Company accounting policies

A. Basis of preparation of individual financial statements under UK GAAP

These individual financial statements of the Company have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act 1985.

These individual financial statements of the Company have been prepared on a historical cost basis, except for the revaluation of financial instruments.

These individual financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates.

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The Company has taken the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash flow statements'.

In accordance with exemptions under FRS 8 'Related party disclosures', the Company has not disclosed transactions with related parties, as the Company's financial statements are presented together with its consolidated financial statements. Further, in accordance with exemptions under FRS 29 'Financial Instruments: Disclosures', the Company has not presented the financial instruments disclosures required by the standard, as disclosures which comply with the standard are included in the consolidated financial statements.

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.

B. Fixed asset investments

Investments held as fixed assets are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value in use.

C. Taxation

Current tax for the current and prior periods is provided at the amount expected to be paid (or recovered) using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

D. Foreign currencies

Transactions in currencies other than the functional currency of the Company 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.

Gains and losses arising on retranslation of monetary assets and liabilities are included in the profit and loss account.

E. Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the 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.

Loans receivable are carried at amortised cost using the effective interest rate method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired are recognised on an effective interest basis in the profit and loss account.

Current asset financial investments are recognised at fair value plus 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 net profit or loss for the period. Investment income on investments classified as available-for-sale is recognised in the profit and loss account as it accrues.

Borrowings, which include interest-bearing loans and overdrafts are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently, these are stated at amortised cost, using the effective interest rate method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the profit and loss account using the effective interest rate method.

Derivative financial instruments ('derivatives') 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 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 changes in fair value are included in the profit and loss account in the period they arise.

Where derivatives are embedded in other financial instruments that are closely related to those instruments, no adjustment is made with respect to such derivative clauses. Otherwise the derivative is recorded separately at fair value on the balance sheet.

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

F. Hedge accounting

The Company enters into derivatives and non-derivative financial instruments in order to manage its interest rate and foreign currency exposures, with a view to managing these risks associated with the Company's underlying business activities and the financing of those activities. The principal derivatives used include interest rate swaps, forward rate agreements, currency swaps, forward foreign currency contracts and interest rate swaptions.

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 profit and loss account. 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 profit and loss account. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the profit and loss account in the same period in which the hedged item affects net profit or loss.

Secondly, changes in the carrying value of financial instruments that are designated as hedges of the changes in the fair value of assets or liabilities ('fair value hedges') are recognised in the profit and loss account. An offsetting amount is recorded as an adjustment to the carrying value of hedged items, with a corresponding entry in the profit and loss account, to the extent that the change is attributable to the risk being hedged and that the fair value hedge is effective.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, 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 profit and loss account in the same periods in which the previously hedged item affects net profit or loss. For fair value hedges the cumulative adjustment recorded to its carrying value at the date hedge accounting is discontinued is amortised to the profit and loss account using the effective interest rate method.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the profit and loss account immediately.

G. Parent Company guarantees

The Company has guaranteed the repayment of the principal and any associated premium and interest on specific loans due from certain subsidiary undertakings to third parties. In the event of default or non-performance by the subsidiary, the Company recognises such guarantees as insurance contracts, at fair value with a corresponding increase in the carrying value of the investment.

H. Share-based payments

The Company issues equity-settled, share-based payments to certain employees of subsidiary undertakings, detailed in the Directors' Report, the Directors' Remuneration Report and in note 36 to the consolidated financial statements.

Equity-settled, share-based payments are measured at fair value at the date of grant. The Company has no employees. Equity-settled, share-based payments that are made available to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investments in subsidiaries, based on an estimate of the number of shares that will eventually vest. Where payments are subsequently received from subsidiaries, these are accounted for as a return of a capital contribution and credited against the Company's investments in subsidiaries.

I. Dividends

Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

Company balance sheet

at 31 March

	Notes	2009 £m	2008 £m
Fixed assets			
Investments	2	**7,840**	4,276
Current assets			
Debtors (amounts falling due within one year)	3	**11,157**	8,545
Debtors (amounts falling due after more than one year)	3	**1,799**	2,811
Derivative financial instruments (amounts falling due within one year)	5	**329**	341
Derivative financial instruments (amounts falling due after more than one year)	5	**558**	751
Current asset investments	6	**509**	787
Cash at bank		**1**	–
		14,353	13,235
Creditors (amounts falling due within one year)			
Borrowings	7	**(1,422)**	(1,019)
Derivative financial instruments	5	**(375)**	(79)
Other creditors		**(6,926)**	(4,855)
	4	**(8,723)**	(5,953)
Net current assets		**5,630**	7,282
Total assets less current liabilities		**13,470**	11,558
Creditors (amounts falling due after more than one year)			
Borrowings	7	**(6,471)**	(4,460)
Derivative financial instruments	5	**(511)**	(179)
Amounts owed to subsidiary undertakings		**(1,062)**	(452)
		(8,044)	(5,091)
Net assets employed		**5,426**	6,467
Capital and reserves			
Called up share capital	8	**294**	294
Share premium account	9	**1,371**	1,371
Cash flow hedge reserve	9	**12**	14
Other equity reserves	9	**146**	124
Profit and loss account	9	**3,603**	4,664
Total shareholders' funds	10	**5,426**	6,467

Commitments and contingencies are shown in note 11 to the Company financial statements on page 193.

The notes on pages 190 to 193 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 13 May 2009 and were signed on its behalf by:

Sir John Parker Chairman
Steve Lucas Finance Director

Notes to the Company financial statements

1. Adoption of new accounting standards

New financial reporting standards (FRS) and abstracts adopted in 2008/09

During the year the Company has adopted the following amendments to FRSs. None of these had a material impact on the Company's results or assets and liabilities.

Amendments to FRS 26 and FRS 29 on reclassification of financial assets	Permits reclassification of financial assets in certain circumstances.

New FRSs not yet adopted

The Company has yet to adopt the following FRSs, however, they are not expected to have a material impact on the Company's results or assets and liabilities.

Amendment to FRS 20 on share-based payments	Clarifies the definition of vesting conditions and the accounting treatment of cancellations. Vesting conditions are defined as either service conditions or performance conditions. Cancellations by employees are accounted for in the same way as cancellations by the Company. The amendment to FRS 20 has been adopted with effect from 1 April 2009.
Amendments to FRS 25 on puttable financial instruments and obligations arising on liquidation	Addresses the classification as a liability or as equity of certain puttable financial instruments and instruments, or components thereof, which impose upon an entity an obligation to deliver a pro rata share of net assets on liquidation. The amendments to FRS 25 will be adopted on 1 April 2010.
Amendment to FRS 26 Financial Instruments: Recognition and measurement on eligible hedged items	Prohibits designating inflation as a hedgeable component of an instrument, unless cash flows relating to the separate inflation component are contractual and also prohibits the designation of a purchased option in its entirety as the hedge of a one-sided risk in a forecast transaction. The amendment to FRS 26 will be adopted on 1 April 2010.
Amendment to FRS 8 on related party disclosures	Changes the definition of related party to be the same as that in law and provides an exemption only in respect of wholly-owned subsidiaries, rather than 90% subsidiaries as previously permitted. The amendment to FRS 8 will be adopted on 1 April 2010.
Improvements to FRS 2008	Contains amendments to various existing standards. The amendments are effective, in most cases, from 1 January 2009, or otherwise for annual periods beginning on or after 1 July 2009.
UITF 46 on hedges of a net investment in a foreign operation	Clarifies that hedged risk may be designated at any level in a group and hedging instruments may be held by any company in a group (except the foreign entity being hedged), that net investment hedge accounting may not be adopted in respect of a presentation currency and that on disposal the amounts to be reclassified from equity to profit or loss are any cumulative gain or loss on the hedging instrument and the cumulative translation difference on the foreign operation disposed of. UITF 46 has been adopted by the Company with effect from 1 April 2009.

2. Fixed asset investments

	Shares in subsidiary undertakings £m	Loan to subsidiary undertaking £m	Total £m
At 31 March 2007	3,380	327	3,707
Additions	896	–	896
Reclassification of loan as amounts owed by subsidiary undertakings	–	(327)	(327)
At 31 March 2008	4,276	–	4,276
Additions	7,103	–	7,103
Disposals	(3,539)	–	(3,539)
At 31 March 2009	**7,840**	**–**	**7,840**

On 31 March 2009, the Company was allotted 127,111,218 ordinary shares of $40 each in NG Luxembourg 3 Sarl for a total consideration of £3,539m. On the same day, the Company sold this investment to National Grid (US) Holdings Limited as part of a group reorganisation, for consideration of £3,539m settled through the allotment of 300,050 ordinary shares of £1 each.

The names of the principal subsidiary undertakings, joint ventures and associates are included in note 37 in the consolidated financial statements.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

3. Debtors

	2009 £m	2008 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**11,153**	8,542
Prepayments and accrued income	**4**	3
	11,157	8,545
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**1,796**	2,808
Deferred taxation	**3**	3
	1,799	2,811

	Deferred taxation £m
At 1 April 2007	3
Credited to equity	4
Charged to the profit and loss account (i)	(4)
At 1 April 2008	3
Credited to equity	1
Charged to the profit and loss account	(1)
At 31 March 2009	**3**

(i) Included is a deferred tax charge of £2m in respect of prior years.

4. Creditors (amounts falling due within one year)

	2009 £m	2008 £m
Borrowings (note 7)	**1,422**	1,019
Derivative financial instruments	**375**	79
Amounts owed to subsidiary undertakings	**6,898**	4,804
Other creditors	**28**	51
	8,723	5,953

5. Derivative financial instruments

The fair value of derivative financial instruments shown on the balance sheet is as follows:

	2009			2008		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Current	**329**	**(375)**	**(46)**	341	(79)	262
Non-current	**558**	**(511)**	**47**	751	(179)	572
	887	**(886)**	**1**	1,092	(258)	834

For each class of derivative financial instruments, our exposure, based on the sterling equivalent notional value of the pay leg is as follows:

	2009 £m	2008 £m
Interest rate swaps	**(6,343)**	(4,952)
Interest rate swaptions	**–**	(202)
Cross-currency interest rate swaps	**(7,612)**	(4,919)
Foreign exchange forward contracts	**(9,013)**	(5,721)
Forward rate agreements	**(5,063)**	–
Total	**(28,031)**	(15,794)

6. Current asset investments

	2009 £m	2008 £m
Investments in short term money funds	**166**	787
Short term deposits	**234**	–
Restricted cash balances		
Collateral	**109**	–
	509	787

7. Borrowings

The following table analyses the Company's total borrowings:

	2009 £m	2008 £m
Amounts falling due within one year:		
Bank loans and overdrafts	**942**	192
Bonds	**480**	827
	1,422	1,019
Amounts falling due after more than one year:		
Bank loans	**720**	75
Bonds	**5,751**	4,385
	6,471	4,460
Total borrowings	**7,893**	5,479

	2009 £m	2008 £m
Total borrowings are repayable as follows:		
In one year or less	**1,422**	1,019
In more than one year, but not more than two years	**976**	342
In more than two years, but not more than three years	**1,360**	650
In more than three years, but not more than four years	**933**	999
In more than four years, but not more than five years	**450**	792
In more than five years, other than by instalments	**2,752**	1,677
	7,893	5,479

The notional amount of borrowings outstanding as at 31 March 2009 was £7,776m (2008: £5,417m). For further information on significant borrowings, refer to note 35 of the consolidated financial statements.

8. Called up share capital

	Called up and fully paid	
	millions	£m
At 31 March 2007	2,701	308
Issued during the year ended 31 March 2008 (i)	8	1
Repurchased during the year ended 31 March 2008 (ii)	(127)	(15)
At 31 March 2008 and 31 March 2009	**2,582**	**294**

(i) Included within issued share capital were 3,705,193 ordinary shares that were issued following the conversion of the Company's B shares to ordinary shares on 28 September 2007.

(ii) From 30 May 2007 to 27 November 2007, the Company repurchased and subsequently cancelled under its share repurchase programme 126,817,712 ordinary shares for aggregate consideration of £946m, including transaction costs. The shares repurchased had a nominal value of £15m and represented approximately 5% of the ordinary shares in issue as at 31 March 2008. The consideration was charged against retained earnings.

For further details on share capital, refer to note 25 in the consolidated financial statements.

9. Reserves

	Share premium account £m	Cash flow hedge reserve £m	Other equity reserves £m	Profit and loss account £m
At 1 April 2007	1,332	22	91	4,582
Net loss transferred from equity in respect of cash flow hedges (net of tax)	–	(8)	–	–
Issue of ordinary share capital	12	–	–	–
B shares converted to ordinary shares	27	–	–	–
Repurchase of share capital and purchase of treasury shares (i)	–	–	15	(1,520)
Issue of treasury shares	–	–	–	12
Share-based payment	–	–	18	–
Retained profit for the year	–	–	–	1,590
At 31 March 2008	1,371	14	124	4,664
Net loss transferred from equity in respect of cash flow hedges (net of tax)	–	(2)	–	–
Repurchase of share capital and purchase of treasury shares (i)	–	–	–	(602)
Issue of treasury shares	–	–	–	8
Share-based payment	–	–	22	–
Loss for the year	–	–	–	(467)
At 31 March 2009	**1,371**	**12**	**146**	**3,603**

(i) From 1 April 2008 to 24 September 2008, the Company repurchased under its share repurchase programme 85m (2008: 200m) ordinary shares for aggregate consideration of £597m (2008: £1,516m) including transaction costs. Further purchases of shares outside the official share repurchase programme were for an aggregate consideration of £5m (2008: £4m).

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The Company's profit after taxation was £371m (2008: £2,370m). Of the Company's profit and loss account reserve of £3,603m at 31 March 2009 (2008: £4,664m), £1,323m (2008: £1,623m) relating to gains on intra-group transactions was not distributable to shareholders.

10. Reconciliation of movements in shareholders' funds

	2009 £m	2008 £m
Profit for the year after taxation	**371**	2,370
Dividends (i)	**(838)**	(780)
(Loss)/profit for the financial year	**(467)**	1,590
Proceeds of issue of ordinary shares	**–**	13
Proceeds of issue of treasury shares	**8**	12
B shares converted to ordinary shares	**–**	27
Movement on cash flow hedge reserve (net of tax)	**(2)**	(8)
Share-based payment	**22**	18
Repurchase of share capital and purchase of treasury shares	**(602)**	(1,520)
Net (decrease)/increase in shareholders' funds	**(1,041)**	132
Opening shareholders' funds	**6,467**	6,335
Closing shareholders' funds	**5,426**	6,467

(i) For further details of dividends paid and payable to shareholders, refer to note 9 in the consolidated financial statements.

11. Commitments and contingencies

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due from certain subsidiary undertakings primarily to third parties. At 31 March 2009, the sterling equivalent amounted to £2,302m (2008: £888m). The guarantees are for varying terms from 2 years to open-ended.

The Company has also guaranteed the lease obligations of a former associate to a subsidiary undertaking, amounting to £4m (2008: £13m).

12. Directors and employees

There are no employees of the Company (2008: nil). The Directors of the Company were paid by subsidiary undertakings in 2009 and 2008. Details of Directors' emoluments are contained in the Directors' Remuneration Report.