes – see the case study for more details.

Electricity market reform

In July 2011, DECC published their Electricity Market Reform White Paper 'Planning our Electric Future' which set out the Government's proposals for reforming the existing electricity market in the UK.

The UK Government has committed to a reduction in green house gas emissions of 80% by 2050, largely through decarbonisation of electricity generation. While doing this there is a need to ensure continued security of supply.

The ongoing decommissioning of ageing nuclear plant and the closure of old coal fired power stations under European legislation amounts to the loss of 25% of our existing generation fleet, on a base year of 2008. These generation closures, coupled with an increase in the amount of renewable generation which is both intermittent and less flexible than conventional generation plant, will bring security of supply challenges. The expected increase in the number of electric vehicles, ground source heat pumps and other technologies that will change the way consumers use electricity will inevitably lead to increased demand. As a result, DECC has estimated that required investment in UK generation and transmission will be around £110 billion between now and 2020, double the rate of the past decade.

The reform measures introduced by the Government:

- provide details of a carbon price floor to put a fair price on carbon and provide a stronger incentive to invest in low carbon generation;
- set an emissions performance standard of 450g CO_2/KWh;
- introduce new long-term contracts in the form of a feed in tariff with contracts for difference to provide stable financial incentives to invest in all forms of low carbon electricity generation; and
- a capacity mechanism to ensure future security of supply.

Following engagement with industry stakeholders, DECC decided that, through our existing role as system operator, we are best placed to operate the capacity mechanism and administer a feed in tariff with contracts for difference. A project team has been established to advise DECC as they develop the market reforms. Government will be responsible for setting the policy approach and objectives and for taking final decisions on key rules and parameters. We will provide independent advice on those key rules and parameters. Ofgem will continue its independent regulation of the market, incorporating the new instruments.

Talking networks

Our RIIO business plan submissions were very different to anything we had previously submitted to Ofgem, with (among other things) a much greater emphasis on demonstrating how stakeholders have influenced the development of our business plans.

In developing the business plans, we drew together the views and opinions of our broad range of stakeholders, using all the methods of engagement at our disposal, including some new and innovative engagement activities which have focused on informing and shaping our plans.

At the very beginning of our RIIO engagement, we developed 'talking networks', a comprehensive and coordinated programme of stakeholder engagement covering both Transmission and Gas Distribution. Through this, we built on our existing engagement activities to proactively engage with our stakeholders on topics related to the first RIIO price control period. We promised our stakeholders we would listen to what they have to say, discuss our future challenges and plans with them, and then act on what they told us.

Initial response to our engagement has been very positive. We are seen as industry leading in our engagement activities and the fact that we have been so proactive in discussing our ideas with our stakeholders and incorporating their views into our plans has been very well received.

We have gathered a great deal of detail about what our stakeholders think of the services we provide and what they see as being our priorities going forward. For example, Transmission stakeholders have told us that reliability of supply is paramount. They trust our record on safety and expect that to continue, and see us as having an important role to play in facilitating the move towards meeting the country's environmental targets by connecting new low carbon generation. Stakeholders also told us that our level of customer service had improved but could still be better and that they would like to see further improvements in our connections services. They believe that innovation will play a crucial role in enabling us to continue to manage our networks going forward.

All of this has shaped our RIIO business plan submissions, but it is important that our engagement doesn't end once the first RIIO period begins. Our intention is to make talking networks an enduring process and to put stakeholder engagement at the heart of our business activities.

Strategy: disciplined investment

One of the priorities set for 2011/12 that underpinned our disciplined investment strategy was ensure successful delivery of the core UK investment programme.

Our future organic growth is dependent on the successful delivery of our capital investment plans which in 2011/12 amounted to £1.2 billion. The London tunnels project, as discussed in the case study, is a great example of how the money we are investing is helping to ensure that our customers have a secure energy supply for the future.

Investing in our people

We are committed to investing in our people, providing the training and other support necessary for them to build, maintain and operate our networks safely and reliably. Delivering a training programme of the required magnitude needs state of the art facilities and equipment.

In the year, we completed work on our new electricity transmission switchgear training centre and accommodation facilities at Eakring. Our training centres use innovative and engaging eLearning, 3D virtual reality, SMART board technology, learner response technology and virtual classrooms to enhance the learning experience and reduce the costs associated with off the job training delivery.

London power tunnels

The flagship London power tunnels project, started in 2011, will create 10 new 400 kV circuits at the heart of the capital's transmission system. Investment could reach nearly £0.9 billion once completed in 2018. London generates the largest electricity demand on our network – around 6 GW at peak – and demand is continuing to grow.

To ensure we can deliver the reliability demanded by our customers in the future, we need to increase the capacity of our transmission system in and around London and so the new cables that we're installing are bigger and will run at a higher voltage; providing more than twice the capacity of the cables they are replacing.

The tunnel network will surface at eight points across London to transmit electricity out across local areas from new substations and will provide power to the new Crossrail transport hub. The project is also connected to the national network as part of an integrated plan to upgrade and modernise the grid nationwide – rewiring Britain for the 21st century.

Financial performance

Introduction

This year has seen good financial performance. Excluding the impact of the timing differences, our adjusted operating profit increased by 8%.

Our interest expense and other finance costs were slightly higher in 2011/12 with the benefit of lower debt buy back costs offset by growth in borrowings and losses on derivative financial instruments. The total tax charge this year was lower as a result of the lower tax rates in the UK. Our effective tax rate, excluding exceptional items and remeasurements, reduced from the prior year to 26.3%.

Capital investment for the year was £1.2 billion. Taken together with the impact of depreciation and inflation, growth in our regulated asset base in 2011/12 has again been significant at over £0.7 billion.

Despite strong cash flow from operations, our continuing capital investment programme resulted in a £664 million increase in our net debt. We expect net debt to continue to increase in line with our capital investment programme.

With the anticipated revenue growth from our regulatory arrangements, we look forward to another year of good financial results in 2012/13.

Measurement of financial performance

We report our financial results and position in accordance with IFRS.

Use of adjusted profit measures

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

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

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

Accounting policy (Q) on page 46 explains in detail the items which are excluded from our adjusted profit measures.

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

Management uses adjusted profit measures as the basis for monitoring financial performance and in communicating financial performance to investors in external presentations and announcements of financial results. Internal financial reports, budgets and forecasts are primarily prepared on the basis of adjusted profit measures, although planned exceptional items, such as significant restructurings, are also reflected in budgets and forecasts. We separately monitor and disclose the excluded items as a component of our overall financial performance.

Reconciliations of adjusted profit measures to the total profit measure, that includes both components, can be found on page 23.

Timing

As discussed on pages 5 to 6, our allowed revenues are set in accordance with our regulatory price controls. We calculate the billing rates we charge our customers based on the estimated volume of transmission services we believe will be provided during the coming period. The actual volumes of transmission services will differ from this estimate and therefore our total actual revenue will be different from our total allowed revenue. These differences are commonly referred to as timing differences. If we collect more than the allowed level of revenue, the balance must be returned to customers in subsequent periods, and if we collect less than the allowed level of revenue we may recover the balance from customers in subsequent periods. The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenue are final.

Our profit for the year includes an estimated in year under-collection of £38 million (2011: £60 million over-collection) and our closing balance of estimated under-recovery at 31 March 2012 was £25 million (2011: £13 million over-recovery). All other things being equal, the majority of that balance would normally be recovered from customers in the following year. The table below shows the impact of timing differences on adjusted operating profit.

	Years ended 31 March	
	2012	2011
	£m	£m
Adjusted operating profit excluding timing differences	**908**	844
Timing differences	**(38)**	60
Adjusted operating profit	**870**	904

Key performance indicators (KPIs)

Our financial KPI is set out on page 12.

Operational return

We measure our performance in generating value from the investments we make by dividing the annual return of our Electricity Transmission business by our regulatory asset base.

Annual return consists of adjusted earnings, amended for a number of items including regulatory timing differences and depreciation, net financing costs and a pension deficit adjustment. Our regulatory asset base consists of invested capital, which is the opening RAV inflated to mid-year using RPI inflation. This is equivalent to the vanilla return set out in our price controls.

For 2011/12, our operational return was 5.6% compared with 6.4% in 2010/11 and a regulatory allowed return (vanilla return) of 5.05%. The reduction in the operational return is primarily due to lower annual return.

Profit for the year

Adjusted profit and adjusted earnings

Adjusted earnings and adjusted profit for year from continuing operations were £510 million in 2011/12 (2010/11: £525 million).

Profit and earnings

Earnings and profit for year from continuing operations were £545 million in 2011/12 (2010/11: £505 million).

Adjusted operating profit

The £34 million decrease in adjusted operating profit in 2011/12 to £870 million is primarily due to:

- Adverse timing differences of £98 million, as noted on page 25.
- Higher other operating costs due to inflationary pressures and additional staffing costs to support the ongoing increase in our capital investment programme in.
- Higher depreciation as a result of higher average asset values due to the capital investment programme.

Partially offset by:

- An increase in regulated revenues of £90 million reflecting the impact of inflation on our RPI-X price controls.

More information can be found in the discussion of our segments on pages 25 to 26.

Adjusted net finance costs

Adjusted net finance costs were £178 million in 2011/12, compared with £173 million in 2010/11. The slight increase is due to an increase in unwinding of discount on provisions.

Adjusted taxation

Adjusted taxation for 2011/12 was a charge of £182 million (2010/11: £206 million). This represents an effective tax rate of 26.3% (2010/11: 28.2%). This reduction in effective tax rate is primarily because of a 2% reduction in the UK corporation tax rate. More information on taxation can be found in the note 5 to the consolidated financial statements.

Exceptional items and remeasurements

Exceptional charges of £5 million in 2011/12 consisted of restructuring costs.

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

Exceptional finance costs and remeasurements

There were no exceptional finance costs in 2011/12. There were £11 million of exceptional finance costs during 2010/11 relating to the early redemption of debt following the rights issue by National Grid in June 2010.

Financial remeasurements relate to net losses on derivative financial instruments of £41 million (2010/11: £8 million net gains).

Exceptional taxation

Taxation related to exceptional items and remeasurements changes each year in line with the nature and amount of transactions recorded. In addition, exceptional taxation in 2011/12 included an exceptional deferred tax credit of £69 million arising from a reduction in the UK corporation tax rate from 26% to 24%, applicable from 1 April 2012. A similar reduction in the UK corporation tax rate in 2010/11 from 28% to 26% resulted in a £62 million deferred tax credit in that year.

More information on exceptional items and remeasurements can be found in note 3 to the consolidated financial statements.

Reconciliation of adjusted profit measures

Reconciliation of adjusted operating profit to total operating profit

Adjusted operating profit is present on the face of the income statement under the heading operating profit before exceptional items and remeasurements.

	Years ended 31 March	
	2012	2011
	£m	£m
Adjusted operating profit	**870**	904
Exceptional items	**(5)**	(84)
Total operating profit	**865**	820

Reconciliation of adjusted operating profit to adjusted profit and profit

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

	Years ended 31 March	
	2012	2011
	£m	£m
Adjusted operating profit	**870**	904
Adjusted net finance costs	**(178)**	(173)
Adjusted profit before tax	**692**	731
Adjusted taxation	**(182)**	(206)
Adjusted profit	**510**	525
Exceptional items	**65**	(25)
Remeasurements	**(30)**	5
Profit	**545**	505

Reconciliation of adjusted profit before tax to total profit before tax

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

	Years ended 31 March	
	2012	2011
	£m	£m
Adjusted profit before tax	**692**	731
Exceptional items	**(5)**	(95)
Remeasurements	**(41)**	8
Total profit before tax	**646**	644

Segments

Revenue by operating segment

	Years ended 31 March	
	2012	2011
	£m	£m
Electricity Transmission	**2,811**	2,548
Other activities	**2**	2
Revenue	**2,813**	2,550

Adjusted operating profit by segment

	Years ended 31 March	
	2012	2011
	£m	£m
Electricity Transmission	**876**	912
Other activities	**(6)**	(8)
Adjusted operating profit	**870**	904

Operating profit by segment

	Years ended 31 March	
	2012	2011
	£m	£m
Electricity Transmission	**871**	828
Other activities	**(6)**	(8)
Total operating profit	**865**	820

2011/12 compared with 2010/11

Changes to adjusted operating profit for 2011/12 compared with 2010/11 are analysed by operating segment in the table below. The principal movements for each segment are shown on the following pages.

	£m
2010/11 adjusted operating profit	904
Electricity Transmission – see page 25	(36)
Other activities – see page 26	2
2011/12 adjusted operating profit	870

Regulatory businesses

Revenue by regulatory business

	Years ended 31 March	
	2012	2011
	£m	£m
Transmission business	**2,755**	2,477
Other activities	**58**	73
Total revenue	**2,813**	2,550

Adjusted operating profit by regulatory business

	Years ended 31 March	
	2012	2011
	£m	£m
Transmission business	**858**	895
Other activities	**12**	9
Adjusted operating profit	**870**	904

Operating profit by regulatory business

	Years ended 31 March	
	2012	2011
	£m	£m
Transmission business	**853**	811
Other activities	**12**	9
Total operating profit	**865**	820

2011/12 compared with 2010/11

Changes to adjusted operating profit for 2011/12 compared with 2010/11 are analysed by regulatory business in the table below.

	£m
2010/11 adjusted operating profit	904
Transmission business – see page 27	(37)
Other activities	3
2011/12 adjusted operating profit	870

Principal operations

Electricity Transmission

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

For more details on how our Electricity Transmission business operates see page 4.

Key achievements

- delivered our capital investment programme totalling £1.2 billion;
- achieved our best year for reliability on record with transmission system availability of 99.999999%;
- opened an office in Brussels to engage at a European level;
- outperformed both our transmission carbon budgets and our regulatory SF_6 leakage target; and
- in February 2012, in a joint venture partnership with SP Transmission, we awarded a £1 billion contract to build the first ever subsea electricity link between England and Scotland – the western high voltage direct current link.

Strategy

Electricity Transmission's strategy will include:

- delivering the increased capital investment programme. This adds to our regulated asset value and supports future equity growth;
- working with Ofgem to achieve an acceptable outcome to RIIO T1. This will include reviewing the output measures and incentives and considering how best to maximise our returns under these new mechanisms. This will contribute to future earnings and cash flows;
- continuing work to increase our influence in Europe and create a long-term EU strategy, intended to help contribute to the evolution of the laws and regulations that affect our business and our consumers; and
- increasing innovation, commercially, technically and financially. This can help us meet the output measures of our RIIO regulatory agreement and assist in finding new ways to generate growth.

Principal risks

- the assets associated with our major project developments will require significant stakeholder engagement in order to secure the necessary permissions to be built;
- the increased capital expenditure programme drives a need to ensure we have the appropriate core organisational and leadership capabilities; and
- the outcome of Ofgem's review of our business plans is uncertain.

Outlook

We believe the outlook for our Electricity Transmission business over the coming year is positive. While there are challenges ahead, we believe we have the right skills and approach to overcome them. In the next 12 months we aim to deliver £1.5 billion of capital investment and over the RIIO price control period we estimate this will be £18 billion.

Our safety and reliability performance has remained strong during the year and we believe this can continue. Our customer satisfaction scores have improved and work is underway to help deliver further improvement in this area.

We are working with stakeholders to try to develop the network of the future, designed to have appropriate flexibility to cope with the transition to a low carbon economy.

Results

The results for the Electricity Transmission segment for the years ended 31 March 2012 and 2011 were as follows:

	Years ended 31 March	
	2012	2011
	£m	£m
Revenue	**2,811**	2,548
Operating costs excluding exceptional items	**(1,935)**	(1,636)
Adjusted operating profit	**876**	912
Exceptional items	**(5)**	(84)
Operating profit	**871**	828

Principal movements (2010/11 – 2011/12)

	£m
2010/11 adjusted operating profit	912
Timing (1)	(98)
Net regulated income (2)	90
Regulated controllable operating costs (3)	(17)
Depreciation and amortisation (4)	(18)
Other	7
2011/12 adjusted operating profit	876

1 - In year estimated under-recovery of £38 million compared with a prior year estimated over-recovery of £60 million. The closing estimated under-recovered balance is £25 million.

2 - Increase in regulated revenues collectable under our regulatory RPI-X formula. This was partially offset by a £20 million provision on the balancing services incentive scheme due to higher than expected costs for balancing services.

3 - Higher employee numbers required as we increase our capital investment programme and other cost inflationary pressures, partially offset by lower material charges.

4 - Higher average asset values due to the capital investment programme.

Other activities

Other activities include central corporate overheads.

Results

The results for other activities for the years ended 31 March 2012 and 2011 were as follows:

	Years ended 31 March	
	2012	2011
	£m	£m
Revenue	**2**	2
Operating costs excluding exceptional items	**(8)**	(10)
Adjusted operating loss and operating loss	**(6)**	(8)

Regulatory business

Transmission business

The regulatory Transmission business comprises our electricity transmission business described on page 25, other than certain contracting services which are reported within other activities for regulatory purposes. Central corporate overheads, which are reported within other activities for statutory accounting purposes (see page 26), are reported within our transmission business for regulatory purposes.

Results

The results for the Transmission business for the years ended 31 March 2012 and 2011 were as follows:

	Years ended 31 March	
	2012	2011
	£m	£m
Revenue	**2,755**	2,477
Operating costs excluding exceptional items	**(1,897)**	(1,582)
Adjusted operating profit	**858**	895
Exceptional items	**(5)**	(84)
Operating profit	**853**	811

Principal movements (2010/11 – 2011/12)

	£m
2010/11 adjusted operating profit	895
Timing (1)	(98)
Net regulated income (2)	90
Regulated controllable operating costs (3)	(17)
Depreciation and amortisation (4)	(18)
Other	6
2011/12 adjusted operating profit	858

1 - In year estimated under-recovery of £38 million compared with a prior year estimated over-recovery of £60 million. The closing estimated under-recovered balance is £25 million.

2 - Increase in regulated revenues collectable under our regulatory RPI-X formula. This was partially offset by a £20 million provision on the balancing services incentive scheme due to higher than expected costs for balancing services.

3 - Higher employee numbers required as we increase our capital investment programme and other cost inflationary pressures, partially offset by lower material charges.

4 - Higher average asset values due to the capital investment programme.

Financial position and resources

Going concern

Having made enquiries, the Directors consider that the Company and its subsidiary undertakings have adequate resources to continue in business for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the consolidated and individual financial statements of the Company More details of our liquidity position are provided under the risk factors discussion on page 16 and in note 26 to the consolidated financial statements.

Summarised consolidated balance sheet

	Years ended 31 March	
	2012	2011
	£m	£m
Intangibles	**72**	50
Property, plant and equipment	**8,465**	7,616
Current assets*	**259**	232
Current liabilities*	**(713)**	(729)
Net deferred tax liabilities	**(746)**	(761)
Provisions and other non-current liabilities	**(351)**	(347)
Pensions	**(512)**	(467)
Net debt	**(5,234)**	(4,570)
Net assets	**1,240**	1,024

* excludes amounts related to net debt and provisions reported in other lines

Intangibles

Intangibles increased by £22 million during 2011/12 to £72 million. This increase primarily relates to software additions of £29 million offset by amortisation of £10 million.

Property, plant and equipment

Property, plant and equipment increased by £849 million to £8,462 million. This was principally due to capital expenditure of £1,125 million, predominantly in the extension of our regulated networks, partially offset by £272 million of depreciation.

Capital expenditure all relates to our Electricity Transmission segment and has increased by £28 million.

As a result of capital expenditure in 2011/12, and after allowing for depreciation and inflation, we estimate that our regulated asset base will increase by approximately £0.7 billion.

Current assets

Current assets have increased by £27 million to £259 million. This was due to a rise in accrued income and prepayments of £35 million.

Current liabilities

Current liabilities have decreased by £16 million to £713 million. Refer to note 15 to the consolidated financial statements for further information.

Deferred tax liabilities

The net deferred tax liability decreased by £15 million to £746 million. Refer to notes 5 and 17 to the consolidated financial statements for further information.

Provisions and other non-current liabilities

Provisions and other non-current liabilities increased by £4 million to £351 million. Further information on provisions is provided in note 19 to the consolidated financial statements.

Pensions

We operate pension arrangements on behalf of our employees. The National Grid Electricity Group of the Electricity Supply Pension Scheme is closed to new entrants. Membership of the defined contribution section of the National Grid UK Pension Scheme is offered to all new employees. Only assets and liabilities in respect of the National Grid Group of the Electricity Supply Pension Scheme are recognised in these financial statements.

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

A summary of movements in the IAS 19 accounting deficit is set out below:

Net plan liability	£m
As at 1 April 2011	(467)
Current service cost	(26)
Expected return less interest	(5)
Curtailments, settlements and other	(2)
Actuarial gains/(losses)	
- on plan assets	17
- on plan liabilities	(138)
Employer contributions	109
As at 31 March 2012	**(512)**
Represented by:	
Plan assets	1,739
Plan liability	(2,251)
Net plan liability	(512)

The principal movements in net obligations during the year arose as a consequence of a decrease in the discount rate due to declines in corporate bond interest rates. Actuarial gains on plan assets reflected improvements in financial markets, particularly bond yields.

Plan assets are predominantly invested in equities, corporate bonds, gilts, property and short-term investments. Our plan is trustee administered and the trustees are responsible for setting the investment strategy and monitoring investment performance, consulting with us where appropriate.

The investment profile of our pension plan assets as at 31 March 2012 is illustrated below:

	%
Equities	40.0
Corporate bonds	11.7
Gilts	33.6
Property	3.8
Other	10.9
	100.0

Further information on our pension and other post-retirement obligations can be found in note 24 of the consolidated financial statements.

Summarised regulatory Transmission business balance sheet

The balance sheet at 31 March 2012 for the regulatory transmission business can be summarised as follows:

	Years ended 31 March	
	2012	2011
	£m	£m
Intangibles	**72**	50
Property, plant and equipment	**8,463**	7,613
Current assets*	**242**	201
Current liabilities*	**(680)**	(702)
Net deferred tax liabilities	**(745)**	(760)
Provisions and other non-current liabilities	**(351)**	(347)
Pensions	**(505)**	(461)
Net debt	**(5,234)**	(4,570)
Net assets	**1,262**	1,024

* excludes amounts related to net debt and provisions reported in other lines

Intangibles

Intangibles increased by £22 million during 2011/12 to £72 million. This increase primarily relates to software additions of £29 million offset by amortisation of £10 million.

Property, plant and equipment

Property, plant and equipment increased by £850 million to £8,463 million. This was principally due to capital expenditure of £1,125 million, predominantly in the extension of our regulated networks, partially offset by £272 million of depreciation.

Current assets

Current assets have increased by £41 million to £242 million. This was due to a rise in accrued income and prepayments of £46 million.

Current liabilities

Current liabilities have decreased by £22 million to £680 million. Refer to note J of the regulatory accounting statements for further information.

Deferred tax liabilities

The net deferred tax liability decreased by £15 million to £745 million. Refer to notes D and L of the regulatory accounting statements for further information.

Provisions and other non-current liabilities

Provisions and other non-current liabilities increased by £4 million to £351 million. Further information on provisions is provided in note N of the regulatory accounting statements.

Pensions

A summary of movements in the IAS 19 accounting deficit attributed to our regulatory transmission business is set out below:

Net plan liability	£m
As at 1 April 2011	(461)
Current service cost	(26)
Expected return less interest	(5)
Curtailments, settlements and other	(2)
Actuarial gains/(losses)	
- on plan assets	17
- on plan liabilities	(136)
Employer contributions	108
As at 31 March 2012	**(505)**
Represented by:	
Plan assets	1,717
Plan liability	(2,222)
Net plan liability	(505)

The principal movements in net obligations during the year arose as a consequence of a decrease in the discount rate due to declines in corporate bond interest rates. Actuarial gains on plan assets reflected improvements in financial markets, particularly bond yields.

Further information on our pension and other post-retirement obligations can be found in note M of the regulatory accounting statements.

Net debt

Funding and liquidity management

Funding and treasury risk management for National Grid Electricity Transmission is carried out by the treasury function of National Grid under policies and guidelines approved by the Finance Committees of the Boards of National Grid and National Grid Electricity Transmission. The Finance Committees 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 can be found in the Principal risk factors discussion starting on page 15 and in note 26 of the consolidated financial statements.

Surplus funds

Investment of surplus funds, usually in short-term fixed deposits or placements with money market funds that invest in highly liquid instruments of high credit quality, is subject to our counterparty risk management policy.

Trend and composition of net debt

	At 31 March	
	2012	2011
	£m	£m
Cash, cash equivalents & financial investments	**265**	4
Borrowings and bank overdrafts	**(5,428)**	(4,666)
Derivatives	**(71)**	92
Total net debt	**(5,234)**	(4,570)

The increase in net debt of £664 million to £5,234 million is explained as follows:

Movement in net debt

The following table provides an analysis of the movement in our overall net debt and of the net debt attributed to our regulatory transmission business. See Basis of preparation of regulatory accounting statements on page 42 for details of how net debt has been attributed.

	Transmission Business	Total
	£m	£m
Opening net debt at 1 April 2011	(4,570)	(4,570)
Factors decreasing net debt:		
- Operating cash flows	1,106	1,135
Factors increasing net debt::		
- Tax	(134)	(136)
- Non-cash movements (i)	(172)	(200)
- Dividends	(200)	(200)
- Interest	(149)	(149)
- Capital expenditure & other	(1,115)	(1,114)
Closing net debt at 31 March 2012	(5,234)	(5,234)

(i) Includes RPI inflation linked debt accretion £(110) million (2011: £(97) million).

Factors decreasing net debt

Our primary source of cash relates to operating cash flows as detailed separately below.

Factors increasing net debt

Our primary use of cash is for capital expenditure and other investing activities. This has increased by £210 million primarily due to increased investment in our Transmission business. We also utilised cash for dividends which were £50 million higher. Net interest paid was £32 million lower than prior year, reflecting lower interest rates, combined with £6 million of debt repurchase gains in 2011/12 compared with £11 million of exceptional debt repurchase costs in 2010/11. Tax paid was £136 million, £24 million higher than prior year due to settlement of historic tax balances. Non-cash movements related to increases in the value of inflation linked debt and remeasurements.

Operating cash flows

Annual cash flows from our operations are largely stable over a period of years, as our electricity transmission operations are subject to multi-year price control agreements with Ofgem.

Cash flow from operations increased by £70 million in 2011/12, to £1,135 million, due to favourable working capital movements, partly offset by higher pension payments.

For the Transmission business; cash flow from operations increased by £46 million in 2011/12, to £1,106 million, due to favourable working capital movements, partly offset by higher pension payments.

Borrowings

The Finance Committee of National Grid controls refinancing risk by limiting the amount of our debt maturities arising from borrowings in any one year, which is demonstrated by our maturity profile.

The maturity profile of our gross borrowings at 31 March 2012 was as follows:

	£m
Less than 1 year	749
In 1 to 2 years	510
In 2 to 3 years	-
In 3 to 4 years	170
In 4 to 5 years	200
In more than 5 years	3,799
	5,428

During the year we continued to refinance where attractive opportunities arose. We received £403 million of proceeds from new loans, and debt issuance and repaid £77 million of borrowings during the year.

As at 31 March 2012, total borrowings of £5,428 million including bonds, bank loans and other debt, had increased by £762 million from prior year. This increase was driven by proceeds from new loans and debt issuance, combined with fair value increases in borrowings and accretions on RPI linked debt. We expect to repay £749 million of our maturing debt in the next 12 months, and that we will be able to refinance this debt through the capital and money markets.

Further information on borrowings can be found on the debt investors' section of National Grid's website and in note 14 of the consolidated financial statements.

Derivatives

	At 31 March	
	2012	2011
	£m	£m
Interest rate swaps	**21**	9
Cross-currency interest rate swaps	**72**	85
Foreign exchange forward contracts	**(5)**	1
Forward rate agreements	**(2)**	(1)
Inflation linked swaps	**(157)**	(2)
	(71)	92

We use derivative financial instruments to manage our exposure to risks arising from fluctuations in interest rates and exchange rates. We value our derivatives by discounting all future cash flows by externally sourced market yield curves at the balance sheet date, taking into account the credit quality of both parties. The decrease in our derivatives of £163 million therefore represents movements as a result of underlying market variables and composition of the derivative portfolio.

The currency exposure on our borrowings is managed through the use of cross-currency swaps and results in a net debt profile post derivatives that is almost entirely sterling.

The interest rate profile of net debt is actively managed under the constraints of our interest rate risk management policy as approved by the Finance Committee of National Grid. Our interest rate exposure, and therefore profile, will change over time.

The table below shows the interest rate profile of our net debt before derivatives as at 31 March 2012 and the locked in impact of derivatives on our net debt as at 31 March 2012 for 2012/13 and future years. The 2012/13 position reflects the use of derivatives, including forward rate agreements to lock in interest rates in the short term. The future years' position excludes derivatives that mature within the next year.

	Pre-derivatives	Post derivatives	
	31 March 2012	2012/13	Future years
	%	%	%
Fixed	38	38	29
Floating	10	11	17
RPI linked	52	51	54
	100	100	100

Further details on our foreign currency and interest rate risk management can be found in the risk factors discussion starting on page 15 and in note 26(a) of the consolidated financial statements.

Off-balance sheet items

There were no significant off-balance sheet arrangements other than the commitments and contingencies discussed below.

Commitments and contingencies

Commitments and contingencies outstanding at 31 March 2012 and 2011 are summarised in the table below:

	2012	2011
	£m	£m
Future capital expenditure contracted but not provided for	**1,828**	968
Total operating lease commitments	**69**	58
Other guarantees	**707**	11

The increase in capital expenditure contracted but not provided for is a result of the continued ramp up in our capital investment programme.

The increase in guarantees relates to a guarantee provided in relation to our portion of the construction of the HVDC west coast link between Scotland and England. This guarantee expires in 2016.

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.

Further information on commitments and contingencies can be found in note 22 to the consolidated financial statements, together with information on litigation and claims.

Capital structure

The principal measure of our balance sheet efficiency is our regulatory asset value (RAV) gearing ratio. This is calculated as net debt expressed as a percentage of RAV and indicates the level of debt employed to fund our 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 2012 was 57% compared with 54% as at 31 March 2011.

Our regulatory agreements require that we must maintain an investment grade credit rating. These requirements are monitored on a regular basis in order to ensure compliance. Further details on credit ratings can be found on the debt investors' section of National Grid's website.

Actuarial valuation of pensions

A triennial valuation is carried out for the independent trustees of the National Grid Electricity Group of the Electricity Supply Pension Scheme by professionally qualified actuaries, using the projected unit method. The purpose of the valuation is to design a funding plan to ensure that present and future contributions should be sufficient to meet future liabilities.

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

We agreed with the Trustees of the National Grid Electricity Group of the Electricity Supply Pension Scheme that the deficits should be repaired over 17 years, and that we would deposit additional cash in a restricted account over which the Trustees have a charge and that would be paid to the Trustees particularly in the event of insolvency or loss of licence of the Company. The money is returned back to the Company if the scheme moves into surplus.

In addition, we agreed with the Trustees to make a payment in respect of the deficit up to a maximum of £220 million should certain triggers be breached, primarily relating to loss of licence by the Company or its credit rating falling below agreed limits.

More information on the actuarial valuations can be found in note 24 to the consolidated financial statements.

Accounting policies

Basis of accounting

The consolidated financial statements present the results of National Grid Electricity Transmission plc for the years ended 31 March 2012 and 2011 and financial position as at 31 March 2012 and 2011. 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 (EU) for use by listed companies.

Choices permitted under IFRS

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

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

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

Customer contributions
Contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with the 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.

Revenue
Revenue includes an assessment of transmission services supplied to customers between the date of the last invoice and the year end and of reconciliation settlements due under the balancing service incentive scheme. Changes to these estimates would have an impact on the reported results.

Estimates of unbilled revenues amounted to £157 million at 31 March 2012 compared with £98 million at 31 March 2011.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sensitivities

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

Revenue accruals
A 10% change in our estimate of unbilled revenues at 31 March 2012 would result in an increase or decrease in our recorded net assets and profit for the year by approximately £16 million net of tax.

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

Hedge accounting
If using our derivative financial instruments, hedge accounting had not been achieved during the year ended 31 March 2012 then the profit for the year would have been £17 million higher than that reported net of tax, and net assets would have been £53 million higher.

Assets carried at fair value
A 10% change in assets and liabilities carried at fair value would result in an increase or decrease in the carrying value of derivative financial instruments of £7 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 £9 million.

Pension obligations
The Company's pension and post-retirement obligations are sensitive to the actuarial assumptions used. A 0.1% increase in the discount rate, a 0.5% increase in the rate of salary increases or an increase of one year in life expectancy would result in a change in the net obligation of £36 million, £33 million and £62 million and a change in the annual pension cost of £1 million, £2 million and £1 million respectively.

Accounting developments

Accounting standards, amendments to standards and interpretations adopted in 2011/12
In preparing our consolidated financial statements we have complied IFRS, IAS and interpretations applicable for 2011/12. None of the standards, amendments to standards and interpretations adopted during 2011/12 resulted in a material change to our consolidated financial statements for the year, or the comparatives presented.

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 48.

Corporate governance statement

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

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

National Grid's corporate governance policies are described in its annual report and accounts. Its Board considers that it complied in full with the UK Corporate Governance code during 2011/12.

Governance framework

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

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

Attendance

Attendance at Board meetings during 2011/12, expressed as number of meetings attended out of number eligible to attend, is set out below.

	Attendance
Nick Winser (chair)	5 of 7
Malcolm Cooper	7 of 7
Stuart Humphreys	7 of 7
Paul Whittaker	6 of 7

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

Board performance evaluation

The Board of the Company reviewed its performance over the year to 31 December 2011.

The 2011 process, led by Nick Winser was a formal and rigorous evaluation of the performance of the Board and the Directors.

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

The Directors agreed that Nick Winser, as chair, demonstrates effective leadership and performs his responsibilities well, that the Board composition is appropriate and that the Board acts in support of all the relevant governance documents and National Grid policies.

Committees

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

Board composition and continuity

The Board of the Company will make further appointments in consultation with its shareholder and in accordance with National Grid's procedure for the appointment of directors to subsidiary companies.

Board remuneration

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

Audit Committee of National Grid plc

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

The Audit Committee is comprised of independent Non-executive Directors of National Grid plc and meets at least 4 times annually. Management of National Grid plc and external auditors are invited to attend by the Committee and would normally attend each meeting.

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, which comprises at least two Directors of the Company, senior managers of the Transmission business and certain other senior managers, and their attendance at meetings during 2011/12 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)	Company Director and Executive Director of National Grid	4 of 5
Stuart Humphreys	Company Director and UK Finance Director	4 of 5
Paul Whittaker	Company Director and UK Director of Regulation	4 of 5
Mike Calviou	Director of Asset Management – UK Transmission	4 of 5
Michael Dyke (Until July 2011)	Director of UK Construction	1 of 2
Peter Boreham	Director of UK Construction (previously Director of UK LNG to August 2011)	5 of 5
Chris Train	Director of Network Operations - UK Transmission	4 of 5
Alison Kay	Commercial Director - Transmission	3 of 5
Simon Fairman (From August 2011)	Director of UK LNG	3 of 3
Bill Russell (Until December 2011)	Director of BritNed	4 of 4
Ed Syson (Until July 2011)	Director of Safety, Health, Environment and Security	2 of 2
Jon Butterworth (From October 2011)	Director of Safety, Health, Environment and Security	1 of 2
Jonathan Munsey (Until August 2011)	Acting UK General Counsel & Company Secretary	2 of 2
Karen Clayton (From October 2011)	UK General Counsel & Company Secretary	3 of 3

Following the adoption by National Grid of a new organisation in April 2011, US transmission operations are no longer represented on the Committee.

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

Compliance committee

The Board has established a Compliance Committee to oversee the business separation between the Company and National Grid Offshore Limited.

Finance committee

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

Group holding company

During the year, Nick Winser was also an Executive Director of National Grid plc. Through his participation of this Director at the Boards of both companies, the Board of National Grid Electricity Transmission is well placed to identify and facilitate understanding of the views of its shareholder.

Risk management and internal control

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

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

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

Risk management

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

Compliance management

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

Internal audit

The Company does not have a separate internal audit function. This function is provided by National Grid's corporate audit function, which acts on a group wide basis and whose activities are monitored and reviewed by the Audit Committee of National Grid. The Audit Committee also approves the National Grid audit plan, which is primarily risk led, with key areas of focus in 2011/12 being regulatory matters, financial processes, major system changes, and security and business resilience. National Grid's director of corporate audit reports key findings to the Audit Committee.

Business Separation

Special Condition C2 of our electricity transmission licence requires that the Company maintains managerial and operational systems such that:

- the relevant offshore transmission interest (National Grid Offshore Limited) does not gain unfair advantage by reason of the way the Company conducts its electricity transmission business, as required by Standard Condition C1; and
- cross-subsidy between the electricity transmission business and relevant offshore transmission interest is avoided, as required by Special Condition B5; and
- the obligations under Standard Condition B6 around restriction on activity and financial ring-fencing are complied with.

Our policy on business separation is set out in the Company's Compliance Statement.

We have taken the following specific actions to comply with the requirements of Special Condition C2:

- established separate management for the electricity transmission and relevant offshore transmission business;
- appointed a Compliance Committee for the electricity transmission business which reports directly to the Board of the Company;
- appointed a Business Separation Compliance Officer, who reports to the Compliance Committee twice yearly;
- appointed a Responsible Director for System Operation who assumes day to day responsibility for maintaining appropriate managerial and operational independence of the licensee.

Directors' Report

for the year ended 31 March 2012

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

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

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

Directors

The Directors serving during the year or subsequently were:

Malcolm Cooper	Appointed July 2007
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, key performance indicators and principal risks and uncertainties is contained in Business Review on pages 2 to 34, 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 £200 million was paid during the year (2010/11: £150 million interim dividend). The Directors have not proposed a final dividend.

Donations

During 2011/12, some £0.4 million (2010/11: £1.6 million) was invested in support of community initiatives and relationships in the UK. There were no direct charitable donations for 2011/12 (2010/11: £nil million).

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

Research and development

Expenditure on research and development was £7 million during the year (2010/11: £6 million).

Financial instruments

Details on the use of financial instruments and financial risk management are included on pages 14 to 17 in the Business Review.

Future developments

Details of future developments are contained in the Business Review.

Employee involvement

Details of how the Company involves its employees are contained in the Business Review on page 8, which are incorporated by reference into this report.

Policy and practice on payment of creditors

It is our policy to include in contracts or other agreements, terms of payment with suppliers. Once agreed, we aim to abide by these terms of payment. The average creditor payment period at 31 March 2012 was 19 days (18 days at 31 March 2011).

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 2012 will be issued separately to shareholders.

On behalf of the Board

Stuart Humphreys
Director
26 July 2012

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

Statement of Directors' responsibilities

The Directors are obliged by Condition B1 of the Company's Transmission Licence to prepare regulatory accounting statements for each financial year which comply with the requirements set out in Condition B1, as amended by consents received from Ofgem (the 'Requirements').

Under the Requirements, the Directors have responsibility for ensuring that:

- the Company and its related undertakings keep accounting records in such a form that the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, the consolidated transmission business are separately identifiable in the books of the Company and its related undertakings from those of any other business;
- the regulatory accounting statements fairly present the financial position, financial performance and cash flows of, or reasonably attributable to, the consolidated transmission business; so far as is reasonably practicable, the regulatory accounting statements have the same content and format as the equivalent statutory accounts of the Company and that they comply with all relevant accounting and reporting standards currently in force which have been issued or adopted by the IASB;
- the regulatory accounting statements include for the consolidated transmission business and in total, an income statement, a statement of changes in equity and, if appropriate, a statement of comprehensive income, a balance sheet and a cash flow statement, including notes thereto and statement of accounting policies adopted;
- the regulatory accounting statements include, for the consolidated transmission business, a corporate governance statement, a directors' report and a business review and;
- the regulatory accounting statements show separately and in appropriate detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions that have been charged from or to any other business of National Grid (other than the Company or its subsidiaries), or that have been determined by apportionment, where they relate to goods or services received or supplied for the purposes of the consolidated transmission business.

In addition, in preparing the regulatory accounting statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the regulatory accounting statements on a going concern basis unless it is inappropriate to presume that the Company, on a consolidated and individual basis, will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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 are also responsible for safeguarding the assets of the Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names are listed in the Directors report on page 38, confirms that, to the best of their knowledge:

- the regulatory accounting statements have been prepared in accordance with the Requirements and fairly present the assets, liabilities, financial position of the Company's electricity transmission business and other activities; and
- that the Audit Committee of National Grid plc continues to review the adequacy of the system of internal financial controls adopted by the Company and its subsidiaries.

On behalf of the Board

Stuart Humphreys
Director
26 July 2012

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 2012, 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 29 to the consolidated financial statements, the Supplementary analysis of the consolidated financial statements by regulatory business contained in appendix 1, the Unpublished information contained in appendix 2 and the Supplementary analysis of the regulatory business by activity contained in appendix 3. These regulatory accounting statements have been prepared in accordance with the basis of preparation and accounting policies set out on pages 42 to 47.

Respective responsibilities of the Gas and Electricity Markets Authority, the Directors and the Auditors
As explained more fully in the Statement of Directors' responsibilities set out on page 39, the Directors are responsible for the preparation of the regulatory accounting statements and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the regulatory accounting statements in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the regulatory accounting statements' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

Opinion on the regulatory accounting statements
In our opinion the regulatory accounting statements:

- fairly present, in accordance with the Condition of the Company's Regulatory Licence and the accounting policies set out on pages 42 to 47, the state of the affairs for the Company's Transmission business, Transmission owner, System operator and other activities at 31 March 2012 and their profit and cash flows for the year then ended; and
- have been properly prepared in accordance with the Condition of the Regulatory Licence and the accounting policies.

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

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

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

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

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

Our opinion on the regulatory accounting statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2012 on which we reported on 2 July 2012, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

26 July 2012

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

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

Accounting policies

for the year ended 31 March 2012

A. Basis of preparation of regulatory accounting statements under IFRS

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

These regulatory accounting statements were approved for issue by the Board of Directors on 26 July 2012.

These regulatory accounting statements have been prepared in accordance with Standard Condition B1 of the Company's Electricity Transmission Licence granted under the Utilities Act 2000 (the licence) and in accordance with IFRS as issued by the IASB and as adopted by the EU. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ending 31 March 2012 and in accordance with Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the EU IAS regulation. The 2011 comparative financial information has also been prepared on this basis.

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

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

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

Attribution of revenues, costs, assets, liabilities and equity

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

Related items

Related items comprise all those revenues, costs, assets and liabilities of the Company which are not directly attributable to a specific business or activity, but where there is a reasonable basis for apportioning those revenues, costs, assets or liabilities between the regulatory businesses. These items comprise activities in respect of electricity transmission carried out on a centralised basis, shared services and certain business services.

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

Unrelated items

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

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

- Corporate costs charged to the Company by National Grid are apportioned using the same metrics as National Grid uses to determine the allocated charge to the Company. These metrics take into account relative revenue, operating profit, employees and net assets.
- Net debt, which comprises borrowings and bank overdrafts, less cash, cash equivalents and financial investments, is wholly allocated to the Transmission business and is apportioned between TO and SO activities relative to their RAVs.
- Interest is wholly allocated to the Transmission business and then apportioned between TO and SO activities relative to their RAVs. Pension interest is allocated according to the Company's final proposals, as agreed in the Transmission Price Control Review (TPCR) 4 in 2006 (TO 75.6%, SO 23.1% and Other activities 1.3%).
- Inter-company balances are apportioned relative to the carrying value of property, plant and equipment and then apportioned between TO and SO activities relative to their RAVs.
- Current and deferred taxation are apportioned relative to the results of undertaking notional current and deferred tax computations for each business and activity.
- Pension obligations and costs are allocated according to the Company's final proposals, as agreed in the TPCR4 in 2006 (TO 75.6%, SO 23.1% and Other activities 1.3%).
- Equity dividends are wholly allocated to the Transmission business and then apportioned between TO and SO activities relative to their RAVs.

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

B. Basis of consolidation

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

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

Where necessary, adjustments are made to bring the accounting policies used 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, except where the adoption of hedge accounting requires inclusion in other comprehensive income (accounting policy O).

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	up to 5

E. Property, plant and equipment

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

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

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 50
Plant and machinery	
– Electricity Transmission plant	15 - 60
Motor vehicles and office equipment	3 - 7

F. Impairment of assets

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

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

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

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

G. Taxation

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current tax is charged or credited to the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases the tax is also recognised in other comprehensive income or directly in equity, respectively.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

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

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

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

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

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

H. Inventories

Inventories, which comprise raw materials, spares and consumables, are stated at cost, calculated on a weighted average basis, less provision for damage and obsolescence.

Cost comprises direct materials and those costs that have been incurred in bringing the inventories to their present location and condition.

I. Environmental costs

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

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

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

J. Revenue

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

The sales value for the transmission of electricity is largely determined from the amount of electricity transmitted in the year and system capacity sold for the year, evaluated at contractually determined prices or recovery rates. The sales value for the provision of balancing services is based on the amount of system balancing costs incurred.

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 the chief operating decision-maker and assesses the performance of operations principally on the basis of operating profit or loss before exceptionals and remeasurements (see accounting policy Q).

L. Pensions

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

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

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

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

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

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

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

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

M. Leases

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

N. Financial instruments

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

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

Loans receivable and other receivables are carried at amortised cost using the effective interest rate method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, are recognised in the income statement.

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

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

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

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

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

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

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

O. Hedge accounting

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

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

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

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

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the income statement as they arise, within finance costs (included within remeasurements – see accounting policy Q).

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

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

P. Share-based payments

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

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

Q. Business performance and exceptional items and remeasurements

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

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

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, 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 a commitment is made to incur the costs and the main features of the restructuring plan have been announced to affected employees.

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

R. Cash and cash equivalents

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

S. Net Debt

The movement in cash and cash equivalents is reconciled to the movements in net debt. Net debt comprises cash and cash equivalents, current financial investments, borrowings and derivative financial instruments.

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 bases used to attribute revenue, costs, assets and liabilities between the regulatory businesses – accounting policy A.
- The categorisation of certain items as exceptional items and remeasurements and the definition of adjusted earnings – note 3.
- 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 18.
- Valuation of financial instruments and derivatives – notes 9, 12 and 25.
- Revenue recognition and assessment of unbilled revenue – accounting policy J.
- Recoverability of deferred tax assets – accounting policy G and note 17.
- Environmental provisions – note 19.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2011/12

During the year ended 31 March 2012, the Company has not adopted any IFRS, IAS or amendments issued by the IASB or interpretations by the IFRS Interpretations Committee, which have had a material impact on the Company's consolidated financial statements.

New IFRS accounting standards and interpretations not yet adopted

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

IFRS 10 on consolidated financial statements, IFRS 11, on joint arrangements, IFRS 12 on disclosures of interests in other entities and IFRS 13 on fair value measurements and consequent amendments to IAS 27 and IAS 28 were issued in May 2011. The Company is evaluating the impact of these standards on its financial statements. The standards are required to be adopted by the Company on 1 April 2013, subject to endorsement by the EU.

The amended version of IAS 19 on employee benefits, issued in June 2011 and effective for periods beginning after 1 January 2013 (subject to EU endorsement), requires net interest to be calculated on the net defined benefit liability/(asset) using the same discount rate used to measure the defined benefit obligation. Where the expected return on assets exceeds the discount rate, the adoption of the amended standard will result in a reduction in reported net income with a corresponding increase in other comprehensive income. The impact on the Company's financial statements for the period of initial application of the amended standard will depend upon reported pension assets and liabilities and the relationship between the expected return on assets and the discount rate at the date of adoption. These amounts are volatile from year to year and therefore figures for the year ending 31 March 2014 cannot be reasonably estimated. If the amended standard had been adopted for the year ended 31 March 2012, net income would have been reduced by £14m and other comprehensive income increased by £14m.

Other standards and interpretations or amendments thereto which have been issued, but are not yet effective, are not expected to have a material impact on the Company's consolidated financial statements.

Consolidated income statement

for the years ended 31 March

	Notes	**2012 £m**	**2012 £m**	2011 £m	2011 £m
Revenue	1(a)		**2,813**		2,550
Operating costs	2		**(1,948)**		(1,730)
Operating profit					
Before exceptional items	1(b)	**870**		904	
Exceptional items	3	**(5)**		(84)	
Total operating profit	1(b)		**865**		820
Interest income and similar income	4		**107**		105
Interest expense and other finance costs					
Before exceptional items and remeasurements	4	**(285)**		(278)	
Exceptional items and remeasurements	3, 4	**(41)**		(3)	
	4		**(326)**		(281)
Profit before tax					
Before exceptional items and remeasurements		**692**		731	
Exceptional items and remeasurements	3	**(46)**		(87)	
Total profit before tax			**646**		644
Taxation					
Before exceptional items and remeasurements	5	**(182)**		(206)	
Exceptional items and remeasurements	3, 5	**81**		67	
Total taxation	5		**(101)**		(139)
Profit after tax					
Before exceptional items and remeasurements		**510**		525	
Exceptional items and remeasurements	3	**35**		(20)	
Profit for the year			**545**		505

The notes on pages 54 to 79 form part of the consolidated financial statements.

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2012 £m	2011 £m
Profit for the year		**545**	505
Other comprehensive (loss)/income:			
Actuarial net losses	18	**(121)**	(8)
Deferred tax on actuarial net losses	5	**26**	(1)
(Loss)/gain in respect of cash flow hedges		**(55)**	9
Transferred to profit or loss on cash flow hedges		**6**	4
Deferred tax on cash flow hedges	5	**11**	(4)
Other comprehensive loss for the year		**(133)**	-
Total comprehensive income for the year		**412**	505

Consolidated balance sheet

as at 31 March

	Notes	2012 £m	2011 £m
Non-current assets			
Intangible assets	7	**72**	50
Property, plant and equipment	8	**8,465**	7,616
Derivative financial assets	9	**337**	158
Total non-current assets		**8,874**	7,824
Current assets			
Inventories	10	**28**	28
Trade and other receivables	11	**229**	204
Financial investments	12	**265**	4
Derivative financial assets	9	**20**	20
Current tax asset		**2**	-
Total current assets		**544**	256
Total assets		**9,418**	8,080
Current liabilities			
Borrowings	14	**(749)**	(263)
Derivative financial liabilities	9	**(26)**	(10)
Trade and other payables	15	**(713)**	(729)
Provisions	19	**(11)**	(13)
Total current liabilities		**(1,499)**	(1,015)
Non-current liabilities			
Borrowings	14	**(4,679)**	(4,403)
Derivative financial liabilities	9	**(402)**	(76)
Other non-current liabilities	16	**(257)**	(251)
Deferred tax liabilities	17	**(746)**	(761)
Pension obligations	18	**(512)**	(467)
Provisions	19	**(83)**	(83)
Total non-current liabilities		**(6,679)**	(6,041)
Total liabilities		**(8,178)**	(7,056)
Net assets		**1,240**	1,024
Equity			
Called up share capital	20	**44**	44
Retained earnings		**1,260**	1,006
Cash flow hedge reserve		**(64)**	(26)
Total shareholders' equity		**1,240**	1,024

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 29, supplementary analysis of the consolidated financial statements contained in appendix 1, the unpublished information contained in appendix 2 and the supplementary analysis of the regulatory business by activity contained in appendix 3, were approved by the Board of Directors of National Grid Electricity Transmission plc on 26 July 2012 and were signed on its behalf by:

Paul Whittaker Director

Stuart Humphreys Director

Consolidated statement of changes in equity

for the years ended 31 March

	Called-up share capital £m	Retained earnings £m	Cash flow hedge reserve £m	Total equity £m
At 1 April 2010	44	656	(35)	665
Total comprehensive income for the year	-	496	9	505
Equity dividends	-	(150)	-	(150)
Share-based payments	-	3	-	3
Tax on share-based payments	-	1	-	1
At 31 March 2011	44	1,006	(26)	1,024
Total comprehensive income/(loss) for the year	-	450	(38)	412
Equity dividends	-	(200)	-	(200)
Share-based payments	-	3	-	3
Tax on share-based payments	-	1	-	1
At 31 March 2012	**44**	**1,260**	**(64)**	**1,240**

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.

The cash flow hedge reserve on interest rate swap contracts will be continuously transferred to the income statement until the borrowings are repaid. The amount due to be released from reserves to the income statement within the next year is £9m, with the remainder due to be released with the same maturity profile as borrowings due after more than one year.

Consolidated cash flow statement

for the years ended 31 March

	Notes	**2012 £m**	2011 £m
Cash flows from operating activities			
Total operating profit	1(b)	**865**	820
Adjustments for:			
Exceptional items	3	**5**	84
Depreciation and amortisation		**276**	267
Share-based payment charge		**3**	3
Changes in working capital		**77**	(58)
Changes in pension obligations		**(81)**	(43)
Changes in provisions		**1**	(3)
Cash flows relating to exceptional items		**(11)**	(5)
Cash flows generated from operations		**1,135**	1,065
Tax paid		**(136)**	(112)
Net cash inflow from operating activities		**999**	953
Cash flows from investing activities			
Purchases of intangible assets		**(29)**	(17)
Purchases of property, plant and equipment		**(1,092)**	(892)
Disposal of property, plant and equipment		**7**	5
Interest received		**-**	2
Net movement in short-term financial investments		**(261)**	63
Net cash flow used in investing activities		**(1,375)**	(839)
Cash flows from financing activities			
Proceeds from loans received		**403**	182
Repayment of loans		**(77)**	(311)
Net movements in short-term borrowings and derivatives		**403**	25
Interest paid		**(149)**	(181)
Dividends paid to shareholders		**(200)**	(150)
Net cash flow generated from/(used in) financing activities		**380**	(435)
Net increase/(decrease) in cash and cash equivalents	21(a)	**4**	(321)
Cash and cash equivalents at the start of the year (i)		**(8)**	313
Net cash and cash equivalents at the end of the year (i)	13	**(4)**	(8)

(i) Net of bank overdrafts of £4m (2011: £8m).

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

1. Segmental analysis

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

Electricity Transmission	High-voltage electricity transmission networks in the UK

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

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

(a) Revenue

	Total sales 2012 £m	Total sales 2011 £m
Operating segment		
Electricity Transmission	**2,811**	2,548
Other activities	**2**	2
	2,813	2,550

All sales are to third parties.

Where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect the over-recovery, no liability is recognised. Similarly, no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. In the UK, there was an under-recovery of £25m as at 31 March 2012 (2011: £9m over-recovery).

Analysis of revenue by major customer:	**2012 £m**	2011 £m
Customer A	**451**	420
Customer B	**440**	366
Customer C	**328**	291
Customer D	**329**	323
Customer E	**290**	264

Revenue was generated from the Electricity Transmission business.

(b) Operating profit/(loss)

	Before exceptional items		After exceptional items	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Operating segment				
Electricity Transmission	**876**	912	**871**	828
Other activities	**(6)**	(8)	**(6)**	(8)
	870	904	**865**	820

(c) Capital expenditure and depreciation

	Capital expenditure		Depreciation and amortisation	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Operating segment				
Electricity Transmission	**1,154**	1,126	**282**	264
By asset type				
Property, plant and equipment	**1,125**	1,109	**272**	254
Other non-current intangible assets	**29**	17	**10**	10
	1,154	1,126	**282**	264

2. Operating costs

	Before exceptional items		Exceptional items		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 * £m
Depreciation and amortisation	**282**	264	**-**	-	**282**	264
Payroll costs	**121**	112	**3**	5	**124**	117
Rates	**98**	100	**-**	-	**98**	100
Balancing Service Incentive Scheme	**818**	581	**-**	-	**818**	581
Payments to other UK network owners	**407**	347	**-**	-	**407**	347
Other	**217**	242	**2**	79	**219**	321
	1,943	1,646	**5**	84	**1,948**	1,730

(a) Payroll costs

	2012 £m	2011 £m
Wages and salaries	**137**	133
Social security costs	**14**	12
Pension costs (note 18)	**28**	31
Share-based payments (note 27)	**3**	3
Severance costs (excluding pension costs)	**3**	2
	185	181
Less: payroll costs capitalised	**(61)**	(64)
	124	117

(b) Number of employees, including Directors

	31 March 2012 Number	**Average 2012 Number**	Average 2011 Number
UK	**2,978**	**2,871**	2,709

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

(c) Key management compensation

	2012 £m	2011 £m
Salaries and short-term employee benefits	**3**	2
Post-retirement benefits	**2**	1
Share-based payments	**1**	2
	6	5

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

(d) Directors' emoluments

The aggregate amount of emoluments paid to Directors in respect of qualifying services for 2012 was £1,185,681 (2011: £1,107,792).

Four of the directors exercised share options during 2012 (2011: None of the directors exercised share options).

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

As at 31 March, retirement benefits were accruing to four Directors under a defined benefit scheme (2011: five directors, under a defined benefit scheme).

The aggregate emoluments for the highest paid Director were £760,780 for 2012 (2011: £460,173); and total accrued annual pension at 31 March 2012 for the highest paid Director was £175,339 (2011: £92,266).

The aggregate amount of loss of office payments to Directors for 2012 was £nil (2011: £1,224).

2. Operating costs continued

(e) Auditors' remuneration

	2012 £m	2011 £m
Audit services		
Audit fee of parent company and consolidated financial statements	**0.2**	0.2
Other services supplied		
Other services supplied pursuant to legislation	**0.1**	0.1

Other services supplied pursuant to legislation represent fees payable for services in relation to engagements which are required to be carried out by the auditors. In particular this includes fees for audit reports on regulatory returns.

3. Exceptional items and remeasurements

	2012 £m	2011 £m
Included within operating profit:		
Exceptional items:		
Restructuring costs (i)	**(5)**	(15)
Environmental charges (ii)	**-**	(69)
Total exceptional items included within operating profit	**(5)**	(84)
Included within finance costs:		
Exceptional items:		
Debt redemption costs (iii)	**-**	(11)
Remeasurements:		
Net (losses)/gains on derivative financial instruments (iv)	**(41)**	8
Total exceptional items and remeasurements included within finance costs	**(41)**	(3)
Total included within profit before taxation	**(46)**	(87)
Included within taxation:		
Exceptional credits arising on items not included in profit before tax:		
Deferred tax credit arising on the reduction in UK tax rate (v)	**69**	62
Tax on exceptional items	**1**	8
Tax on remeasurements (iv)	**11**	(3)
Tax on exceptional items and remeasurements	**81**	67
Total exceptional items and remeasurements after taxation	**35**	(20)
Total exceptional items after taxation	**65**	(25)
Total remeasurements after taxation	**(30)**	5
Total exceptional items and remeasurements after taxation	**35**	(20)

(i) Restructuring costs relate to transformation related initiatives.

(ii) Environmental charges relate to specific exposures.

(iii) Debt redemption costs in the year ended 31 March 2011 represent costs arising from our debt repurchase programme following the rights issue on 14 June 2010 by National Grid plc.

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

(v) The exceptional tax credit arises from a reduction in the UK corporation tax rate from 26% to 24% (2011: from 28% to 26%) included in the Finance Bill 2012 which has statutory effect under the Provisional Collection of Taxes Act 1968 and applicable from 1 April 2012. This results in a reduction in deferred tax liabilities.

4. Finance income and costs

	2012 £m	2011 £m
Interest income and similar income		
Expected return on pension plan assets	**107**	103
Interest income on financial instruments:		
Bank deposits and other financial assets	**-**	2
Interest income and similar income	**107**	105
Interest expense and other finance costs		
Interest on pension plan obligations	**(112)**	(112)
Interest expense on finance liabilities held at amortised cost:		
Bank loans and overdrafts	**(5)**	(4)
Other borrowings	**(275)**	(278)
Derivatives	**21**	22
Unwinding of discount on provisions	**(4)**	-
Other interest	**(3)**	-
Less: interest capitalised (i)	**93**	94
Interest expense and other finance costs before exceptional items and remeasurements	**(285)**	(278)
Exceptional items:		
Exceptional debt redemption costs	**-**	(11)
Remeasurements:		
Net (losses)/gains on derivative financial instruments included in remeasurements (ii):		
Ineffectiveness on derivatives designated as:		
Fair value hedges (iii)	**3**	11
Cash flow hedges	**5**	(2)
Derivatives not designated as hedges or ineligible for hedge accounting	**(49)**	(1)
	(41)	8
Exceptional items and remeasurements included within interest expense	**(41)**	(3)
Interest expense and other finance costs	**(326)**	(281)
Net finance costs	**(219)**	(176)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 5.7% (2011: 6.0%).

(ii) Includes a net foreign exchange gain on financing activities of £34m (2011: £4m loss). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

(iii) Includes a net gain on instruments designated as fair value hedges of £74m (2011: £21m gain), offset by a net loss of £71m (2011: £10m loss) arising from the fair value adjustments to the carrying value of debt.

5. Taxation

Tax charged/(credited) to the income statement

	2012 £m	2011 £m
Tax before exceptional items and remeasurements	**182**	206
Exceptional tax on items not included in profit before tax (note 3)	**(69)**	(62)
Tax on other exceptional items and remeasurements	**(12)**	(5)
Tax on total exceptional items and remeasurements	**(81)**	(67)
Total tax charge	**101**	139

Taxation as a percentage of profit before tax

	2012 %	2011 %
Before exceptional items and remeasurements	**26.3**	28.2
After exceptional items and remeasurements	**15.6**	21.6

The tax charge for the year can be analysed as follows:

	2012 £m	2011 £m
United Kingdom		
Corporation tax at 26% (2011: 28%)	**78**	127
Corporation tax adjustment in respect of prior years	**1**	12
Deferred tax	**25**	11
Deferred tax adjustment in respect of prior years	**(3)**	(11)
Total tax charge	**101**	139

Tax (credited)/charged to other comprehensive income and equity

	2012 £m	2011 £m
Corporation tax		
Share-based payments	**(1)**	(1)
Deferred tax		
Cash flow hedges	**(11)**	4
Actuarial (losses)/gains	**(26)**	1
	(38)	4
Total tax recognised in the statement of other comprehensive income	**(37)**	5
Total tax relating to share-based payments recognised directly in equity	**(1)**	(1)
	(38)	4

5. Taxation (continued)

The tax charge for the year after exceptional items and remeasurements is lower (2011: lower) than the standard rate of corporation tax in the UK of 26% (2011: 28%) :

	Before exceptional items and remeasure-ments 2012 £m	**After exceptional items and remeasure-ments 2012 £m**	Before exceptional items and remeasure-ments 2011 £m	After exceptional items and remeasure-ments 2011 £m
Profit before tax				
Before exceptional items and remeasurements	**692**	**692**	731	731
Exceptional items and remeasurements	**-**	**(46)**	-	(87)
Profit before tax	**692**	**646**	731	644
Profit before tax multiplied by UK corporation tax rate of 26% (2011: 28%)	**180**	**168**	204	180
Effects of:				
Adjustments in respect of previous years	**(2)**	**(2)**	1	1
Expenses not deductible for tax purposes	**5**	**5**	1	20
Impact of share-based payments	**(1)**	**(1)**	-	-
Deferred Tax impact of change in UK tax rate	**-**	**(69)**	-	(62)
Total tax charge	**182**	**101**	206	139
	%	**%**	%	%
Effective tax rate	**26.3**	**15.6**	28.2	21.6

Factors that may affect future tax charges

A reduction in the corporation tax rate to 24% from April 2012 was announced in the 2012 Budget Report and has been enacted in Finance Act 2012. This had been substantively enacted at the balance sheet date and, as such, deferred tax balances have been calculated at this rate.

Other changes, such as the proposed reduction in the corporation tax rate to 23% from April 2013, with a further 1% reduction in the following year will result in a corporation tax rate of 22% from April 2014. Although the reduction in the UK corporation tax rate to 23% from April 2013 has now been enacted, none of these rate changes had been substantively enacted as at the balance sheet date and therefore not been reflected in these financial statements.

6. Dividends

The following table shows the dividends paid to equity shareholders:

	2012 pence (per ordinary share)	**2012 £m**	2011 pence (per ordinary share)	2011 £m
Ordinary dividends				
Interim dividend for the year ended 31 March 2012	**45.74**	**200**	-	-
Interim dividend for the year ended 31 March 2011	**-**	**-**	34.30	150

7. Intangible assets

	Software £m
Non-current	
Cost at 1 April 2010	174
Additions	17
Cost at 31 March 2011	191
Additions	29
Disposals	(53)
Reclassifications between categories	3
Cost at 31 March 2012	170
Amortisation at 1 April 2010	(131)
Amortisation charge for the year	(10)
Amortisation at 31 March 2011	(141)
Amortisation charge for the year	(10)
Disposals	53
Amortisation at 31 March 2012	(98)
Net book value at 31 March 2012	**72**
Net book value at 31 March 2011	50

8. 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 2010	218	7,962	1,636	99	9,915
Additions	53	83	969	4	1,109
Disposals	(1)	(48)	-	(3)	(52)
Reclassifications between categories	57	808	(868)	3	-
Cost at 31 March 2011	327	8,805	1,737	103	10,972
Additions	21	72	1,028	4	1,125
Disposals	(2)	(84)	-	(27)	(113)
Reclassifications between categories	92	804	(906)	7	(3)
Cost at 31 March 2012	438	9,597	1,859	87	11,981
Depreciation at 1 April 2010	(37)	(3,032)	-	(77)	(3,146)
Depreciation charge for the year	(6)	(240)	-	(8)	(254)
Disposals	1	40	-	3	44
Reclassifications between categories	(1)	1	-	-	-
Depreciation at 31 March 2011	(43)	(3,231)	-	(82)	(3,356)
Depreciation charge for the year	(8)	(256)	-	(8)	(272)
Disposals	1	84	-	27	112
Reclassifications between categories	(1)	4	-	(3)	-
Depreciation at 31 March 2012	(51)	(3,399)	-	(66)	(3,516)
Net book value at 31 March 2012	**387**	**6,198**	**1,859**	**21**	**8,465**
Net book value at 31 March 2011	284	5,574	1,737	21	7,616

	2012 £m	2011 £m
Information in relation to property, plant and equipment:		
Capitalised interest included within cost	**831**	738
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	**7**	7
Non-current liabilities	**222**	224

9. Derivative financial instruments

For further information and a detailed description of our derivative financial instruments and hedge type designations, refer to note 25. The fair value amounts by designated hedge type can be analysed as follows:

	2012			2011		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Fair value hedges						
Interest rate swaps	**97**	**-**	**97**	32	(4)	28
Cross-currency interest rate swaps	**63**	**-**	**63**	64	-	64
	160	**-**	**160**	96	(4)	92
Cash flow hedges						
Interest rate swaps*	**-**	**(66)**	**(66)**	3	(27)	(24)
Cross-currency interest rate swaps	**9**	**-**	**9**	21	-	21
Foreign exchange forward contracts	**-**	**(5)**	**(5)**	2	(1)	1
Inflation linked swaps*	**2**	**(5)**	**(3)**	3	(2)	1
	11	**(76)**	**(65)**	29	(30)	(1)
Derivatives not in a formal hedge relationship						
Interest rate swaps*	**181**	**(191)**	**(10)**	51	(46)	5
Forward rate agreements	**-**	**(2)**	**(2)**	-	(1)	(1)
Inflation linked swaps*	**5**	**(159)**	**(154)**	2	(5)	(3)
	186	**(352)**	**(166)**	53	(52)	1
Total	**357**	**(428)**	**(71)**	178	(86)	92

* Inflation linked swaps have been separately presented in the current year; comparatives have been adjusted accordingly.

The maturity of derivative financial instruments is as follows:

	2012			2011		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Current	**20**	**(26)**	**(6)**	20	(10)	10
In 1 - 2 years	**18**	**(20)**	**(2)**	-	(11)	(11)
In 2 - 3 years	**-**	**(1)**	**(1)**	34	(6)	28
In 3 - 4 years	**57**	**(1)**	**56**	-	-	-
In 4 - 5 years	**14**	**(53)**	**(39)**	53	-	53
More than 5 years	**248**	**(327)**	**(79)**	71	(59)	12
Non-current	**337**	**(402)**	**(65)**	158	(76)	82
Total	**357**	**(428)**	**(71)**	178	(86)	92

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

	2012 £m	2011 £m
Interest rate swaps*	**(3,842)**	(3,802)
Cross-currency interest rate swaps*	**(631)**	(611)
Foreign exchange forward contracts	**(596)**	(157)
Forward rate agreements	**(1,769)**	(1,250)
Inflation linked swaps*	**(627)**	(330)
Total	**(7,465)**	(6,150)

* Inflation linked swaps have been separately presented in the current year; comparatives have been adjusted accordingly.

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

10. Inventories

	2012 £m	2011 £m
Raw materials and consumables	**28**	28

The above table includes a £14m provision for obsolescence against raw materials and consumables at 31 March 2012 (2011: £15m).

11. Trade and other receivables

	2012 £m	2011 £m
Trade receivables	**14**	16
Amounts owed by fellow subsidiaries	**20**	29
Prepayments and accrued income	**191**	156
Other receivables	**4**	3
	229	204

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

For further information about our wholesale credit risk, refer to note 26(c).

12. Financial investments

	2012 £m	2011 £m
Current		
Loans and receivables - amounts due from fellow subsidiaries	**34**	4
Loans and receivables - restricted cash balances (i)	**227**	-
Available-for-sale investments	**4**	-
Total financial and other investments	**265**	4

(i) Comprises collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement £224m (2011: £nil) and pension scheme deficit contributions £3m (2011: £nil).

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

13. Cash and cash equivalents

	2012 £m	2011 £m
Bank overdrafts	**(4)**	(8)
Net cash and cash equivalents	**(4)**	(8)

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

14. Borrowings

	2012 £m	2011 £m
Current		
Bank overdrafts	**4**	8
Bank loans	**244**	8
Bonds	**43**	42
Borrowings from fellow subsidiaries	**458**	205
	749	263
Non-current		
Bank loans	**300**	400
Bonds	**4,092**	4,003
Borrowings from fellow subsidiaries	**287**	-
	4,679	4,403
Total borrowings	**5,428**	4,666

Total borrowings are repayable as follows:	2012 £m	2011 £m
Less than 1 year	**749**	263
In 1 - 2 years	**510**	200
In 2 - 3 years	**-**	538
In 3 - 4 years	**170**	-
In 4 - 5 years	**200**	164
More than 5 years other than by instalments	**3,799**	3,501
	5,428	4,666

The fair value of borrowings at 31 March 2012 was £6,030m (2011: £4,998m). 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 2012 was £5,248m (2011: £4,564m).

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 £44m (2011: £8m) in respect of cash received under collateral agreements.

As at 31 March 2012, the Company had committed credit facilities of £715m (2011: £715m) of which £715m was undrawn (2011: £715m undrawn). These undrawn facilities expire within two to three years. All of the unused facilities at 31 March 2012 and at 31 March 2011 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.

15. Trade and other payables

	2012 £m	2011 £m
Trade payables	**466**	468
Amounts owed to fellow subsidiaries	**53**	101
Deferred income	**155**	85
Social security and other taxes	**18**	43
Other payables	**21**	32
	713	729

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.

16. Other non-current liabilities

	2012 £m	2011 £m
Deferred income	**247**	241
Other payables	**10**	10
	257	251

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

17. Deferred tax assets and liabilities

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

	Accelerated tax depreciation £m	Share-based payments £m	Pensions £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2010	-	(4)	(138)	(13)	(4)	(159)
Deferred tax liabilities at 31 March 2010	915	-	-	-	-	915
At 1 April 2010	915	(4)	(138)	(13)	(4)	756
(Credited)/charged to income statement	(12)	(2)	16	-	(2)	-
Charged to equity	-	-	1	4	-	5
At 31 March 2011	903	(6)	(121)	(9)	(6)	761
Deferred tax assets at 31 March 2011	-	(6)	(121)	(9)	(6)	(142)
Deferred tax liabilities at 31 March 2011	903	-	-	-	-	903
At 1 April 2011	903	(6)	(121)	(9)	(6)	761
(Credited)/charged to income statement	(7)	-	24	-	5	22
Credited to equity	-	-	(26)	(11)	-	(37)
At 31 March 2012	**896**	**(6)**	**(123)**	**(20)**	**(1)**	**746**
Deferred tax assets at 31 March 2012	-	(6)	(123)	(20)	(2)	(151)
Deferred tax liabilities at 31 March 2012	896	-	-	-	1	897
At 31 March 2012	**896**	**(6)**	**(123)**	**(20)**	**(1)**	**746**

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is intention to settle the balances net. As at 31 March 2012 and 2011 all deferrred tax assets were fully offset against deferred tax liabilities.

At the balance sheet date there were no material current deferred tax assets or liabilities (2011: £nil).

18. Pensions

Substantially all of our employees are members of the National Grid Electricity Group of the Electricity Supply Pension Scheme, which is a defined benefit pension scheme or of the defined contribution section of the National Grid UK Pension Scheme.

The fair value of plan assets and present value of defined benefit obligations are updated annually. For further details of the nature and terms of the National Grid Electricity Group of the Electricity Supply Pension Scheme and the actuarial assumptions used to value the associated assets and pension obligations, refer to note 24.

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

	2012 £m	2011 £m
Included within payroll costs		
Defined contribution scheme costs	**5**	3
Defined benefit scheme costs:		
Current service cost	**26**	27
Contributions from other employers	**(5)**	(3)
Curtailment gains on redundancies	**(1)**	(1)
Cost of contractual termination on redundancies	**3**	3
Other augmentation	**-**	2
	28	31
Included within finance income and costs		
Interest cost	**112**	112
Expected return on plan assets	**(107)**	(103)
	5	9
Included within other comprehensive income		
Actuarial loss during the year	**(121)**	(8)
Cumulative actuarial loss	**(313)**	(192)

Amounts recognised in the balance sheet

	2012 £m	2011 £m
Present value of funded obligations	**(2,223)**	(2,041)
Fair value of plan assets	**1,739**	1,598
	(484)	(443)
Present value of unfunded obligations	**(28)**	(24)
Net liability	**(512)**	(467)
Changes in the present value of the defined benefit obligations (including unfunded obligations)		
Opening defined benefit obligations	**(2,065)**	(2,024)
Current service cost	**(26)**	(27)
Interest cost	**(112)**	(112)
Actuarial (losses)/gains	**(138)**	9
Net increase in liabilities from redundancies	**(2)**	(2)
Employee contributions	**(2)**	(2)
Benefits paid	**93**	90
Net transfers	**1**	1
Other augmentations	**-**	2
Closing defined benefit obligation	**(2,251)**	(2,065)
Changes in the fair value of plan assets		
Opening fair value of plan assets	**1,598**	1,531
Expected return on plan assets	**107**	103
Actuarial gains/(losses)	**17**	(17)
Employer contributions	**109**	70
Employee contributions	**2**	2
Benefits paid	**(93)**	(90)
Net transfers	**(1)**	(1)
Closing fair value of plan assets	**1,739**	1,598
Actual return on plan assets	**124**	86
Expected contributions to plans in the following year	**65**	25

19. Provisions

	Environmental £m	Other £m	Total provisions £m
At 1 April 2010	1	19	20
Additions	73	10	83
Utilised	(1)	(5)	(6)
Unused amounts reversed	-	(1)	(1)
At 31 March 2011	73	23	96
Additions	-	3	3
Utilised	(1)	(4)	(5)
Unwinding of discount	4	-	4
Unused amounts reversed	-	(4)	(4)
At 31 March 2012	**76**	**18**	**94**

	2012 £m	2011 £m
Current	**11**	13
Non-current	**83**	83
	94	96

Environmental provision

The environmental provision is calculated on an discounted basis and represents the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Company. Cash flows are expected to be incurred between 2012 and 2060. The undiscounted amount is £124m (2011: £121m), and the real discount rate is 2.0%.

A number of uncertainties affect the calculation of the provision, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. The provision incorporates our best estimate of the financial effect of these uncertainties, but future material changes in any of the assumptions could materially impact on the calculation of the provision and hence the income statement.

Other provisions

Other provisions include employer liability claims of £8m (2011: £7m). In accordance with insurance industry practice, these estimates are based on experience from previous years and there is therefore no identifiable payment date.

20. Share capital

	millions	£m
At 31 March 2011 and 2012 - ordinary shares of 10p each		
Allotted, called-up and fully paid	437	44

21. Consolidated cash flow statement

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

	2012 £m	2011 £m
Increase/(decrease) in cash and cash equivalents	**4**	(321)
Increase/(decrease) in financial investments	**261**	(63)
(Increase)/decrease in borrowings and related derivatives	**(729)**	104
Net interest paid on the components of net debt	**149**	179
Change in net debt resulting from cash flows	**(315)**	(101)
Changes in fair value of financial assets and liabilities and exchange movements	**(90)**	22
Net interest charge on the components of net debt	**(259)**	(269)
Movement in net debt (net of related derivative financial instruments) in the year	**(664)**	(348)
Net debt (net of related derivative financial instruments) at start of year	**(4,570)**	(4,222)
Net debt (net of related derivative financial instruments) at end of year	**(5,234)**	(4,570)

(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 2010	326	(13)	**313**	67	(4,653)	51	**(4,222)**
Cash flow	(326)	5	**(321)**	(65)	303	(18)	**(101)**
Fair value gains and losses and exchange movements	-	-	**-**	-	(15)	37	**22**
Interest charges	-	-	**-**	2	(293)	22	**(269)**
At 31 March 2011	-	(8)	**(8)**	4	(4,658)	92	**(4,570)**
Cash flow	-	4	**4**	261	(445)	(135)	**(315)**
Fair value gains and losses and exchange movements	-	-	**-**	-	(41)	(49)	**(90)**
Interest charges	-	-	**-**	-	(280)	21	**(259)**
At 31 March 2012	-	(4)	**(4)**	265	(5,424)	(71)	**(5,234)**
Balances at 31 March 2012 comprise:							
Non-current assets	-	-	**-**	-	-	337	**337**
Current assets	-	-	**-**	265	-	20	**285**
Current liabilities	-	(4)	**(4)**	-	(745)	(26)	**(775)**
Non-current liabilities	-	-	**-**	-	(4,679)	(402)	**(5,081)**
	-	(4)	**(4)**	265	(5,424)	(71)	**(5,234)**

Notes to the consolidated financial statements - supplementary information

22. Commitments and contingencies

(a) Future capital expenditure

	2012 £m	2011 £m
Contracted for but not provided	**1,828**	968

(b) Operating lease commitments

	2012 £m	2011 £m
Amounts due:		
Less than 1 year	**13**	11
In 1 - 2 years	**11**	7
In 2 - 3 years	**9**	5
In 3 - 4 years	**7**	5
In 4 - 5 years	**7**	5
More than 5 years	**22**	25
	69	58

(c) Other commitments, contingencies and guarantees

Guarantees in respect of a former associate amounting to £14m (2011: £14m). These are open ended.

Guarantees in the normal course of business and entered into on normal commercial terms amounted to £707m (2011: £11m). These include guarantees of certain obligations for construction of the HVDC West Coast link amounting to £691m (2011: £nil) expiring in 2016.

23. Related party transactions

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

	Parent		Other related parties		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Income:						
Goods and services supplied (i)	**-**	-	**19**	28	**19**	28
Interest received on advances to fellow subsidiaries	**-**	2	**-**	2	**-**	4
	-	2	**19**	30	**19**	32
Expenditure:						
Services received (ii)	**-**	-	**(27)**	(1)	**(27)**	(1)
Corporate services received	**-**	-	**(9)**	(9)	**(9)**	(9)
Interest paid on borrowings from fellow subsidiaries	**(1)**	-	**(9)**	(1)	**(10)**	(1)
	(1)	-	**(45)**	(11)	**(46)**	(11)
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:						
Amounts receivable (iii)	**-**	-	**21**	29	**21**	29
Amounts payable	**-**	-	**(53)**	(101)	**(53)**	(101)
Advances to fellow subsidiaries (amounts due within one year):						
At 1 April	**2**	1	**2**	2	**4**	3
Advances	**-**	1	**30**	-	**30**	1
At 31 March	**2**	2	**32**	2	**34**	4
Borrowings payable to fellow subsidiaries (amounts due within one year):						
At 1 April	**(10)**	(5)	**(195)**	(11)	**(205)**	(16)
Advances	**-**	(5)	**(259)**	(194)	**(259)**	(199)
Repayments	**-**	-	**6**	10	**6**	10
At 31 March	**(10)**	(10)	**(448)**	(195)	**(458)**	(205)
Borrowings payable to fellow subsidiaries (amounts due after one year):						
At 1 April	**-**	-	**-**	-	**-**	-
Advances	**-**	-	**(287)**	-	**(287)**	-
At 31 March	**-**	-	**(287)**	-	**(287)**	-

(i) Includes £3m in respect of joint ventures (2011: £nil)

(ii) Includes £15m in respect of joint ventures (2011: £nil)

(iii) Includes £1m in respect of joint ventures (2011: £nil)

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 2012 (2011: £nil) and no expense recognised during the year (2011: £nil) in respect of bad or doubtful debts for related party transactions.

Details of key management compensation are provided in note 2(c) and information relating to pension fund arrangements is disclosed in notes 18 and 24.

24. Actuarial information on pensions

The National Grid Electricity Group of the Electricity Supply Pension 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 employer's 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 next valuations will be based on the position at 31 March 2013. The results of 2010 valuations are shown below:

Latest full actuarial valuation	31 March 2010
Actuary	Aon Hewitt
Market value of scheme assets at latest valuation	£1,531m
Actuarial value of benefits due to members	£(2,038)m
Market value as percentage of benefits	75%
Funding deficit	£507m
Funding deficit (net of tax)	£385m

The 2010 actuarial valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 29.6% of pensionable earnings (23.7% employers and an average of 5.9% employees). The employer contribution rate will be reviewed as part of the next valuation in 2013.

Following the 2010 actuarial valuation, the Company and the Trustees agreed a recovery plan which will see the funding deficit repaid by 31 March 2027. Under the schedule of contributions a payment of £45m was made in 2010/11, a further payment of £45m was made in 2011/12. Thereafter, an annual payment of £38m is due to be made, rising in line with Retail Price Index.

Following this agreement, the Company has established a secured bank account with a charge in favour of the Trustees of the scheme. The balance of the bank account at 31 March 2012 was £4m. The funds in the bank account will be paid to the Scheme in the event that: the Company is subject to an insolvency event, or if the Company ceases to hold a licence granted under the Electricity Act 1989. The funds in the bank account will be released back to the Company if the scheme moves into surplus.

The Company has also agreed to make a payment in respect of the deficit up to a maximum of £220m should certain triggers be breached; namely if the Company ceases to hold a licence granted under the Electricity Act 1989, or the Company’s credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

The Scheme has been closed to new members since 1 April 2006. A defined contribution arrangement with National Grid UK Pension Scheme has been offered to new employees since that date.

Asset allocations

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

	2012	2011
	%	%
Equities	**40.0**	41.9
Gilts	**33.6**	28.6
Corporate bonds	**11.7**	11.7
Hedge funds	**6.6**	7.3
Property	**3.8**	4.0
Cash (awaiting investment)	**2.0**	2.8
Other	**2.3**	3.7
Total	**100.0**	100.0

The current target asset allocation is 46% equities and 54% for bonds, property and other matching assets.

Actuarial assumptions

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

The principal actuarial assumptions used were:

	2012	2011
	%	%
Discount rate (i)	**4.8**	5.5
Expected return on plan assets	**5.7**	6.7
Rate of increase in salaries (ii)	**4.2**	4.5
Rate of increase in pensions in payment and deferment	**3.0**	3.3
Rate of increase in Retail Prices Index	**3.2**	3.5

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

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

24. Actuarial information on pensions continued

Actuarial assumptions continued

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

	2012 years	2011 years
Today:		
Males	**24.6**	24.4
Females	**24.9**	24.8
In 20 years:		
Males	**27.4**	27.3
Females	**28.2**	28.1

Sensitivities to actuarial assumptions

	Change in pension obligation		Change in annual pension cost	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Sensitivities (all other assumptions held constant):				
0.1% change in discount rate	**35**	31	**1**	1
0.5% change in long-term rate of increase in salaries	**33**	30	**2**	1
Change of one year to life expectations at age 60	**62**	55	**1**	1

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

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of funded and unfunded obligations	**(2,251)**	(2,065)	(2,024)	(1,553)	(1,730)
Fair value of plan assets	**1,739**	1,598	1,531	1,145	1,321
	(512)	(467)	(493)	(408)	(409)
Difference between expected and actual return on plan assets	**17**	(17)	279	(301)	(77)
Experience (losses)/gains on plan liabilities	**(4)**	(1)	45	(19)	(30)
Actuarial (losses)/gains on plan liabilities	**(138)**	9	(432)	224	128

25. Supplementary information on derivative financial instruments

Treasury 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, commodities, equity or other indices. Derivatives enable their users to alter exposure to these market or credit risks. We use derivatives to manage the interest rate and foreign exchange risks from our financing portfolio and this enables the optimisation of the overall cost of accessing debt capital markets. We also use derivatives to manage our operational market risks from commodities.

We calculated the fair value of the financial derivatives by discounting all the future cash flows by the market yield curve at the balance sheet date. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates. In the case of derivative instruments that include options, the Black's variation of the Black-Scholes model is used to calculated fair value.

Hedging policies using derivative financial instruments are further explained in note 26, and where, possible derivatives held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges. These are described as follows:

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

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

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

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

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

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

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

26. 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. Our overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. We use financial instruments including derivative financial instruments to manage risks of this type.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Finance Committees of National Grid plc and the Company. This department identifies, evaluates and hedges financial risks in close co-operation with the operating units. The Finance Committees provide 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.

26. Financial risk continued

(a) Market risk

(i) Foreign exchange risk

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

Our policy for managing foreign exchange transaction risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size. Where cash forecasts are less certain, we hedge a proportion of the foreign currency flows based on the probability of those cash flows occurring. Instruments used to manage foreign exchange risk include foreign exchange forward contracts and foreign exchange swaps.

During 2012 and 2011, derivative financial instruments were used to manage foreign currency risk as follows:

	2012			
	Sterling £m	**Euro £m**	**Other £m**	**Total £m**
Financial investments	**261**	**4**	**-**	**265**
Borrowings (i)	**(4,636)**	**(601)**	**(191)**	**(5,428)**
Pre-derivative position	**(4,375)**	**(597)**	**(191)**	**(5,163)**
Derivative effect	**(846)**	**584**	**191**	**(71)**
Net debt position	**(5,221)**	**(13)**	**-**	**(5,234)**

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

(i) Includes bank overdrafts

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

26. Financial risk continued

(a) Market risk continued

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from our long-term borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk, partially offset by cash held ar variable rates. Borrowings issued at fixed rates expose us to fair value interest rate risk.

Our interest rate risk management policy is to seek to minimise the total financing costs (being interest costs and changes in the market value of debt), subject to constraints. We do this by using fixed and floating rate debt and derivative financial instruments, including interest rate swaps, swaptions and forward rate agreements.

We hold some borrowings on issue that are inflation linked. We believe that these provide a partial economic offset to the inflation risk associated with our inflation linked revenues.

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:

	2012 £m	2011 £m
Fixed interest rate borrowings		
Less than 1 year	**(29)**	(29)
In 1 - 2 years	**(510)**	-
In 2 - 3 years	**-**	(538)
In 3 - 4 years	**(170)**	-
In 4 - 5 years	**-**	(164)
More than 5 years	**(1,219)**	(1,176)
	(1,928)	(1,907)
Floating interest rate borrowings (including inflation linked)	**(3,495)**	(2,754)
Non-interest bearing borrowings	**(5)**	(5)
Total borrowings	**(5,428)**	(4,666)

During 2012 and 2011, net debt was managed using derivative instruments to hedge interest rate risk as follows:

2012	**Fixed rate £m**	**Floating rate £m**	**RPI(i) £m**	**Other(ii) £m**	**Total £m**
Financial investments	**-**	**264**	**-**	**1**	**265**
Borrowings (iv)	**(1,928)**	**(899)**	**(2,596)**	**(5)**	**(5,428)**
Pre-derivative position	**(1,928)**	**(635)**	**(2,596)**	**(4)**	**(5,163)**
Derivative effect	**(44)**	**36**	**(63)**	**-**	**(71)**
Net debt position (iii)	**(1,972)**	**(599)**	**(2,659)**	**(4)**	**(5,234)**

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

(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.

26. Financial risk continued

(b) Fair value

The following provides an analysis of our financial instruments measured at fair value. They are reported in a tiered hierarchy based on the valuation methodology described in note 25, and reflecting the significance of market observable inputs. The best evidence of fair value is a quoted price in an actively traded market. In the event the market for a financial instrument is not active, a valuation technique is used.

	2012				2011			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Available-for-sale investments	**4**	**-**	**-**	**4**	-	-	-	-
Derivative financial instruments	**-**	**300**	**57**	**357**	-	125	53	178
	4	**300**	**57**	**361**	-	125	53	178
Liabilities								
Derivative financial instruments	**-**	**(284)**	**(144)**	**(428)**	-	(86)	-	(86)
Total	**4**	**16**	**(87)**	**(67)**	-	39	53	92

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

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

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

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

The financial instruments classified as level 3 are cross-currency swaps with an embedded call option and inflation linked swaps where the inflation curve is illiquid. In valuing these instruments, 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:

	2012 Level 3 valuation £m	2011 Level 3 valuation £m
At 1 April	**53**	34
Net (losses)/gains for the year (i)	**(25)**	21
Purchases	**(112)**	-
Settlements	**(3)**	(2)
At 31 March	**(87)**	53

(i) Losses of £25m (2011: £21m gain) are attributable to assets or liabilities held at the end of the reporting period and have been recognised in finance costs in the income statement.

During the year, limited price inflation (LPI) swaps were transacted. These derivative instruments are sensitive to changes in the LPI market curve. An illustrative movement in basis points of the LPI market curve would have the following impacts, after the effects of tax:

	2012	
	Income Statement £m	**Other equity reserves £m**
+20 basis point change in LPI market curve	**(34)**	**-**
-20 basis point change in LPI market curve	**31**	**-**

A reasonable possible change in assumptions of all other level 3 instruments is unlikely to result in a material change of fair values.

26. Financial risk continued

(c) Credit risk

We are exposed to the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in our commercial business activities. Credit risk arises from cash and cash equivalents, derivative financial instruments, and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Treasury related credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. The Company's limits are managed by the central treasury department of National Grid, as explained in the Principal risk factors on pages 15 to 17.

As at 31 March 2012 and 2011, we had a number of exposures to individual counterparties. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted if appropriate. 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 9 was £357m (2011: £178m); after netting agreements it was £246m (2011: £163m).

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.

(d) Liquidity analysis

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

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

At 31 March 2012	**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	**(702)**	**(500)**	**-**	**(4,046)**	**(5,248)**
Interest payments on borrowings (i)	**(171)**	**(167)**	**(144)**	**(2,563)**	**(3,045)**
Other non-interest bearing liabilities	**(487)**	**(10)**	**-**	**-**	**(497)**
Derivative financial liabilities					
Derivative contracts - receipts	**126**	**169**	**37**	**170**	**502**
Derivative contracts - payments	**(70)**	**(233)**	**(38)**	**(120)**	**(461)**
Total at 31 March 2012	**(1,304)**	**(741)**	**(145)**	**(6,559)**	**(8,749)**

At 31 March 2011	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	(218)	(200)	(530)	(3,616)	(4,564)
Interest payments on borrowings (i)	(172)	(176)	(173)	(2,812)	(3,333)
Other non-interest bearing liabilities	(500)	(10)	-	-	(510)
Derivative financial liabilities					
Derivative contracts - receipts	54	51	23	214	342
Derivative contracts - payments	(27)	(19)	(27)	(180)	(253)
Total at 31 March 2011	(863)	(354)	(707)	(6,394)	(8,318)

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

26. 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 RPI.

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 2012 and 31 March 2011, respectively. As a consequence, this sensitivity analysis relates to the positions at those dates and is not representative of the years then ended, as all of these varied.

The following assumptions were made in calculating the sensitivity analysis:

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

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

	2012		2011	
	Income statement -/+ £m	**Other Equity Reserves -/+ £m**	Income statement -/+ £m	Other Equity Reserves -/+ £m
UK RPI +/- 0.50%*	**9**	**-**	7	-
UK interest rates +/- 0.50%	**4**	**17**	5	14

*Excludes sensitivities to limited price inflation index, further details on sensitivities are provided in note 26(b).

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

(f) Capital and risk management

Our objectives when managing capital are to safeguard our ability to continue as a going concern, to remain within regulatory constraints and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital.

The principal measure of balance sheet efficiency is gearing calculated as net debt expressed as a percentage of RAV. The RAV gearing ratio at 31 March 2012 was 57% compared with 54% at 31 March 2011. We regularly review and maintain or adjust the capital structure as appropriate in order to manage the level of RAV 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.

27. Share options and reward plans

National Grid operates four principal forms of share option and share reward plans. These plans include an employee Sharesave scheme, a Long Term Performance Plan (LTPP), the Deferred Share Plan and the Retention Award Plans.

Active share plans

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

LTPP - awards granted in National Grid shares are made to Executive Directors of National Grid and senior employees. The criteria are based on National Grid's adjusted earnings per share (50%) when compared with the growth in RPI, National Grid's total shareholder return (TSR) (25%) when compared to the median TSR of the FTSE 100 companies and return on equity (25%) compared with the relevant allowed regulatory return.

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

Retention Award Plan - awards delivered in National Grid shares to senior employees and vest in equal tranches over a period up to four years, provided the employee remains employed within National Grid.

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

	2012 millions	2011 millions
Awards of ordinary shares at 1 April	**1.2**	0.7
Impacts of rights issue	**-**	0.1
Awards made	**0.6**	0.4
Lapses/forfeits	**-**	(0.1)
Transfers	**0.7**	0.1
Awards vested	**(0.1)**	-
Awards of ordinary shares at 31 March	**2.4**	1.2
Conditional awards available for release at 31 March	**-**	0.1

Share options - Sharesave scheme

	Sharesave scheme options	
	Weighted average price £	millions
At 1 April 2010	4.94	5.9
Impacts of rights issue	-	0.8
Granted	4.45	1.0
Lapsed - expired	4.58	(0.3)
Exercised	4.33	(1.1)
At 31 March 2011	4.42	6.3
Granted	4.96	1.4
Lapsed - expired	4.98	(0.3)
Exercised	4.11	(0.6)
Transfers (i)	4.42	0.3
At 31 March 2012	**4.54**	**7.1**

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

Exercisable

At 31 March 2012	**4.49**	**-**
At 31 March 2011	4.71	0.2

Weighted average share price at exercise date

Year ended 31 March 2012	**6.16**	**0.7**
Year ended 31 March 2011	5.53	1.1

27. Share options and reward plans continued

Share options continued

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2012 was 2 years and 2 months. These options have exercise prices between £3.80 and £5.73 per ordinary share. The aggregate intrinsic value of all options outstanding and exercisable at 31 March 2012 amounted to £15m and £0.2m respectively.

Awards under share option plans and reward plans

	2012	2011
Share options		
Average share price at date of grant	**607.0p**	564.5p
Average exercise price	**496.0p**	445.0p
Average fair value	**90.5p**	116.6p
Other share plans		
Average share price at date of grant	**602.1p**	493.3p
Average fair value	**483.2p**	327.8p

Fair value calculation assumptions

	2012	2011
Dividend yield (%)	**6.4-6.9**	4.4-5.0
Volatility (%)	**25.4-28.0**	22.4-26.1
Risk-free investment rate (%)	**0.6-1.2**	2.5
Average life (years)	**4.0**	4.0

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

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

(i) implied volatility in traded options over National Grid plc's shares;

(ii) historical volatility of National Grid plc's shares over a term commensurate with the expected life of each option; and

(iii) implied volatility of comparator companies where options in their shares are traded.

Additional information in respect of share option

	2012 **£m**	2011 £m
Share options exercised		
Cash received on exercise of all share options during the year	**3**	5
Tax benefits realised from share options exercised during the year	**2**	1

28. 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.

29. Principal subsidiary undertakings

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

The Company's principal joint venture included in the financial statements at 31 March 2012 is NGET/SPT Upgrades Ltd (50% of ordinary shares held) whose principal activity is construction services.

Appendices

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

The schedules in this appendix provide a supplementary analysis of the primary financial statements by regulatory business, together with relevant supporting notes. This appendix should be read in conjunction with the consolidated financial statements of the Company, set out on pages 49 to 79, which provide details in respect of the Company in total not included in this appendix.

Regulatory consolidated income statements

for the years ended 31 March

	Notes	Trans-mission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Trans-mission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Revenue		**2,755**	**58**	**2,813**	2,477	73	2,550
Operating costs	A	**(1,902)**	**(46)**	**(1,948)**	(1,666)	(64)	(1,730)
Operating profit							
Before exceptional items		**858**	**12**	**870**	895	9	904
Exceptional items	B	**(5)**	**-**	**(5)**	(84)	-	(84)
Total operating profit		**853**	**12**	**865**	811	9	820
Interest income and similar income	C	**106**	**1**	**107**	104	1	105
Interest expense and other finance costs							
Before exceptional items and remeasurements	C	**(284)**	**(1)**	**(285)**	(277)	(1)	(278)
Exceptional items and remeasurements	B, C	**(41)**	**-**	**(41)**	(3)	-	(3)
	C	**(325)**	**(1)**	**(326)**	(280)	(1)	(281)
Profit before tax							
Before exceptional items and remeasurements		**680**	**12**	**692**	722	9	731
Exceptional items and remeasurements	B	**(46)**	**-**	**(46)**	(87)	-	(87)
Total profit before tax		**634**	**12**	**646**	635	9	644
Taxation							
Before exceptional items and remeasurements	D	**(179)**	**(3)**	**(182)**	(203)	(3)	(206)
Exceptional items and remeasurements	B, D	**81**	**-**	**81**	67	-	67
Total taxation	D	**(98)**	**(3)**	**(101)**	(136)	(3)	(139)
Profit after tax							
Before exceptional items and remeasurements		**501**	**9**	**510**	519	6	525
Exceptional items and remeasurements	B	**35**	**-**	**35**	(20)	-	(20)
Profit for the year		**536**	**9**	**545**	499	6	505

Regulatory consolidated statements of comprehensive income

for the years ended 31 March

	Notes	Trans-mission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Trans-mission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Profit for the year		**536**	**9**	**545**	499	6	505
Other comprehensive (loss)/income:							
Actuarial net losses	M	**(119)**	**(2)**	**(121)**	(8)	-	(8)
Deferred tax on actuarial net losses	D	**26**	**-**	**26**	(1)	-	(1)
(Losses)/gain in respect of cash flow hedges		**(55)**	**-**	**(55)**	9	-	9
Transferred to profit or loss on cash flow hedges		**6**	**-**	**6**	4	-	4
Deferred tax on cash flow hedges	D	**11**	**-**	**11**	(4)	-	(4)
Other comprehensive loss for the year		**(131)**	**(2)**	**(133)**	-	-	-
Total comprehensive income for the year		**405**	**7**	**412**	499	6	505

Regulatory consolidated balance sheets

at 31 March

	Notes	Transmission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Transmission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Non-current assets							
Intangible assets	E	**72**	**-**	**72**	50	-	50
Property, plant and equipment	F	**8,463**	**2**	**8,465**	7,613	3	7,616
Derivative financial assets		**337**	**-**	**337**	158	-	158
Total non-current assets		**8,872**	**2**	**8,874**	7,821	3	7,824
Current assets							
Inventories	G	**23**	**5**	**28**	23	5	28
Trade and other receivables	H	**217**	**12**	**229**	178	26	204
Financial investments		**265**	**-**	**265**	4	-	4
Derivative financial assets		**20**	**-**	**20**	20	-	20
Current tax asset		**2**	**-**	**2**	-	-	-
Total current assets		**527**	**17**	**544**	225	31	256
Total assets		**9,399**	**19**	**9,418**	8,046	34	8,080
Current liabilities							
Borrowings		**(749)**	**-**	**(749)**	(263)	-	(263)
Derivative financial liabilities		**(26)**	**-**	**(26)**	(10)	-	(10)
Trade and other payables	J	**(680)**	**(33)**	**(713)**	(702)	(27)	(729)
Provisions	N	**(11)**	**-**	**(11)**	(13)	-	(13)
Total current liabilities		**(1,466)**	**(33)**	**(1,499)**	(988)	(27)	(1,015)
Non-current liabilities							
Borrowings		**(4,679)**	**-**	**(4,679)**	(4,403)	-	(4,403)
Derivative financial liabilities		**(402)**	**-**	**(402)**	(76)	-	(76)
Other non-current liabilities	K	**(257)**	**-**	**(257)**	(251)	-	(251)
Deferred tax liabilities	L	**(745)**	**(1)**	**(746)**	(760)	(1)	(761)
Pension obligations	M	**(505)**	**(7)**	**(512)**	(461)	(6)	(467)
Provisions	N	**(83)**	**-**	**(83)**	(83)	-	(83)
Total non-current liabilities		**(6,671)**	**(8)**	**(6,679)**	(6,034)	(7)	(6,041)
Total liabilities		**(8,137)**	**(41)**	**(8,178)**	(7,022)	(34)	(7,056)
Net assets/(liabilities)		**1,262**	**(22)**	**1,240**	1,024	-	1,024
Total equity		**1,262**	**(22)**	**1,240**	1,024	-	1,024

Regulatory consolidated statements of changes in equity

for the years ended 31 March

	Total equity		
	Trans-mission business £m	Other activities £m	Total £m
At 31 March 2010	669	(4)	665
Total recognised income and expense for the year	499	6	505
Equity dividends	(150)	-	(150)
Share-based payments	3	-	3
Tax on share-based payments	1	-	1
Transfers	2	(2)	-
At 31 March 2011	1,024	-	1,024
Total recognised income and expense for the year	405	7	412
Equity dividends	(200)	-	(200)
Share-based payments	3	-	3
Tax on share-based payments	1	-	1
Transfers	29	(29)	-
At 31 March 2012	**1,262**	**(22)**	**1,240**

Regulatory consolidated cash flow statements

for the years ended 31 March

	Notes	Trans-mission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Trans-mission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Cash flows from operating activities							
Total operating profit		**853**	**12**	**865**	811	9	820
Adjustments for:							
Exceptional items and remeasurements		**5**	**-**	**5**	84	-	84
Depreciation and amortisation		**276**	**-**	**276**	268	(1)	267
Share based payment charge		**3**	**-**	**3**	3	-	3
Changes in working capital		**59**	**18**	**77**	(56)	(2)	(58)
Changes in pension obligations		**(80)**	**(1)**	**(81)**	(42)	(1)	(43)
Changes in provisions		**1**	**-**	**1**	(3)	-	(3)
Cash flows relating to exceptional items		**(11)**	**-**	**(11)**	(5)	-	(5)
Cash generated from operations		**1,106**	**29**	**1,135**	1,060	5	1,065
Tax paid		**(134)**	**(2)**	**(136)**	(111)	(1)	(112)
Net cash inflow from operating activities		**972**	**27**	**999**	949	4	953
Cash flows from investing activities							
Purchases of intangible assets		**(29)**	**-**	**(29)**	(17)	-	(17)
Purchases of property, plant and equipment		**(1,092)**	**-**	**(1,092)**	(892)	-	(892)
Disposal of property, plant and equipment		**6**	**1**	**7**	4	1	5
Interest received		**-**	**-**	**-**	2	-	2
Net movement in short term financial investments		**(261)**	**-**	**(261)**	63	-	63
Net cash flow (used in)/from investing activities		**(1,376)**	**1**	**(1,375)**	(840)	1	(839)
Cash flows from financing activities							
Proceeds from loans received		**403**	**-**	**403**	182	-	182
Repayment of loans		**(77)**	**-**	**(77)**	(311)	-	(311)
Net movements in short-term borrowings and derivatives		**403**	**-**	**403**	25	-	25
Interest paid		**(149)**	**-**	**(149)**	(181)	-	(181)
Dividends paid		**(200)**	**-**	**(200)**	(150)	-	(150)
Transfers (i)		**28**	**(28)**	**-**	5	(5)	-
Net cash (outflow)/inflow from financing activities		**408**	**(28)**	**380**	(430)	(5)	(435)
Net decrease in cash and cash equivalents		**4**	**-**	**4**	(321)	-	(321)
Cash and cash equivalents at the start of the year (ii)		**(8)**	**-**	**(8)**	313	-	313
Net cash and cash equivalents at the end of the year (ii)	I	**(4)**	**-**	**(4)**	(8)	-	(8)

(i) Transfers represent the contribution of the other activities to the equity dividend of the Company, net of short-term movements in working capital balances.

(ii) Net of bank overdrafts of £4m (2011: £8m).

Notes to the regulatory consolidated financial statements

A. Operating costs

	Trans-mission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Trans-mission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Before exceptional items						
Depreciation and amortisation	**282**	**-**	**282**	264	-	264
Payroll costs	**113**	**8**	**121**	103	9	112
Other operating charges:						
Rates	**98**	**-**	**98**	100	-	100
Balancing Service Incentive Scheme	**818**	**-**	**818**	581	-	581
Payments to other network owners	**407**	**-**	**407**	347	-	347
Other	**179**	**38**	**217**	187	55	242
	1,897	**46**	**1,943**	1,582	64	1,646
Exceptional items						
Payroll costs	**3**	**-**	**3**	5	-	5
Other operating charges:						
Other	**2**	**-**	**2**	79	-	79
	5	**-**	**5**	84	-	84
After exceptional items						
Depreciation and amortisation	**282**	**-**	**282**	264	-	264
Payroll costs	**116**	**8**	**124**	108	9	117
Other operating charges:						
Rates	**98**	**-**	**98**	100	-	100
Balancing Service Incentive Scheme	**818**	**-**	**818**	581	-	581
Payments to other network owners	**407**	**-**	**407**	347	-	347
Other	**181**	**38**	**219**	266	55	321
	1,902	**46**	**1,948**	1,666	64	1,730

Payroll costs

Wages and salaries	**129**	**8**	**137**	125	8	133
Social security costs	**14**	**-**	**14**	11	1	12
Other pension costs	**28**	**-**	**28**	31	-	31
Share-based payments	**3**	**-**	**3**	3	-	3
Severance costs (excluding pension costs)	**3**	**-**	**3**	2	-	2
	177	**8**	**185**	172	9	181
Less: payroll costs capitalised	**(61)**	**-**	**(61)**	(64)	-	(64)
	116	**8**	**124**	108	9	117

B. Exceptional items and remeasurements

	Trans-mission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Trans-mission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Included within operating profit:						
Exceptional items:						
Restructuring costs	**(5)**	**-**	**(5)**	(15)	-	(15)
Environmental charges	**-**	**-**	**-**	(69)	-	(69)
Total exceptional items included within operating profit	**(5)**	**-**	**(5)**	(84)	-	(84)
Included within finance costs:						
Exceptional items:						
Debt redemption costs	**-**	**-**	**-**	(11)	-	(11)
Remeasurements:						
Net (losses)/gains on derivative financial instruments	**(41)**	**-**	**(41)**	8	-	8
Total exceptional items and remeasurements included within finance costs	**(41)**	**-**	**(41)**	(3)	-	(3)
Total included in profit before tax	**(46)**	**-**	**(46)**	(87)	-	(87)
Included within taxation:						
Exceptional credits arising on items not included in profit before tax:						
Deferred tax credit arising on the reduction in UK tax rate	**69**	**-**	**69**	62	-	62
Tax on exceptional items	**1**	**-**	**1**	8	-	8
Tax on remeasurements	**11**	**-**	**11**	(3)	-	(3)
Tax on exceptional items and remeasurements	**81**	**-**	**81**	67	-	67
Total exceptional items and remeasurements after tax	**35**	**-**	**35**	(20)	-	(20)
Total exceptional items after tax	**65**	**-**	**65**	(25)	-	(25)
Total remeasurements after tax	**(30)**	**-**	**(30)**	5	-	5
Total exceptional items and remeasurements after tax	**35**	**-**	**35**	(20)	-	(20)

C. Finance income and costs

	Trans-mission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Trans-mission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Interest income and similar income						
Expected return on pension plan assets	**106**	**1**	**107**	102	1	103
Interest income on financial instruments:						
Bank deposits and other financial assets	**-**	**-**	**-**	2	-	2
Interest income and similar income	**106**	**1**	**107**	104	1	105
Interest expense and other financial costs						
Interest on pension plan obligations	**(111)**	**(1)**	**(112)**	(111)	(1)	(112)
Interest expense on financial liabilities held at amortised cost:						
Bank loans and overdrafts	**(5)**	**-**	**(5)**	(4)	-	(4)
Other borrowings	**(275)**	**-**	**(275)**	(278)	-	(278)
Derivatives	**21**	**-**	**21**	22	-	22
Unwinding of discount on provisions	**(4)**	**-**	**(4)**	-	-	-
Other interest	**(3)**	**-**	**(3)**	-	-	-
Less: interest capitalised	**93**	**-**	**93**	94	-	94
Interest expense and other finance costs before exceptional items and remeasurements	**(284)**	**(1)**	**(285)**	(277)	(1)	(278)
Exceptional items:						
Exceptional debt redemption costs	**-**	**-**	**-**	(11)	**-**	(11)
Remeasurements:						
Net (losses)/gains on derivative financial instruments included in remeasurements:						
Ineffectiveness on derivatives designated as:						
Fair value hedges	**3**	**-**	**3**	11	-	11
Cash flow hedges	**5**	**-**	**5**	(2)	-	(2)
Derivatives not designated as hedges or ineligible for hedge accounting	**(49)**	**-**	**(49)**	(1)	-	(1)
	(41)	**-**	**(41)**	8	**-**	8
Exceptional items and remeasurements included within interest expense	**(41)**	**-**	**(41)**	(3)	-	(3)
Interest expense and other finance costs	**(325)**	**(1)**	**(326)**	(280)	(1)	(281)
Net finance costs	**(219)**	**-**	**(219)**	(176)	-	(176)

D. Taxation

Tax charged/(credited) to the income statement

	Transmission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Transmission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Tax before exceptional items and remeasurements	**179**	**3**	**182**	203	3	206
Exceptional tax on items not included in profit before tax	**(69)**	**-**	**(69)**	(62)	-	(62)
Tax on other exceptional items and remeasurements	**(12)**	**-**	**(12)**	(5)	-	(5)
Tax on total exceptional items and remeasurements	**(81)**	**-**	**(81)**	(67)	-	(67)
Total tax charge	**98**	**3**	**101**	136	3	139

Taxation as a percentage of profit before tax

	Transmission business 2012 %	Other activities 2012 %	Total 2012 %	Transmission business 2011 %	Other activities 2011 %	Total 2011 %
Before exceptional items and remeasurements	**26.3**	**25.0**	**26.3**	28.1	33.3	28.2
After exceptional items and remeasurements	**15.5**	**25.0**	**15.6**	21.4	33.3	21.6

The tax charge for the year can be analysed as follows:

	Transmission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Transmission business 2011 £m	Other activities 2011 £m	Total 2011 £m
United Kingdom						
Corporation tax at 26% (2011: 28%)	**75**	**3**	**78**	124	3	127
Corporation tax adjustment in respect of prior years	**1**	**-**	**1**	12	-	12
Deferred tax	**25**	**-**	**25**	11	-	11
Deferred tax adjustment in respect of prior years	**(3)**	**-**	**(3)**	(11)	-	(11)
Total tax charge	**98**	**3**	**101**	136	3	139

Tax (credited)/charged to other comprehensive income and equity

	Transmission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Transmission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Corporation tax						
Share-based payments	**(1)**	**-**	**(1)**	(1)	-	(1)
Deferred tax						
Cash flow hedges	**(11)**	**-**	**(11)**	4	-	4
Share-based payments	**-**	**-**	**-**	-	-	-
Actuarial (losses)/gains	**(26)**	**-**	**(26)**	1	-	1
	(38)	**-**	**(38)**	4	-	4
Total tax recognised in the statement of other comprehensive income	**(37)**	**-**	**(37)**	5	-	5
Total tax relation to share-based payments recognised directly in equity	**(1)**	**-**	**(1)**	(1)	-	(1)
	(38)	**-**	**(38)**	4	-	4

D. Taxation (continued)

The tax charge for the year after exceptional items and remeasurements is lower (2011: lower) than the standard rate of corporation tax in the UK of 26% (2011: 28%). The differences are explained below:

	Transmission business	Other activities	Total	Transmission business	Other activities	Total
Before exceptional items and measurements	**2012 £m**	**2012 £m**	**2012 £m**	2011 £m	2011 £m	2011 £m
Profit before tax						
Before exceptional items and remeasurements	**680**	**12**	**692**	722	9	731
Profit before tax	**680**	**12**	**692**	722	9	731
Profit on continuing operations multiplied by the rate of corporation tax in the UK of 26% (2011: 28%)	**177**	**3**	**180**	201	3	204
Effects of:						
Adjustments in respect of previous years	**(2)**	**-**	**(2)**	1	-	1
Expenses not deductible for tax purposes	**5**	**-**	**5**	1	-	1
Impact of share-based payments	**(1)**		**(1)**	-	-	-
Tax charge	**179**	**3**	**182**	203	3	206
	%	**%**	**%**	%	%	%
Effective income tax rate	**26.3**	**25.0**	**26.3**	28.1	33.3	28.2
After exceptional items and measurements						
Profit before tax						
Before exceptional items and remeasurements	**680**	**12**	**692**	722	9	731
Exceptional items and remeasurements	**(46)**	**-**	**(46)**	(87)	-	(87)
Profit before tax	**634**	**12**	**646**	635	9	644
Profit on continuing operations multiplied by the rate of corporation tax in the UK of 26% (2011: 28%)	**165**	**3**	**168**	177	3	180
Effects of:						
Adjustments in respect of previous years	**(2)**	**-**	**(2)**	1	-	1
Expenses not deductible for tax purposes	**5**	**-**	**5**	20	-	20
Impact of share-based payments	**(1)**	**-**	**(1)**	-	-	-
Impact of change in UK tax rate	**(69)**	**-**	**(69)**	(62)	-	(62)
Tax charge	**98**	**3**	**101**	136	3	139
	%	**%**	**%**	%	%	%
Effective income tax rate	**15.5**	**25.0**	**15.6**	21.4	33.3	21.6

E. Intangible assets

	Transmission business Software £m	Total Software £m
Non-current		
Cost at 1 April 2010	174	174
Additions	17	17
Cost at 31 March 2011	191	191
Additions	29	29
Disposals	(53)	(53)
Reclassifications	3	3
Cost at 31 March 2012	170	170
Amortisation at 1 April 2010	(131)	(131)
Amortisation charge for the year	(10)	(10)
Amortisation at 31 March 2011	(141)	(141)
Amortisation charge for the year	(10)	(10)
Disposals	53	53
Amortisation at 31 March 2012	(98)	(98)
Net book value at 31 March 2012	**72**	**72**
Net book value at 31 March 2011	50	50

F. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total Transmission business £m	Other activities £m	Total £m
Cost at 1 April 2010	212	7,962	1,636	92	9,902	13	9,915
Additions	53	83	969	4	1,109	-	1,109
Disposals	(1)	(48)	-	(3)	(52)	-	(52)
Reclassifications between categories	57	808	(868)	3	-	-	-
Cost at 31 March 2011	321	8,805	1,737	96	10,959	13	10,972
Additions	21	72	1,028	4	1,125	-	1,125
Disposals	-	(84)	-	(22)	(106)	(7)	(113)
Reclassifications between categories	92	804	(906)	7	(3)	-	(3)
Cost at 31 March 2012	434	9,597	1,859	85	11,975	6	11,981
Depreciation at 1 April 2010	(34)	(3,032)	-	(70)	(3,136)	(10)	(3,146)
Depreciation charge for the year	(6)	(240)	-	(8)	(254)	-	(254)
Disposals	1	40	-	3	44	-	44
Reclassifications between categories	(1)	1	-	-	-	-	-
Depreciation at 31 March 2011	(40)	(3,231)	-	(75)	(3,346)	(10)	(3,356)
Depreciation charge for the year	(8)	(256)	-	(8)	(272)	-	(272)
Disposals	-	84	-	22	106	6	112
Reclassifications between categories	(1)	4	-	(3)	-	-	-
Depreciation at 31 March 2012	(49)	(3,399)	-	(64)	(3,512)	(4)	(3,516)
Net book value at 31 March 2012	**385**	**6,198**	**1,859**	**21**	**8,463**	**2**	**8,465**
Net book value at 31 March 2011	281	5,574	1,737	21	7,613	3	7,616

Information in relation to property, plant and equipment:

	Transmission business 2012 £m	**Other activities 2012 £m**	**Total 2012 £m**	Transmission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Capitalised interest included within cost	**831**	-	**831**	738	-	738
Contributions to cost of property, plant and equipment included within:						
Trade and other payables	**7**	-	**7**	7	-	7
Non-current liabilities	**222**	-	**222**	224	-	224

G. Inventories

	Transmission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Transmission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Raw materials and consumables	**23**	**5**	**28**	23	5	28

H. Trade and other receivables

	Transmission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Transmission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Trade receivables	**12**	**2**	**14**	10	6	16
Amounts owed by fellow subsidiaries	**17**	**3**	**20**	27	2	29
Prepayments and accrued income	**184**	**7**	**191**	138	18	156
Other receivables	**4**	**-**	**4**	3	-	3
	217	**12**	**229**	178	26	204

I. Cash and cash equivalents

	Transmission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Transmission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Bank overdrafts	**(4)**	**-**	**(4)**	(8)	-	(8)
Net cash and cash equivalents	**(4)**	**-**	**(4)**	(8)	-	(8)

J. Trade and other payables

	Transmission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Transmission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Trade payables	**442**	**24**	**466**	452	16	468
Amounts owed to fellow subsidiaries	**53**	**-**	**53**	101	-	101
Deferred income	**147**	**8**	**155**	74	11	85
Social security and other taxes	**17**	**1**	**18**	43	-	43
Other payables	**21**	**-**	**21**	32	-	32
	680	**33**	**713**	702	27	729

K. Other non-current liabilities

	Transmission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Transmission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Deferred income	**247**	**-**	**247**	241	-	241
Other payables	**10**	**-**	**10**	10	-	10
	257	**-**	**257**	251	-	251

L. 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:

(Assets) and liabilities	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 £m
Deferred tax assets at 31 March 2010	-	(3)	(136)	(13)	(5)	(157)	(2)	(159)
Deferred tax liabilities at 31 March 2010	912	-	-	-	-	912	3	915
At 1 April 2010	912	(3)	(136)	(13)	(5)	755	1	756
(Credited)/charged to income statement	(12)	(2)	16	-	(2)	-	-	-
Charged to equity	-	-	1	4	-	5	-	5
At 31 March 2011	900	(5)	(119)	(9)	(7)	760	1	761
Deferred tax assets at 31 March 2011	-	(5)	(119)	(9)	(7)	(140)	(2)	(142)
Deferred tax liabilities at 31 March 2011	900	-	-	-	-	900	3	903
At 1 April 2011	900	(5)	(119)	(9)	(7)	760	1	761
(Credited)/charged to income statement	(7)	(1)	24	-	6	22	-	22
Credited to equity	-	-	(26)	(11)	-	(37)	-	(37)
At 31 March 2012	**893**	**(6)**	**(121)**	**(20)**	**(1)**	**745**	**1**	**746**
Deferred tax assets at 31 March 2012	-	(6)	(121)	(20)	(2)	(149)	(2)	(151)
Deferred tax liabilities at 31 March 2012	893	-	-	-	1	894	3	897
	893	(6)	(121)	(20)	(1)	745	1	746

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 (2011: £nil).

M. Pensions

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

	Transmission business 2012 £m	Other activities 2012 £m	Total 2012 £m	Transmission business 2011 £m	Other activities 2011 £m	Total 2011 £m
Included within payroll costs						
Defined contribution scheme costs	**5**	**-**	**5**	3	-	3
Defined benefit scheme costs:						
Current service cost	**26**	**-**	**26**	27	-	27
Contributions from other employers	**(5)**	**-**	**(5)**	(3)	-	(3)
Curtailment gains on redundancies	**(1)**	**-**	**(1)**	(1)	-	(1)
Cost of contractual termination on redundancies	**3**	**-**	**3**	3	-	3
Other augmentation	**-**	**-**	**-**	2	-	2
	28	**-**	**28**	31	-	31
Included within finance income and costs						
Interest cost	**111**	**1**	**112**	111	1	112
Expected return on plan assets	**(106)**	**(1)**	**(107)**	(102)	(1)	(103)
	5	**-**	**5**	9	-	9
Included within other comprehensive income						
Actuarial loss during the year	**(119)**	**(2)**	**(121)**	(8)	-	(8)
Cumulative actuarial loss	**(309)**	**(4)**	**(313)**	(190)	(2)	(192)

Amounts recognised in the balance sheet

	2012 £m	2012 £m	2012 £m	2011 £m	2011 £m	2011 £m
Present value of funded obligations	**(2,194)**	**(29)**	**(2,223)**	(2,014)	(27)	(2,041)
Fair value of plan assets	**1,717**	**22**	**1,739**	1,577	21	1,598
	(477)	**(7)**	**(484)**	(437)	(6)	(443)
Present value of unfunded obligations	**(28)**	**-**	**(28)**	(24)	-	(24)
Net liability	**(505)**	**(7)**	**(512)**	(461)	(6)	(467)
Changes in the present value of the defined benefit obligations (including unfunded obligations)						
Opening defined benefit obligation	**(2,039)**	**(26)**	**(2,065)**	(1,998)	(26)	(2,024)
Current service cost	**(26)**	**-**	**(26)**	(27)	-	(27)
Interest cost	**(111)**	**(1)**	**(112)**	(111)	(1)	(112)
Actuarial (losses)/gains	**(136)**	**(2)**	**(138)**	9	-	9
Net increase in liabilities from redundancies	**(1)**	**(1)**	**(2)**	(2)	-	(2)
Employee contributions	**(2)**	**-**	**(2)**	(2)	-	(2)
Benefits paid	**92**	**1**	**93**	89	1	90
Net transfers	**1**	**-**	**1**	1	-	1
Other augmentations	**-**	**-**	**-**	2	-	2
Closing defined benefit obligation	**(2,222)**	**(29)**	**(2,251)**	(2,039)	(26)	(2,065)
Changes in the fair value of plan assets						
Opening fair value of plan assets	**1,577**	**21**	**1,598**	1,511	20	1,531
Expected return on plan assets	**106**	**1**	**107**	102	1	103
Actuarial gains/(losses)	**17**	**-**	**17**	(17)	-	(17)
Employer contributions	**108**	**1**	**109**	69	1	70
Employee contributions	**2**	**-**	**2**	2	-	2
Benefits paid	**(92)**	**(1)**	**(93)**	(89)	(1)	(90)
Net transfers	**(1)**	**-**	**(1)**	(1)	-	(1)
Closing fair value of plan assets	**1,717**	**22**	**1,739**	1,577	21	1,598
Actual return on plan assets	**123**	**1**	**124**	85	1	86
Expected contributions to defined benefit plans in the following year	**64**	**1**	**65**	25	-	25

N. Provisions

	Environmental £m	Other £m	Trans-mission business £m	Total £m
At 1 April 2010	1	19	20	20
Additions	73	10	83	83
Utilised	(1)	(5)	(6)	(6)
Unused amounts reversed	-	(1)	(1)	(1)
At 31 March 2011	73	23	96	96
Additions	-	3	3	3
Utilised	(1)	(4)	(5)	(5)
Unwinding of discount	4	-	4	4
Unused amounts reversed	-	(4)	(4)	(4)
At 31 March 2012	**76**	**18**	**94**	**94**

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

	Trans-mission business **2012 £m**	Total **2012 £m**	Trans-mission business 2011 £m	Total 2011 £m
Current	**11**	**11**	13	13
Non-current	**83**	**83**	83	83
	94	**94**	96	96

O. Consolidated cash flow statement

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

	Transmission business 2012 £m	Total 2012 £m	Transmission business 2011 £m	Total 2011 £m
Increase/(decrease) in cash and cash equivalents	**4**	**4**	(321)	(321)
Increase/(decrease) in financial investments	**261**	**261**	(63)	(63)
(Increase)/decrease in borrowings and related derivatives	**(729)**	**(729)**	104	104
Net interest paid on the components of net debt	**149**	**149**	179	179
Change in net debt resulting from cash flows	**(315)**	**(315)**	(101)	(101)
Changes in fair value of financial assets and liabilities	**(90)**	**(90)**	22	22
Net interest charge on the components of net debt	**(259)**	**(259)**	(269)	(269)
Movement in net debt (net of related derivative financial instruments) in the year	**(664)**	**(664)**	(348)	(348)
Net debt (net of related derivative financial instruments) at start of year	**(4,570)**	**(4,570)**	(4,222)	(4,222)
Net debt (net of related derivative financial instruments) at end of year	**(5,234)**	**(5,234)**	(4,570)	(4,570)

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

	Cash and cash equivalents £m	Bank overdrafts £m	**Net cash and cash equivalents £m**	Financial investments £m	Borrowings £m	Derivatives £m	Transmission business and Total £m
At 1 April 2010	326	(13)	**313**	67	(4,653)	51	(4,222)
Cash flow	(326)	5	**(321)**	(65)	303	(18)	(101)
Fair value gains and losses	-	-	**-**	-	(15)	37	22
Interest charges	-	-	**-**	2	(293)	22	(269)
At 31 March 2011	-	(8)	**(8)**	4	(4,658)	92	(4,570)
Cash flow	-	4	**4**	261	(445)	(135)	(315)
Fair value gains and losses	-	-	**-**	-	(41)	(49)	(90)
Interest charges	-	-	**-**	-	(280)	21	(259)
At 31 March 2012	**-**	**(4)**	**(4)**	**265**	**(5,424)**	**(71)**	**(5,234)**
Balances at 31 March 2012:							
Non-current assets	-	-	**-**	-	-	337	337
Current assets	-	-	**-**	265	-	20	285
Current liabilities	-	(4)	**(4)**	-	(745)	(26)	(775)
Non-current liabilities	-	-	**-**	-	(4,679)	(402)	(5,081)
At 31 March 2012	-	(4)	**(4)**	265	(5,424)	(71)	(5,234)

P. Commitments and contingencies

(a) Future capital expenditure

	Transmission business 2012 £m	Total 2012 £m	Transmission business 2011 £m	Total 2011 £m
Contracted for but not provided	**1,828**	**1,828**	968	968

(b) Lease commitments

	Transmission business 2012 £m	Total 2012 £m	Transmission business 2011 £m	Total 2011 £m
Amounts due:				
Less than 1 year	**13**	**13**	11	11
In 1 - 2 years	**11**	**11**	7	7
In 2 - 3 years	**9**	**9**	5	5
In 3 - 4 years	**7**	**7**	5	5
In 4 - 5 years	**7**	**7**	5	5
More than 5 years	**22**	**22**	25	25
	69	**69**	58	58

Appendix 2 - Unpublished information: Analysis of Charges and apportionments

In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 2 does not form part of the published regulatory accounting statements.

In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 2 does not form part of the published regulatory accounting statements.

Appendix 3 - Unpublished information: Supplementary analysis of regulatory Transmission business by Transmission Owner (TO) and System Operator (SO) activities

The extra-licence information in this appendix is provided for the use of Ofgem only and is not published. It should be read in conjunction with the rest of the regulatory accounting statements.

In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 3 does not form part of the published regulatory accounting statements.

Regulatory Transmission Income statements

In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 3 does not form part of the published regulatory accounting statements.

Regulatory Transmission Balance sheets

In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 3 does not form part of the published regulatory accounting statements.

Regulatory Transmission Cash flow statements

In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 3 does not form part of the published regulatory accounting statements.

Notes to the Regulatory Transmission financial statements

In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 3 does not form part of the published regulatory accounting statements.

In accordance with the Transmission Licence, Condition B1, Part D, paragraph 10, appendix 3 does not form part of the published regulatory accounting statements.

Glossary and definitions

References to the 'Company', 'we', 'our' and 'us' refer to National Grid Electricity Transmission plc and its subsidiaries collectively, depending on context.

EU
European Union

FRS
UK Financial Reporting Standard.

GHG
Greenhouse gas

GW
Gigawatt, 10^9 watts.

GWh
Gigawatt hours.

HSE
Health and Safety Executive.

IAS
International Accounting Standard.

IASB
International Accounting Standards Board

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.

Licence
National Grid Electricity Transmission plc's transmission licence granted under the Utilities Act 2010.

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.

NGET/SPT Upgrades Limited
Joint venture between the Company and SP Transmission Limited

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.

Regulatory asset value (RAV)
The value ascribed by Ofgem to the capital employed in the licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historic costs, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the RPI to allow for effects inflation.

Regulated controllable operating costs
Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

RPI
UK Retail Prices Index

Transmission business
The regulated electricity transmission business as defined by the licence.

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.

National Grid Electricity Transmission plc
1-3 Strand, London WC2N 5EH, United Kingdom
Registered in England and Wales No. 2366977