Annual Report and Accounts 2008/09
National Grid Electricity Transmission plc

Company Number 2366977

nationalgrid

Contents

Note on use of terms and abbreviations

Within these accounts, National Grid Electricity Transmission plc is referred to by the abbreviation 'NGET', and National Grid plc, its ultimate parent company, by the abbreviation 'National Grid'. References to NGET, 'the Company', 'we', 'our', and 'us' refer to National Grid Electricity Transmission plc itself, or National Grid Electricity Transmission plc and its subsidiaries collectively, as the context requires. A full glossary of terms used is included on page 78.

Operating and Financial Review

Operating and Financial Review contents

This Operating and Financial Review describes the main trends and factors underlying the development, performance and position of National Grid Electricity Transmission plc (NGET) during the year ended 31 March 2009 as well as those likely to affect the Company in the future. It has been prepared in line with the guidance provided in the Reporting Statement on the Operating and Financial Review issued by the UK Accounting Standards Board.

Principal operations

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

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

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

Electricity Transmission

The Electricity Transmission business comprises the following principal activities:

Electricity transmission owner	NGET owns the electricity transmission system in England and Wales. Our electricity assets comprise approximately 7,200 kilometres of overhead line, approximately 690 kilometres of underground cable and 337 substations at 241 sites.
Electricity system operator	NGET is the Great Britain System Operator, responsible for managing the operations of both the England and Wales transmission system that we own and also the two high-voltage electricity transmission networks in Scotland. Day-to-day operation of the Great Britain electricity transmission system involves the continuous real-time matching of demand and generation output, ensuring the stability and security of the power system and the maintenance of satisfactory voltage and frequency. We are also designated as the System Operator for the new offshore electricity transmission regime.

As electricity transmission owner, we own and maintain the physical assets, develop the network to accommodate new connections and disconnections, and manage a programme of asset replacement and investment to ensure the long-term reliability of the network.

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

History

National Grid Electricity Transmission plc originated from the restructuring of the electricity industry in 1990.

Key milestones	
1990	Electricity transmission network in England and Wales transferred to National Grid Company on electricity privatisation
1995	National Grid listed on the London Stock Exchange
2002	Merger of National Grid Group and Lattice Group to form National Grid Transco
2005	National Grid adopted as our brand name, with National Grid Company renamed National Grid Electricity Transmission plc
2006	Disposal of interconnector business

Organisation and structure

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

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

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

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

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

Certain activities, including safety, employee engagement and climate change, are reported on a line of business level rather than at company level. As a result, KPIs and objectives may be measured and monitored for the Transmission business rather than for NGET. This is discussed further under 'Vision, strategy and objectives' on page 6 and 'Performance against objectives' on page 8.

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

More information on the business activities, organisation, structure, management and governance of National Grid can be found in the National Grid Annual Report and Accounts 2008/09 and on the website at www.nationalgrid.com. See note 31 on page 67 for further details of where these reports can be obtained.

External market and regulatory environment

Markets in which NGET operates

The principal market in which NGET operates is the electricity market in the UK.

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

Electricity delivery in the UK

Electricity is transported through electricity transmission networks to regional electricity distribution networks which then deliver electricity to consumers on behalf of suppliers. Certain end customers, primarily large industrial users, receive electricity direct from the transmission network.

NGET is the owner and operator of the high-voltage electricity transmission network in England and Wales and the operator, but not owner, of the two electricity transmission networks in Scotland. We charge energy suppliers and electricity generators for our services, which they then incorporate into the prices charged to end consumers.

The other principal electricity infrastructure owners and operators in the UK are EDF group, which owns three electricity distribution networks, Scottish & Southern Energy, Iberdrola, E.ON, Western Power Distribution and MidAmerican Energy, each of which own two electricity distribution networks, and Electricity North West, which owns one electricity distribution network. Scottish & Southern and Iberdrola also each own an electricity transmission network in Scotland, which we operate in both cases.

Regulation

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

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

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

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

Ofgem sets price controls in respect of the amounts that can be recovered by the owners and operators of electricity network infrastructure in the UK.

There are two price controls for our electricity transmission business. These price controls provide a financial incentive to invest, as we receive a return on efficiently incurred capital expenditure that increases our regulatory asset base, and also provide incentives by which we can gain or lose for our performance in managing system operation, controlling internal costs and for service quality.

These controls are reviewed every five years and the current price control for electricity transmission activities covers the period 1 April 2007 to 31 March 2012.

We accepted Ofgem's final proposals for the system operator scheme that applied to the year ended 31 March 2009. We have also accepted their proposal for the one year schemes from 1 April 2009.

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

The charges that we can make for access to our electricity transmission system are determined by a formula linked to the UK Retail Prices Index (RPI). This formula is based upon Ofgem's estimates of our operating expenditure and capital expenditure, together with an allowed rate of return.

In addition we are subject to a number of incentives that can adjust our transmission network revenue. These include the transmission network reliability scheme and the sulphur hexafluoride (SF_6) incentive scheme.

Our system operation activities are subject to financial incentive schemes to promote efficiency. If we operate our networks more efficiently than Ofgem's forecasts, we can increase our revenues, with penalties for reductions in performance.

We also have a balancing services incentive scheme that covers the external costs incurred in balancing the system. For 2009/10, we have accepted an incentive scheme with a cost target between £600 million and £630 million, such that we retain 25% (up to a cap of £15 million) of any savings below £600 million, and we lose 15% (down to a collar of £15 million) of any costs in excess of £630 million.

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

Current and future developments

External market developments

Market structure and ownership

There have been no significant changes in the structure of the UK electricity infrastructure market or in ownership during 2008/09.

Energy market developments

Despite significant declines in wholesale energy prices since mid 2008, high consumer energy prices have been experienced in the UK during the current year. This has led to significant increases in bills to consumers for their energy supplies. The combination of higher energy prices and the current economic climate has led to a reduction in demand.

The UK market continues to undergo developments driven by new sources of electricity generation, including renewables, and increased focus on security of supply. The energy sector faces significant challenges relating to meeting Government targets on renewable generation, and significant levels of retirement of the current power generation fleet.

National Grid has led a major assessment of the UK electricity transmission system and the need to ensure that renewable targets can be met. The assessment considered the potential locations and volume of renewable generation and the network requirements to connect it.

March 2009 saw the completion of the competitive tender process for round three of the offshore wind leasing programme by the Crown Estate for the nine offshore development zones. These zones have the potential to deliver up to 25GW of offshore wind renewable generation.

This year has seen a significant increase in nuclear connection requests and in April 2009 the UK Government released its list of eleven potential sites for the development of new nuclear power plants.

These changes are expected to impact all of our electricity transmission networks, requiring significant investment to link new generation plants with domestic, business and industrial consumers.

Regulatory developments

During the year ended 31 March 2009, there were a number of legislative changes in the UK including the introduction of new consumer arrangements, which incorporate an energy ombudsman scheme to deal with consumer complaints and a new Energy Act facilitating a roll out of smart meters in the UK by 2020.

In March 2008 Ofgem announced a review of the current RPI-X based regulatory framework. This is a two year assessment of the current regulatory regime and its ability to address the challenges facing energy networks in the future. The outcome of this review is unlikely to impact our current regulatory settlements, but could influence future price controls from 2012.

In December 2008 the European Union approved a number of environmental proposals. Legally binding national targets have been established that dictate the proportion of energy production to be provided from renewable sources by 2020. For the UK the target is 15%. In order to achieve this it is believed the proportion of electricity generated by renewable sources will need to rise to around 35%. At present it is unclear specifically how these targets will impact NGET; however, they will significantly influence the UK regulatory framework and UK price control reviews in the future.

The European Commission's third package of legislative proposals for European gas and electricity markets has been submitted for final adoption by the EU Council of Ministers, following approval by the European Parliament in April 2009. The new legislation consists of two directives on rules for the internal gas and electricity markets, two regulations on conditions for access to those markets, and one regulation establishing an Agency for the Cooperation of Energy Regulators. The original legislation, published in September 2007, contained measures to force energy companies to unbundle their transmission businesses from supply and generation activities. The revised draft proposals include alternatives to full unbundling. Adoption is expected in summer 2009.

Other developments

Connection of renewable generation

We are working with the UK electricity generators and Ofgem to ensure that the connection of renewable generation to the transmission network can be facilitated quickly and within our current licencing framework.

The price controls contain allowances for transmission reinforcement works to accommodate the growing impact of renewable energy from Scotland. Works to upgrade the two double circuits connecting Scotland and England are under way and due for completion in 2010 at a total cost of around £110 million. Further works are being carried out to increase the capacity of the transmission system in the north east and north west of England so that increased transfers from Scotland can be transported to demand centres in England and Wales. The further works will be completed in 2011 at a total cost of around £230 million.

At this time, network access is being sought by approximately 9 GW of renewable generation projects in Scotland consisting of just over 100 projects, each with connection agreements with National Grid. For England and Wales, connection offers have been made to an additional 8 GW of renewable generation projects.

We have continued to work closely with the Scottish transmission companies to find innovative solutions to advancing new generation projects in Scotland. We have introduced measures to allow generators who are ready and able to connect to do so before wider reinforcement works. Importantly, on 19 March 2009 Ofgem confirmed that they will agree derogations from GB Security and Quality Standards of Supply to advance 450 MW of Scottish renewable generation.

We continue to develop a strategic plan for our networks up to 2050, recognising the unique role they play in meeting the UK's climate change objectives. In respect of electricity transmission, our plan is aligned with meeting the UK's 2020 renewables target and remaining on the trajectory towards the 2050 greenhouse gas reduction target. Comprising £4.7 billion of mainly onshore strategic infrastructure investment, this plan has been shared with and is supported by the multi-agency Electricity Networks Strategy Group. It facilitates the connection of 34 GW of new renewable wind generation. These new connections will occur alongside an unprecedented replacement of the ageing generation fleet.

A network incorporating variable and potentially large and inflexible generators will be challenging to operate. We are a leading part of a cross-industry working group considering these issues and we are consulting the industry on the future requirements for balancing services.

Alliances

Alliance contracts with various contractors have been entered into by the electricity Transmission business in the UK. These contracts establish a framework for contractors to carry out capital investment projects. Under the terms of the agreements our supply chain partners share in the risks and rewards, and are jointly responsible with us for work delivery.

External relationships

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

Investor relations

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

Customers, regulators and governments

For customers, it is important that we treat them with respect, that we communicate clearly and that we make interaction with them as straightforward as possible. Our focus on customer service and operational excellence is also a critical component of our relationship with our regulators and governments, underpinning the building of trust with both. This involves being responsive to the needs of our regulators for high quality information, complying with rules and regulations, operating in an ethical way and, most importantly, delivering on our promises. We continue to work very closely with Ofgem on the renewal of our electricity transmission networks, and in expanding those networks to meet new and changing demand.

Suppliers

Our objective is to use the scale and breadth of our activities to get the best value for money from our suppliers. We continue to work in partnership with our suppliers, developing constructive relationships and working together effectively. Our focus in these areas has increased, in response to the greater uncertainties from credit market volatility and the global economic downturn. Collectively, all of the areas we have developed or are working towards make NGET an attractive company to do business with. They also enhance our ability to drive value from our supply chain and provide an excellent opportunity for suppliers who are aligned to our approach and ambition.

Community involvement

We continue to participate in National Grid's community involvement programmes, details of which can be found in the National Grid plc Annual Report and Accounts 2008/09.

Business drivers

Business drivers

The Company's principal activities include the operation of complex electricity transmission networks. There are many factors that influence the financial returns we obtain. The business is highly developed with numerous drivers; we consider the following to be our principal business drivers:

Price controls
The prices we charge for use of our electricity transmission networks are determined in accordance with regulator approved price controls. The negotiation of these arrangements has a significant impact on our revenues.
Their duration is significant in providing stability, allowing us to plan ahead and invest with confidence that we will obtain financial returns. Our price controls contain incentive and/or penalty arrangements that can affect us financially based on performance targets.

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

Customer service
The quality of the service we deliver to customers, and the experiences that they have in dealing with us is important as it feeds through to the attitudes of regulators and is also linked to our financial performance.

Capital investment
Capital investment is a significant driver for organic growth. In our regulated electricity transmission networks, the prices we charge include an allowed return for capital investment determined in accordance with our price controls. These provide incentives for us to enhance the quality and reach of our networks through capital improvements.

Inflation and deflation
During periods of inflation, without action to improve efficiency, our operating costs increase each year as a result of wage increases and inflation in external costs. In general, our revenues also increase each year, although not necessarily at the same rate, depending on our regulatory or contractual arrangements. Correspondingly, during periods of deflation our revenues can decrease, the timing and extent of which may not be offset by equivalent reductions in our operating costs. Consequently, our ability to control costs and improve efficiency is important in order to maintain and increase operating profits.
Our price controls and a proportion of our borrowings are linked to retail price inflation.

Relationships and responsibility
Our reputation is vitally important to us. Delivering sustainable value depends on the trust and confidence of our stakeholders and this can only be earned by conducting our business in a responsible manner.

A number of other factors also affect our financial performance, but are either less significant than our principal business drivers, or are mitigated by the way our operations are structured:

Pass-through costs
We are allowed to recover certain costs through charges to customers. The timing of recovery of these costs can vary between financial periods leading to an under or over-recovery within any particular financial period.

Interest rates
The costs of financing our operations are affected by changes in prevailing interest rates, as some of our debt is at floating rates. We hedge some of our exposure to interest rates with fixed-rate debt and derivative financial instruments to maintain a proportion of our debt at fixed interest rates.

Vision, strategy and objectives

As described under 'Organisation and structure' on page 2, National Grid's businesses are managed on a global lines of business basis. As a subsidiary company of National Grid plc, therefore, NGET participates in the National Grid vision and strategy. The following section describes National Grid's vision and strategy to the extent that it relates to NGET. Further details and discussion of the strategy and objectives of National Grid can be found in the Annual Report 2008/09.

Vision

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

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

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

Strategy and National Grid objectives

Our strategy and objectives are a medium term step in the journey towards the vision – what we are doing over the next few years. We will build on our core regulated business base and financial discipline to deliver sustainable growth and superior financial performance.

Driving improvements in our safety, customer and operational performance

Delivering strong, sustainable regulatory and long-term contracts with good returns

Modernising and extending our networks

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

Building trust, transparency and an inclusive and engaged workforce

Developing our talent, leadership skills and capabilities

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

Responsibility

Our strategy and objectives are underpinned by our commitment to corporate responsibility. We will operate to the highest standards of corporate governance and conduct our business in a lawful and ethical manner.

Line of sight

The vision, strategy and objectives flow down into every employee's annual performance objectives – what we are doing now and how we ensure we achieve our strategy and vision.

Our strategy and objectives provide the basis for the annual priorities for each line of business and global function.

These annual priorities form the basis of the objectives for the Executive Directors and flow down the organisation into the individual objectives for every manager and employee. Therefore the actions required to deliver the strategy are allocated and aligned with employee responsibilities.

The aim is that every employee is able to trace their objectives through to the strategy and vision.

Performance indicators

We use a variety of performance measures to monitor progress against our objectives. Some of these indicators are considered to be key performance indicators and are set out below. Details of performance indicators are provided in the Performance summary section on page 7.

Objective	KPI
Delivering superior financial performance	Adjusted operating profit
Driving improvements in safety, customer and operational performance	Employee lost time injury frequency rate
Delivering strong sustainable regulatory and long-term contracts with good returns	Operational return
Modernising and extending our networks	Network reliability measures
Building trust, transparency and an inclusive and engaged workforce	Employee engagement index

Performance summary and key performance indicators

Objective	KPI/performance measure	Description and performance	Target
Delivering superior financial performance	**Adjusted operating profit**	**Operating profit excluding exceptional items and remeasurements** **2008/09: £729 million** **2007/08: £677 million**	**Year-on-year increase**
	Cash generated by continuing operations	Cash generated by continuing operations 2008/09: £1,125 million 2007/08: £794 million	
	Regulatory gearing	Net debt divided by RAV 2009: 58% 2008: 52%	
Driving improvements in safety, customer and operational performance	**Employee lost time injury frequency rate**	**Injuries resulting in employees taking time off work per 100,000 hours worked** **2008/09: 0.10** **2007/08: 0.25**	**Zero**
	Injuries to the public	2008/09: 2 2007/08: 4	Zero
	Employee sickness absence rate	2008/09: 1.45% 2007/08: 1.38%	Zero work-related absences
Delivering strong sustainable regulatory contracts with good returns	**Operational return**	**Electricity Transmission operational return** **2008/09: 4.7%** **2007/08: 5.2%**	**Achieve or exceed regulatory allowed return over 5 year price control period of 5.05%**
Modernising and extending our transmission networks	**Network reliability**	**Electricity Transmission network reliability** **2008/09: 99.9999%** **2007/08: 99.9999%**	**99.9999%**
	Total capital investment	2008/09: £864 million 2007/08: £800 million	
Building transparency, trust and an inclusive and engaged workforce	**Employee engagement score**	**Engagement score calculated from responses to employee survey** **Transmission business** **2008/09: 82%** **2007/08: 71%**	**Year-on-year increase**
Positively shaping the energy and climate change agenda	Significant direct environmental incidents	2008/09: 9 2007/08: 3	Zero
	Greenhouse gas emissions	Year-on-year reduction % Reported one year in arrears 2007/08: 28% increase 2006/07: 12% reduction	Year-on-year reduction

Performance against objectives

NGET's performance and the progress made against objectives are described below and on the following pages. This includes commentary on the financial results on pages 15 to 18.

We measure the achievement of objectives through the use of qualitative assessments and through the monitoring of quantitative indicators, called key performance indicators (KPIs). In line with our operating objectives, we use both financial and non-financial KPIs. Where relevant, KPIs are used as the primary measures of whether we are achieving our objectives. The scale and size of our operations mean we use many other detailed performance measures in addition to KPIs. We use qualitative assessments to judge progress against our objectives in areas where numerical measures are less relevant.

During 2008/09, an assessment of NGET's performance measures has been undertaken, which has resulted in a rationalisation of performance indicators, more directly aligning them with objectives.

We have introduced a new KPI this year for employee engagement. This is measured using an employee engagement score derived from the National Grid annual employee survey administered by Sirota, an independent consultancy firm.

Delivering superior financial performance

We aim to increase adjusted operating profit each year.
The key performance measure we use is adjusted operating profit.

Adjusted operating profit for 2008/09 was £729 million compared to £677 million in 2007/08, an increase of £52 million. Adjusted operating profit excludes exceptional items and remeasurements.

A more detailed analysis of financial performance is provided on page 15.

Driving improvements in safety, customer and operational performance

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

Safety

Safety is paramount. Our most important goals are: to ensure that members of the public are not injured as a direct result of our operations; to deliver a working environment where there are zero work-related injuries and illness; and to improve the health of our employees so they are fit for work every day.
We use a range of indicators to measure our performance against our safety objectives, including: members of the public injured as a direct result of our operations; employee lost time injury frequency rate; and employee sickness absence rate. The key performance indicator is employee lost time injury frequency rate.

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

During 2008/09, 4 employees sustained injuries that resulted in them taking time off work, compared with 10 in 2007/08 and a target of zero. The LTIFR in 2008/09 was 0.10 compared to 0.25 in 2007/08.

The principal causes of lost time injuries to employees are road traffic collisions, impact injuries, musculoskeletal injuries and slips trips and falls. Behavioural change initiatives have been targeted in these areas to try to improve performance.

Employee health
Improving the health and well-being of our employees continues to be a major focus for National Grid, which for several years has had a comprehensive Occupational Health Service to deal with work related health issues. National Grid is now extending its approach to look at the health and well-being of its employees in a more holistic way. As well as the obvious benefits to individuals, there are significant business and societal benefits to having a fit and healthy workforce. In January a new Health and Wellbeing Strategy was launched to provide a series of innovative initiatives that engage staff and encourage the restoration and maintenance of an individual's health, function and fitness. An early focus has been cardiovascular risk with screening being offered to all employees over 45.

The sickness absence rate in 2008/09 was 1.45% compared to 1.38% in 2007/08.

Public safety
During 2008/09, 2 members of the public were injured as a result of our operations compared with 4 during 2007/08 and a target of zero.

Contractor safety
We are committed to the safety of our workforce, not only direct employees. There were 36 contractor lost time injuries in 2008/09 compared to 18 in 2007/08 and a target of zero.

Customer service

Our aim is to support generators in delivering electricity efficiently and effectively. Our transmission customer service activities principally relate to facilitating new connections and maintaining existing connections and relationships with the customers who are already connected.

We will achieve our objective by enhancing or replacing the systems we use, providing our employees with the training, empowerment and support they need to deliver, and by improving the quality of our internal and customer communications.

Delivering strong, sustainable regulatory contracts with good regulatory returns

We will work with Ofgem and the UK government to develop the changes that are required to address climate change and security of supply in a way that is affordable for consumers and ensures timely delivery. Significant levels of investment over the next few years means that it is vital that we optimise our regulatory returns and ensure we are appropriately compensated for our investments.

Operational return

Our aim is to deliver good financial returns compared to the regulatory allowances within our price controls.
We measure performance through an operational return metric comparable to the vanilla return defined in the price controls.

Electricity operational return for 2008/09 was 4.7% compared to 5.2% for 2007/08, broadly in line with the regulatory allowance of 5.05% over the 5 year price control period.

Modernising and extending our networks

Significant capital investment is needed over the next few years to ensure we meet the challenges around security of supply, renewable generation targets and maintaining and improving the reliability of our networks.

Reliability

Our principal operations are critical to the functioning of the UK economy. The reliability of our networks is one of our highest priorities after safety. Our aim is to meet or exceed network reliability and availability objectives.
We use network reliability percentages as our key performance indicator.

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

Network reliability and availability information for Electricity Transmission is summarised below.

Years ended 31 March	2009	2008
Electricity Transmission network reliability (target 99.9999%)	99.9999%	99.9999%
Electricity Transmission network average annual availability	94.64%	95.09%
Electricity Transmission system availability at winter peak demand	97.7%	98.0%

The total amount of electricity transmitted in 2008/09 was 296.1 TWh compared to 303.0 TWh in 2007/08. Peak demand in the winter of 2008/09 was 52.9 GW compared to 54.2 TWh in the winter of 2007/08.

Capital investment

Capital investment is one of the principal drivers of future growth, as the majority of capital investment we make enables us to earn an increased financial return.

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

Our capital investment plans reflect changing energy infrastructure requirements. The capital investment programme takes place within defined regulatory frameworks that permit us to earn a return on allowed investments. Investment in electricity transmission systems is, by its nature, variable and is largely driven by changing sources of supply and asset replacement requirements. The electricity transmission licence also obliges us to provide connections and capacity on request.

Capital investment continues to include high levels of expenditure on the replacement of electricity transmission network assets, many of which were commissioned in the 1960s, and also increasing expenditure on load related infrastructure. This, together with work required to meet changing supply sources, means that the electricity transmission business will continue to see a significant increase in investment and network renewal.

Total investment in electricity network assets amounted to £864 million in 2008/09, compared with £800 million in 2007/08. Capital investment included £9 million with respect to intangible assets, principally software applications (2007/08: £15 million).

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

Our operating model is focused on the delivery of services to customers, developing the sharing of best practice and positioning ourselves to deliver improvements in operating and financial performance.

Our focus during the current year and in the short term is on maximising efficiencies in the operating model within each line of business. Through targeted reductions in the number of processes and through standardisation and simplification we aim to maximise efficiencies and reduce cost.

National Grid continues to develop its procurement operating model which is now structured on a strategic spend category basis. This structure drives greater focus in delivering value from the supply chain. The management team has been strengthened as we seek to improve the performance of this part of the business.

During the year we have implemented new technology tools that better enable our capacity to plan, monitor, report spend and undertake e-commerce events. We have also introduced a system that provides robust financial monitoring services, focusing on our critical suppliers.

Efficiency

By improving efficiency we can constrain the cost of our operations borne by customers and improve returns. We review our operations continually to identify opportunities to improve the operational productivity of our assets and employees and to identify areas in which we can reduce costs or restrict cost increases.

Much of the focus for Electricity Transmission has been on preparing for the significant increase in capital investment that will occur in future years, including developing the strategic investment plan.

Building trust, transparency and an inclusive and engaged workforce

In order to maximise the potential of our workforce and achieve our objectives it is important to develop their belief and engagement in National Grid's vision.

Engagement and performance

To succeed we need to engage our employees to strive for continuous improvement. For that purpose our aim is to implement a world-class performance management process.
The key performance indicator is the employee engagement index based on the independent annual employee survey

Our approach involves adopting National Grid integrated common performance processes and a single set of performance criteria with pay linked to leadership qualities (how we deliver) as well as operational and financial performance (what we deliver), providing for clearer differentiation between levels of performance.

Employee engagement

In February 2009, National Grid conducted its second annual employee engagement survey. A total of 24,727 employees, representing 91.8% of the total workforce, took part, a 5.5% increase in the response rate compared to 2008. During 2008, intensive action planning was undertaken at National Grid, line of business and individual level to address the key themes of improving communications, providing greater clarity on vision and direction and providing stronger links between performance and reward.

The 2009 survey reported a 10% increase in employee engagement within National Grid as a whole. Improvements were reported across all survey dimensions, with significant improvements in the areas of vision, direction and communications which were key action items from the 2008 survey.

Within NGET we monitor the engagement score for the principal line of business, Transmission. In 2008/09, Transmission employee engagement in the UK was 82% compared to 71% in 2007/08.

Performance management

National Grid continues the task of building a high performance culture and, further to our work with senior managers, we have now completed training for the majority of middle and first line managers on 'Performance for Growth', National Grid's global performance management system. The process continues to focus on raising the performance bar and supporting high quality conversations. We have established 'support and challenge' groups which continue to review best practice, share knowledge and enable managers to have a peer support network.

Our performance programmes are driving stronger personal accountability and the leadership within National Grid is now actively involved in creating a culture where everyone across the business understands that business results are of primary importance and that they can directly influence this.

Inclusion and diversity

In order to develop, recruit and retain talented people, we aim to achieve a more inclusive and diverse workforce, reflecting the composition of the communities in which we operate, and to be seen as an employer of choice across diverse communities.

Performance measures we use to monitor our objective of promoting inclusion and diversity include the percentage of female employees and the percentage of ethnic minority employees.

Following a thorough review of policies throughout National Grid, we have reaffirmed our commitment to inclusion and diversity by highlighting its importance to employee engagement and productivity, the recruitment and retention of talent, and our external reputation within our inclusion business case.

During the year National Grid launched its global Inclusion Charter. The charter explains what employees can expect from the Company, as well as what National Grid expects from employees and builds on work in progress throughout the business.

In addition, an inclusion and diversity transition group has been established to develop the necessary communications, governance and human resource processes to support our efforts. Training has continued to offer greater awareness of inclusive behaviours and we have recently launched a new inclusive leadership learning programme.

At 31 March 2009, 13.5% of our employees were female and 9.5% were from ethnic minority groups, compared to 15.3% and 9.0% at 31 March 2008.

Across all of National Grid's operations in the UK, as at 31 March 2009 22.1% of employees were female and 7.5% from ethnic minority groups, compared to 22.5% and 6.5% at 31 March 2008. Of all new hires in National Grid's UK operations in 2008/09, 36.7% were female and 13.1% were from ethnic minority groups.

We aim to maximise the contribution of our employees by motivating them to strive for continued improvement, developing their skills and talents and promoting a culture that recognises and respects inclusion and diversity.

Developing talent, leadership skills and capabilities

Identifying, recruiting and developing talented people is critical to our future success.

We aim to support all our employees so that they can operate to the best of their abilities by creating an environment that allows them to realise their full potential.

National Grid has strengthened its talent management processes in 2008/09, creating talent management plans for senior management and for business critical roles. We are now conducting regular cross-business talent planning sessions using consistent processes to support senior management in developing employees within each business area and to address succession issues.

National Grid's focus on developing the talent of current and future business leaders has moved forward with the launch of the developing future leaders programme for senior managers. National Grid has also launched a foundations of leadership programme for first line leaders and supervisors and a future leaders programme with a focus on enhancing business acumen and the demonstration of leadership qualities.

We continue to invest in the recruitment and development of skilled employees for the future, jointly with National Grid's other UK businesses, recruiting 184 advanced apprentices, 58 foundation engineers and 30 graduates across the UK. These programmes are designed to facilitate the entrance, training and progression of talented people into National Grid, with special emphasis on key engineering roles.

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

National Grid's aim is to embrace, address and lead on the current and future issues affecting the energy market. It is committed to safeguarding the global environment for future generations, taking positive action to reduce its contribution to climate change and other impacts on the environment. National Grid strives to be an environmental leader and will work with regulators to develop the regulatory framework required to address the changes in future energy supplies.

This year has seen significant changes to UK government policy with the introduction of the Climate Change and Energy Acts, which will implement a wide range of measures including setting carbon budgets on a national scale and enshrining climate change targets in law.

Positively shaping the agenda

National Grid aims to take the lead on the energy and climate change issues facing society, not simply reacting to the initiatives of other relevant bodies but instead, being proactive in leading the agenda to help safeguard the environment.

National Grid's performance measure in this area is the qualitative monitoring of its contribution to various projects, committees, task forces and other initiatives aimed at addressing these issues.

Climate change

National Grid continues with its climate change initiatives and energy efficiency programmes, focusing on initiatives that are cost effective and regulated.

The National Grid key performance indicator to monitor performance in this area is the percentage reduction in greenhouse gas emissions against baseline.

As reported last year, National Grid has adopted a long-term target of reducing Scope 1 and 2 greenhouse gas emissions by 80% against baseline by 2050. An intermediate objective has now been set of a 45% reduction in emissions by 2020. These targets remain at the centre of our efforts to identify and implement measures to meet our commitment to safeguard our global environment for future generations. In 2009/10, the inclusion of Scope 3 emissions into these targets will be evaluated.

This year, efforts have been focused on educating the workforce on the targets and the means by which they will be achieved. An inventory of greenhouse gas emissions has been conducted across National Grid to ensure that there is up-to-date information on the magnitude of the reductions necessary, and the areas of operations where reductions can take place. Internal working teams have been established, tasked with developing opportunities to achieve the 80% target.

This climate change initiative is being embedded in all areas and operations of National Grid through the establishment of teams working in such areas as introducing low emission vehicles, developing low carbon design features for asset replacement programmes and incorporating a 'cost of carbon' methodology in investment decision making processes.

During 2009/10, carbon budgets will be implemented within National Grid. For each financial year, each business within National Grid will be set a maximum level of greenhouse gas emissions which can be emitted. Subsequent years will see a reduction in these budgets that is needed to achieve the 2020 and 2050 targets.

Performance on greenhouse gas emissions against target are reported for National Grid as a whole in the National Grid plc Annual Report and Accounts 2008/09. For NGET, we currently report year on year reductions. The 2008/09 data is not currently available. It is expected to become available in July 2009 at which point the data for National Grid as a whole will be presented on the National Grid website. Data for NGET will be presented in next years' Annual Report and Accounts, and in future periods, the year-on-year performance will continue to lag by one year.

Protecting the environment

National Grid is committed to helping to protect the environment for future generations and to continuously improving environmental performance.

All of our employees work to environmental management systems certified to the international standard ISO 14001.

The performance indicators that we monitor in this area include the number of significant direct environmental incidents.

The number of significant environmental incidents in 2008/09 arising directly from our operations was 9, which includes 3 contractor-related incidents. In 2007/08, there were 3 incidents. None of these were contractor-related incidents. There were no prosecutions by enforcing bodies resulting from these incidents.

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

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

Responsibility

We believe operating responsibly is essential to the way we conduct our operations, invest in our business, develop our people and manage our relationships. It underpins everything we do and is a prerequisite to our contribution to delivering National Grid's vision.

We always strive to operate to the highest standards of corporate governance and we believe in strong business ethics, based around National Grid's Framework for Responsible Business and our core values of respecting others and valuing diversity, demonstrating integrity and openness in all relationships, taking ownership for driving performance and operating as one team.

The Framework defines the principles by which we manage our business and our day-to-day dealings with our customers, employees, shareholders, suppliers and local communities. It is underpinned by Company wide policies and position statements that are available on the National Grid website.

More information on National Grid's approach to corporate responsibility and business ethics is included in the Corporate Governance section of the National Grid plc Annual Report and Accounts 2008/09.

Risks and opportunities

Risks and opportunities

We believe that the principal opportunities we have to contribute to the achievement of National Grid's vision and to the delivery of growth in value for its shareholders have been identified in National Grid's strategy and our objectives.

Conversely, we risk a shortfall in this contribution if we do not fulfil National Grid's strategy or if we fail to achieve our objectives.

Financial performance
Financial performance and operating cash flows are the basis for funding our future capital investment programmes, for servicing our borrowings and paying dividends.

Responsibility
Strong corporate governance is essential to operating responsibly and the achievement of all our objectives. Our reputation as a responsible business depends on all our behaviours being lawful and ethical, on complying with our policies and licences and on living up to our core values. If we do not live up to these high standards we could be exposed to adverse financial or other consequences.

Driving improvements in safety, customer and operational performance
The operating profits and cash flows we generate are dependent on our operating performance – operating safely, reliably, and providing a quality service to customers.

Delivering strong, sustainable regulatory contracts with good returns
Our relationships with our stakeholders are critical to our future success. Maintaining these good relationships is dependent on focusing on the areas that are important to them, such as the quality of service we provide to customers, the quality of information we provide to regulators and the way we address the concerns of, and interact with, all our stakeholders.

Modernising and extending our transmission network
Our future organic growth is dependent on the delivery of our capital investment plans. In order to deliver sustainable growth with a superior financial performance we will need to finance our investment plans. Instability in the financial markets may restrict our ability to raise finance.

Becoming more efficient through transforming our operating model and increasingly aligning our processes
Transforming the way we operate through the simplification and standardisation of our systems and process will drive efficiency and reduce costs. Conversely, if we do not achieve this transformation, or associated benefits in efficiency, reductions of costs will not be achieved.

Building trust, transparency and an inclusive and engaged workforce
Our workforce is a vital part of our business and is critical to our future success. Failure to maintain a trusting, engaged, and motivated workforce, who can see how their actions directly contribute to achieving our strategy and objectives, will restrict our ability to meet those objectives.

Developing talent, leadership skills and capabilities
The skills and talents of our employees, and their motivation and dedication, are critical to the achievement of our objectives. Failure to develop our existing employees or to attract and recruit talented new employees could hamper our ability to deliver in the future.

Positively shaping the energy and climate change agenda
Safeguarding our global environment for future generations is dependent on integrating sustainability and climate change considerations into our business decisions, influencing legislators and regulators to reshape energy markets to meet the climate change challenge, and helping and supporting our employees, customers and suppliers in changing their behaviour to be more environmentally aware.

We set out how we intend to achieve our objectives and the progress we have made during the year against our objectives on pages 7 to 12.

Risk management

The approach of NGET to risk management is described in the principal risks and uncertainties section of this Operating and Financial Review below. In addition, information on how we have addressed certain of our financial risks is included in the financial position and financial management section of this Operating and Financial Review on pages 18 to 22.

Risk factors

The following significant risks and uncertainties in achieving our objectives have been identified:

- changes in law or regulation
- breaches of environmental or health and safety law or regulations
- network failure or inability to carry out critical non-network operations
- achievement of business performance objectives, including regulatory targets and delivering anticipated cost and efficiency savings
- reputation damage from disruptions to supply, even if outside our control
- fluctuations in interest rates and their impact on borrowings and derivatives
- restrictions in borrowings, changes in credit ratings, volatility and disruption of global financial markets and reduced liquidity and access to funding opportunities
- periods of deflation
- future funding requirements of our pension schemes
- changes in accounting standards or in tax rates
- consumers, suppliers or other counterparties failing to perform their obligations

Not all of these factors are within our control and, in addition, there may be other factors besides those listed that may have an adverse effect on NGET.

Principal risks and uncertainties

Risk management

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

More information on National Grid's risk management process can be found in the National Grid plc Annual Report and Accounts 2008/09.

Risk factors

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

Changes in law or regulation could have an adverse effect on our results of operations.

Our businesses are subject to regulation by governments and other authorities. Consequently, changes in law or regulation could adversely affect us. Regulatory decisions concerning, for example, whether licences or approvals to operate are granted or are renewed, whether there has been any breach of the terms of a licence or approval, recovery of incurred expenditure and other decisions relating to the implications of energy change, the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities could have an adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future. For further information, see the Operating and Financial Review and, in particular, the 'External market and regulatory environment' and 'Current and future development' sections and the business description sections for each of our lines of business.

Breaches of, or changes in, environmental or health and safety laws or regulations could expose us to increased costs, claims for financial compensation and adverse regulatory consequences, as well as damaging our reputation.

Aspects of our activities are potentially dangerous, including the operation and maintenance electricity transmission networks. Electricity utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so; for example, the effects of electric and magnetic fields. We are subject to laws and regulations relating to pollution, the protection of the environment, and how we use and dispose of hazardous substances and waste materials. These expose us to costs and liabilities relating to our operations and our properties whether current, including those inherited from predecessor bodies, or formerly owned by us.

We are also subject to laws and regulations governing health and safety matters protecting the public and our employees. We are increasingly subject to regulation in relation to climate change. We commit significant expenditure toward complying with these laws and regulations and to meeting our obligations under negotiated settlements. If additional requirements are imposed or our ability to recover these costs changes, this could have a material impact on our businesses and our results of operations and financial position. Any breach of these obligations, or even incidents that do not amount to a breach, could adversely affect our results of operations and our reputation. For further information about environmental and health and safety matters relating to our businesses, see the 'Our Responsibility' section of the National Grid website at www.nationalgrid.com.

Network failure, the inability to carry out critical non-network operations and damage to infrastructure may have significant adverse impacts on both our financial position and reputation.
We may suffer a major network failure or may not be able to carry out critical non-network operations. Operational performance could be adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand or inadequate record keeping. This could cause us to fail to meet agreed standards of service or be in breach of a licence or approval, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation. In addition to these risks, we may be affected by other potential events that are largely outside our control such as the impact of weather or unlawful acts of third parties. Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure will adversely affect operational and potentially business performance and our reputation. Terrorist attack, sabotage or other intentional acts may also damage our assets or otherwise significantly affect corporate activities and as a consequence have an adverse impact on the results of operations.

Our results of operations depend on a number of factors relating to business performance including performance against regulatory targets and the delivery of anticipated cost and efficiency savings.
Earnings maintenance and growth from regulated businesses will be affected by our ability to meet or exceed efficiency and integration targets and service quality standards set by, or agreed with, our regulators. In addition, from time to time, we publish cost and efficiency savings targets for our businesses. To meet these targets and standards, we must continue to improve operational performance, service reliability and customer service. If we do not meet these targets and standards, we may not achieve the expected benefits, our business may be adversely affected and our performance, results of operations and our reputation may be harmed.

Changes to the regulatory treatment of commodity costs may have an adverse effect on the results of operations.
Changes in commodity prices could potentially impact our energy delivery businesses. Current regulatory arrangements provide the ability to pass through virtually all of the increased costs related to commodity prices to consumers. However, if regulators were to restrict this ability, it could have an adverse effect on our operating results.

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

Our financial position may be adversely affected by a number of factors including restrictions in borrowing and debt arrangements, changes to credit ratings and adverse changes and volatility in the global credit markets.
We are subject to certain covenants and restrictions in relation to our listed debt securities and our bank lending facilities. We are also subject to restrictions on financing that have been imposed by regulators. These restrictions may hinder us in servicing the financial requirements of our businesses. Some of our debt is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and the cost of those borrowings.

Our business is partly financed through debt and the maturity and repayment profile of debt used to finance investments often does not correlate to cash flows from our assets. Accordingly, we rely on access to short-term commercial paper and money markets and longer-term bank and capital markets as sources of finance. The global financial markets are currently experiencing extreme volatility and disruption. A shortage of liquidity, lack of funding, pressure on capital and extreme price volatility across a wide range of asset classes are putting financial institution under considerable pressure and, in certain cases, placing downward pressure on stock prices and credit availability for companies. If we are not able to access capital at competitive rates, our ability to finance our operations and implement our strategy will be adversely affected.

Our results of operations could be affected by deflation
Our income under our price controls is linked to the retail price index. Therefore if the UK economy suffers from a prolonged period of deflation, our revenues may decrease, which may not be offset by reductions in operating costs.

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

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

Customers and counterparties to our transactions may fail to perform their obligations, or arrangements we have may be terminated, which could harm our results of operations.
Our operations are exposed to the risk that customers and counterparties to our transactions that owe us money or commodities will not perform their obligations, which could cause us to incur additional costs.

Financial performance

Performance against KPIs is described on pages 7 to 12. In the following section we provide a more detailed analysis of the financial results.

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

Measurement of financial performance and use of adjusted profit measures
In considering the financial performance of our businesses and segments, we analyse each of our primary financial measures of operating profit, profit before tax and profit for the year into two components, comprising firstly business performance, which excludes exceptional items and remeasurements and secondly exceptional items and remeasurements. Exceptional items and remeasurements are excluded from the measures of business performance used by management to monitor financial performance as they are considered to distort the comparability of our reported financial performance from year to year.

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

Exceptional items 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 virtue of their nature or size, and are relevant to an understanding of our financial performance. Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, material changes in environmental provisions and gains or losses on disposals of businesses or investments. Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of derivative financial instruments. These fair values increase or decrease as a consequence of changes in financial indices and prices over which we have no control.

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

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

Profit for the year from continuing operations

Adjusted earnings

	Years ended 31 March	
	2009	2008
	£m	£m
Adjusted operating profit	**729**	677
Net finance costs excluding exceptional items and remeasurements	**(185)**	(169)
Adjusted profit before taxation	**544**	508
Taxation excluding taxation on exceptional items and remeasurements	**(153)**	(142)
Adjusted profit from continuing operations	**391**	366

Earnings

	Years ended 31 March	
	2009	2008
	£m	£m
Total operating profit	**721**	672
Net finance costs	**(217)**	(164)
Profit before taxation	**504**	508
Taxation	**(156)**	(95)
Profit from continuing operations	**348**	413

Net finance costs

Net interest excluding exceptional finance costs and remeasurements increased by £16 million from 2007/08 to 2008/09. This was primarily explained by an increase in average debt balances.

Financial remeasurements relate to net losses on derivative financial instruments of £32 million in 2008/09, compared with net gains of £5 million in 2007/08.

Taxation

The net tax charge of £156 million in 2008/09 comprised a £153 million charge on adjusted profit before tax and a £3 million charge on exceptional items and remeasurements. This compares with a net charge of £95 million in 2007/08, comprising a £142 million charge on adjusted profit before tax and a £47 million credit on exceptional items and remeasurements. The 2007/08 net charge included an exceptional credit of £47 million in 2007/08 relating to the release of deferred tax provisions following the change in the UK corporation tax rate from 30% to 28% which was enacted in the year and took effect from 1 April 2008.

The effective tax rate before and after exceptional items and remeasurements was 28% and 31% respectively (2007/08: 28% and 19%), compared with a standard UK corporation tax rate of 28% in 2008/09 and 30% in 2007/08.

Profit for the year from continuing operations

Profit for the year from continuing operations decreased from £413 million in 2007/08 to £348 million in 2008/09 as a consequence of the above changes.

Adjusted profit measures

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

Reconciliation of adjusted operating profit to total operating profit

	Years ended 31 March	
	2009	2008
	£m	£m
Adjusted operating profit	**729**	677
Exceptional items	**(8)**	(5)
Total operating profit	**721**	672

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

Reconciliation of adjusted profit before taxation to profit before taxation

	Years ended 31 March	
	2009	2008
	£m	£m
Adjusted profit before taxation	**544**	508
Exceptional items	**(8)**	(5)
Derivative financial remeasurements	**(32)**	5
Total profit before taxation	**504**	508

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

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

	Years ended 31 March	
	2009	2008
	£m	£m
Adjusted earnings	**391**	366
Exceptional items	**(20)**	44
Derivative financial remeasurements	**(23)**	3
Earnings	**348**	413

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

Operating profit

Operating profit for 2008/09 and 2007/08 was as follows:

Years ended 31 March	2009 £m	2008 £m
Revenue	**2,601**	2,145
Other operating income	**6**	28
Operating costs	**(1,886)**	(1,501)
Total operating profit	**721**	672
Comprising:		
Adjusted operating profit	**729**	677
Exceptional items	**(8)**	(5)
Total operating profit	**721**	672

Revenue is analysed by business segment as follows:

Years ended 31 March	2009 £m	2008 £m
Electricity Transmission	**2,601**	2,142
Other activities	**1**	4
Total segmental revenues	**2,602**	2,146
Less: sales between business segments	**(1)**	(1)
Revenue	**2,601**	2,145

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

Years ended 31 March	2009 £m	2008 £m
Electricity Transmission	**736**	671
Other activities	**(7)**	6
Adjusted operating profit	**729**	677

Adjusted operating profit increased by £52 million to £729 million in 2008/09 compared to £677 million in 2007/08, as a result of a £65 million increase in Electricity Transmission adjusted operating profit and a £13 million decrease in other activities.

Total operating profit by segment was:

Years ended 31 March	2009 £m	2008 £m
Electricity Transmission	**726**	666
Other activities	**(5)**	6
Total operating profit	**721**	672

The principal movements in Electricity Transmission operating profit between 2007/08 and 2008/09 can be summarised as follows:

	Revenue £m	Operating costs £m	Operating profit £m
2007/08 operating profit	2,142	(1,476)	666
Add back 2007/08 exceptional items	-	5	5
2007/08 adjusted operating profit	2,142	(1,471)	671
Allowed revenues	124	-	124
Timing of recoveries	18	-	18
BSIS	318	(330)	(12)
Depreciation and amortisation	-	21	21
Other	(1)	(85)	(86)
2008/09 adjusted operating profit	2,601	(1,865)	736
2008/09 exceptional items	-	(10)	(10)
2008/09 operating profit	2,601	(1,875)	726

Electricity Transmission revenue increased by £459 million to £2,601 million in 2008/09 compared to £2,142 million in 2007/08. This related to recovery of higher incentivised costs associated with balancing the system (BSIS) and an increase in allowed revenues, together with the impact of timing on recoveries.

Electricity Transmission operating costs, excluding exceptional items, increased by £394 million to £1,865 million in 2008/09 compared to £1,471 million in 2007/08. This was primarily due to higher BSIS incentivised costs, mainly recovered by the revenue increase above, and higher pass-through costs also recovered in revenue.

Electricity Transmission exceptional items of £10 million in 2008/09 and £5 million in 2007/08 comprise restructuring costs arising from planned cost reduction programmes.

Other activities adjusted operating result decreased from a profit of £6 million in 2007/08 to a loss of £7 million at 2008/09. Other activities largely comprises corporate costs together with, in 2007/08, a profit on disposal of surplus properties of £28 million and a write-off of £8 million in connection with the disposal of National Grid's wireless infrastructure business.

The exceptional item in other activities of £2 million in 2008/09 related to an amount received from a third party in connection with the pension fund.

Total operating profit for NGET increased by £49 million to £721 million in 2008/09 compared to £672 million in 2007/08, due to the £52 million increase in adjusted operating profit and a £3 million increase in exceptional charges.

Cash flows

Cash flows from operating activities

Cash generated from operations was £1,125 million in 2008/09 compared with £794 million in 2007/08. This included cash outflows relating to exceptional items of £5 million in 2008/09 and £5 million in 2007/08.

There was a net corporate tax payment in 2008/09 of £192 million compared with a receipt of £24 million in 2007/08.

After reflecting cash flows relating to taxation, the net cash inflow from operating activities was £933 million in 2008/09, compared with £818 million in 2007/08.

Cash flows from investing activities
Cash outflows from investing activities were £278 million in 2008/09 compared to £1,177 million in 2007/08. Cash outflows to purchase property, plant and equipment and intangible fixed assets, net of disposal proceeds, were £865 million in 2008/09 compared to £717 million in 2007/08, as a result of the increase in capital investment. Interest received was £31 million in 2008/09 compared to £58 million in 2007/08. Net cash inflows from sale of financial investments were £556 million in 2008/09 compared to outflows on purchase of financial investments of £518 million in 2007/08.

Cash flows from financing activities
The net cash outflow from financing activities was £284 million in 2008/09 compared to £68 million in 2007/08. This reflected net inflows from loans of £200 million (2007/08: £410 million) and net payments to providers of finance, in the form of interest and dividends, of £484 million (2007/08: £478 million).

Net interest cash outflows increased from £130 million in 2007/08 to £153 million in 2008/09 due mainly to higher average net debt.

Dividends in respect of the financial year

	2009 **£m**	2008 £m
Interim	**300**	290

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

Financial position and financial management

Going concern

Having made enquiries, the Directors consider that the Company and its subsidiaries have adequate resources to continue in business for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the consolidated and individual financial statements of the Company. More details on NGET's liquidity position are provided under the heading Liquidity and treasury management below and in note 29 to the consolidated financial statements.

Financial position

Balance sheet
The balance sheet at 31 March 2009 can be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment and non-current intangible assets	6,034	-	6,034
Current assets and liabilities	208	(588)	(380)
Other non-current assets and liabilities	-	(210)	(210)
Pension obligations	-	(408)	(408)
Deferred tax	-	(715)	(715)
Total before net debt	6,242	(1,921)	4,321
Net debt	915	(4,791)	(3,876)
Total as at 31 March 2009	7,157	(6,712)	445
Total as at 31 March 2008	6,813	(6,337)	476

The £31 million decrease in net assets from £476 million at 31 March 2008 to £445 million at 31 March 2009 resulted from the profit for the year from continuing operations of £348 million, net expense recognised directly in equity of £79 million, and equity dividends paid of £300 million.

Net debt
Net debt increased by £532 million from £3,344 million at 31 March 2008 to £3,876 million at 31 March 2009. Cash flows from operations net of tax of £933 million were offset by capital expenditure, net of adjustments on disposal, of £865 million, dividends paid of £300 million and net interest paid £153 million, together with fair value and other adjustments of £147 million.

At 31 March 2009, net debt comprised borrowings of £4,712 million including bank overdrafts of £4 million, less financial investments of £360 million, derivative financial instruments with a net carrying value of £89 million and cash and cash equivalents of £387 million. At 31 March 2008, net debt comprised borrowings of £4,314 million, including bank overdrafts of £nil, less derivative financial instruments of £42 million, financial investments of £916 million and cash and equivalents of £12 million.

The maturity of borrowings is shown in note 17 to the consolidated financial statements.

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

We consider this to be a more appropriate measure than the standard gearing ratio using the accounting value of net assets as it better reflects the economic value of our assets.

RAV gearing as at 31 March 2009 was 58% (estimated), compared to 52% as at 31 March 2008 (actual).

Liquidity and treasury management

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

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

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

Current condition of the financial markets
During 2008/09 there has been a deterioration in the world economic situation. In particular, we have seen a crisis in the banking system, the failure or near failure of individual banks and increased restrictions on lending across capital and money markets. This has been accompanied by a significant widening in credit spreads. However, with our low risk business model and cash flows that are largely stable over a period of years, we have been able to continue to access the markets and during 2008/09 have issued £1,001 million of external long-term debt. We remain confident of our ability to access the public debt markets going forward.

Cash flow and cash flow forecasting
Cash flows from operations are largely stable annually and over a period of years, although they do depend on the timing of customer payments. Our transmission operations are subject to multi-year price control agreements with our regulator, Ofgem.

NGET's capital investment programme is financed through a combination of internal cash flows and borrowings. Both short and long-term cash flow forecasts are produced regularly to assist in identifying short-term liquidity and long-term funding requirements and we are undertaking a project to enhance our cash flow forecasting processes. Cash flow forecasts, supplemented by a financial headroom position, are supplied to the Finance Committee to assess funding adequacy for at least a 12 month period.

Regulatory restrictions
As part of our regulatory arrangements, our operations are subject to a number of restrictions on the way we can operate. These include a regulatory 'ring-fence' that requires us to maintain adequate financial resources and restricts our ability to make dividend payments, lend cash or levy charges between NGET and fellow subsidiary companies of National Grid.

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

At 31 March 2009, NGET had a $1.0 billion US commercial paper programme (unutilised) and a $1.0 billion Euro commercial paper programme (unutilised). It also has a joint €15 billion Euro medium term note programme with National Grid plc (€9.3 billion issued).

In addition, we have both committed and uncommitted bank borrowing facilities that are available for general corporate purposes. At 31 March 2009, the Company had £425 million of long term committed facilities (undrawn).

We invest surplus funds on the money markets, usually in the form of short-term fixed deposits and placements with money market funds that are invested in highly liquid instruments of high credit quality. Investment of surplus funds is subject to our counterparty risk management policy, and we continue to believe that our cash management and counterparty risk management policies provide appropriate liquidity and credit risk management in light of the current crisis in the financial markets. Details relating to cash, short-term investments and other financial assets at 31 March 2009 are shown in notes 15 and 16 to the consolidated financial statements.

We believe that maturing amounts in respect of contractual obligations as shown in Commitments and contingencies in note 25 to the consolidated financial statements can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Credit ratings
It is a condition of the regulatory ring-fence around the Company that it uses reasonable endeavours to maintain an investment grade credit rating. As of 31 March 2009, the long-

term senior unsecured debt and short-term debt credit ratings respectively provided by Moody's, Standard & Poor's and Fitch were as follows:

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

Standard & Poor's and Fitch have current outlooks of stable while Moody's has a current outlook of negative which we expect to be resolved during the summer of 2009.

Use of financial derivatives

As part of our business operations, including our treasury activities, we are exposed to risks arising from fluctuations in interest rates and exchange rates. We use financial instruments, including financial derivatives, to manage exposures of this type. Our policy is not to use financial derivatives for trading purposes. Derivative positions are managed in a non speculative manner, such that all transactions in financial derivatives are matched to an underlying current or anticipated business requirement. More details on derivative financial instruments are provided in note 12 to the consolidated financial statements.

Refinancing risk management

Refinancing risk within National Grid is controlled mainly by limiting the amount of debt maturities (both principal and interest) arising on borrowings in any financial year.

Note 17 to the consolidated financial statements sets out the contractual maturities of our borrowings over the next five years, with total contracted borrowings maturing over 50 years. We expect to be able to refinance this debt through the capital and money markets as we have done during 2008/09.

Interest rate risk management

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

Within these constraints, the interest rate risk of National Grid is actively managed, with over 50% of our debt exposed to floating or index-linked interest rates in the longer term. In 2009/10 we expect the financing costs of National Grid to benefit from lower interest rates, some of which have already been locked in using short-term interest rate derivatives, and inflation.

Some of our bonds in issue are index-linked, that is their cost is linked to changes in the UK Retail Prices Index (RPI). We believe that these bonds provide a good hedge for revenues and our regulatory asset values that are also RPI-linked under our price control formulas.

The performance of the Treasury function in interest rate risk management is measured by comparing the actual total financing costs of the National Grid debt with those of a passively-managed benchmark portfolio with a constant ratio of fixed rate to floating rate debt, to identify the impact of actively managing National Grid's interest rate risk. This is monitored regularly by the Finance Committee of National Grid.

More information on the interest rate profile of our debt is included in note 29 to the consolidated financial statements.

Foreign exchange risk management

We have a policy of hedging certain contractually committed foreign exchange transactions over a prescribed minimum size. This covers a minimum of 75% of such transactions expected to occur up to six months in advance and a minimum of 50% of transactions six to twelve months in advance. Cover generally takes the form of forward sale or purchase of foreign currencies and must always relate to underlying operational cash flows.

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

The currency compositions of financial liabilities and assets are shown in note 29(a) to the consolidated financial statements.

Counterparty risk management

Counterparty risk arises within the National Grid Treasury function from the investment of surplus funds and from the use of derivative instruments, and outside the Treasury function from commercial contracts entered into by the businesses, including commodity contracts. The National Grid Finance Committee has agreed a policy for managing such risk. This policy sets limits as to the exposure that National Grid can have with any one counterparty, based on that counterparty's credit rating from independent rating agencies. National Grid's exposure to individual counterparties is monitored on a frequent basis and counterparty limits are regularly updated for changes in credit ratings. The Treasury function is responsible for managing the policy. Where contracts are entered into outside the Treasury function, part of the relevant counterparty limit can be allocated to the business area involved. This ensures that National Grid's overall exposure is managed within the appropriate limit.

Further information is provided in note 29(b) to the consolidated financial statements.

Where multiple transactions are entered into with a single counterparty, a master netting arrangement is usually put in place to reduce our exposure to credit risk of that counterparty. At the present time, we use standard International Swap Dealers Association (ISDA) documentation, which provides for netting in respect of all transactions governed by a specific ISDA agreement with a counterparty, when transacting interest rate and exchange rate derivatives.

Valuation and sensitivity analysis

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

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

As described in note 29(d) to the consolidated financial statements, movements in financial indices would have the following estimated impact on the financial statements as a consequence of changes in the value of financial instruments.

Years ended 31 March	2009		2008	
	Income statement £m	Other equity reserves £m	Income statement £m	Other equity reserves £m
UK Retail Prices Index ± 0.50%	7	-	6	-
UK interest rates ± 0.50%	3	18	1	9

Commodity contracts

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

Commitments and contingencies

Commitments and contingencies outstanding at 31 March 2009 and 2008 are summarised in the table below:

	2009 £m	2008 £m
Future capital expenditure contracted but not provided for	**763**	492
Total operating lease commitments	**63**	67
Other commitments and contingencies	**40**	19

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

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

Details of material litigation as at 31 March 2009

We were not party to litigation that we considered to be material as at 31 March 2009.

Related party transactions

We provide services to and receive services from related parties, principally fellow subsidiaries of National Grid. In the year ended 31 March 2009, we charged £41 million and received charges of £76 million from related parties (other than Directors and key managers), compared with £41 million and £71 million respectively in 2007/08.

Further information relating to related party transactions is contained within note 26 to the consolidated financial statements. Details of key management compensation and amounts paid to Directors are included within note 3(c) and note 3(d) to the consolidated financial statements respectively.

Retirement arrangements

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

Net pension obligations

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

	£m
As at 1 April 2008	(409)
Pension service cost	(12)
Interest less expected return	(19)
Curtailments and settlements	(2)
Actuarial gains and losses	
– on plan assets	(301)
– on plan liabilities	224
Contributions:	
– ordinary contributions	21
– additional contributions	90
As at 31 March 2009	**(408)**

Plan assets	1,145
Plan liabilities	(1,553)
Net plan liability	(408)

The amounts recorded in the balance sheet are based on accounting standards which require pension obligations to be calculated on a different basis to that used by the actuaries to determine the funding we need to make into the plan.

The principal movements in net pension obligations during the year arose as a consequence of actuarial gains on plan liabilities, principally as a consequence of using higher discount rates to calculate the present value of these obligations. This was partially offset by actuarial losses on the value of plan assets.

Actuarial position

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

Contributions

In addition to ongoing employer contributions NGET made deficit contributions of £90 million during 2008/09 and £90 million in April 2009. The remaining deficit will be payable monthly from April 2012 to March 2017.

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

Plan assets

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

At 31 March 2009 plan assets totalled £ 1,145 million (2008: £1,321 million) invested as follows:

	%
Equities	47.6
Corporate bonds	13.0
Gilts	33.0
Property	4.8
Other	1.6

Accounting policies

Basis of accounting

The consolidated financial statements present the results of NGET for the years ended 31 March 2009 and 2008 and the Company's financial position as at 31 March 2009 and 2008. They have been prepared using the accounting policies shown, in accordance with International Financial Reporting Standards (IFRS).

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

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

Choices permitted under IFRS

Since 1 April 2005, we have presented our consolidated financial statements in accordance with IFRS. We were required to make a number of choices on the adoption of IFRS and in addition we continue to choose from certain options that are available within accounting standards.

The principal choices made on the adoption of IFRS, which cannot be changed, were as follows:

Transition date

Our opening IFRS balance sheet was established as at 1 April 2004. We used certain balances in our previous UK GAAP financial statements as the basis for our opening IFRS balance sheet.

Business combinations

Business combinations prior to 1 April 2004 were not changed retrospectively.

Carrying value of assets at transition

We used brought forward depreciated cost, as adjusted for changes in accounting policies to conform to IFRS, to be the opening carrying value under IFRS.

Share-based payments

We recognised all active share option grants retrospectively.

Cumulative translation differences

We chose to measure and present cumulative translation differences arising since 1 April 2004 only.

Significant choices that we continue to make on an ongoing basis include the following:

Presentation formats

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

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

Pensions

We recognise actuarial gains and losses each year in the statement of recognised income and expense.

Capitalised interest

We capitalise interest into the cost of assets that we construct, where the conditions of IAS 23 are met.

Capital contributions
Contributions received 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.

Individual accounts
We have chosen to continue to use UK GAAP, rather than IFRS, in the individual financial statements of National Grid Electricity Transmission plc and of its subsidiary companies.

Accounting standards and interpretations adopted in 2008/09

In preparing our consolidated financial statements we have complied with International Financial Reporting Standards, International Accounting Standards and interpretations applicable for 2008/09. The following amendments to standards and interpretations were adopted during 2008/09, none of which resulted in a material change to our consolidated results, assets or liabilities in 2008/09 or in those of previous periods:

Amendments to standards
An amendment to IAS 39 that permits reclassification of financial assets in certain circumstances.

New interpretations
IFRIC 12 and IFRIC 14 contain guidance on accounting for service concession arrangements and pension assets and minimum funding.

Segmental reporting

In addition to presenting the consolidated financial results and financial position in the financial statements, we provide a breakdown of those results and balances into our business segments. The presentation of segment information is based on management responsibilities that existed at 31 March 2009 and the external and regulatory environments in which we operate. We report one business segment, Electricity Transmission, with other operations and corporate activities aggregated within other activities. Geographical segments are not reported, as our activities are all within the UK.

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 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.

Critical accounting policies and accounting treatments are considered to be:

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.

Depreciation amounted to £206 million in 2008/09 and £221 million in 2007/08. Amortisation amounted to £16 million in 2008/09 and £24 million in 2007/08.

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. Total assets at 31 March 2009 were £7,157 million, including £5,985 million of property, plant and equipment and £49 million of intangible assets (31 March 2008: £6,813 million, £5,354 million and £56 million respectively).

Impairment reviews are carried out when a change in circumstance is identified that indicates an asset might be impaired. An impairment review involves calculating either or both of the fair value or the value-in-use of an asset or group of assets and comparing with the carrying value in the balance sheet.

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

Revenue
Revenue includes an assessment of uninvoiced transmission services supplied to customers. Changes to the estimate of uninvoiced transmission services would have an impact on our reported results.

Estimates of unbilled revenues amounted to £123 million at 31 March 2009 compared with £99 million at 31 March 2008.

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

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

Hedge accounting
We use derivative financial instruments to hedge certain economic exposures arising from movements in exchange and interest rates or other factors that could affect either the value of our assets or liabilities or affect our future cash flows.

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

Pensions
Pensions obligations recorded in the balance sheet are calculated actuarially using a number of assumptions about the future, including inflation, salary increases, length of service and pension and investment returns, together with the use of a discount rate based on corporate bond yields to calculate the present value of the obligation.

The selection of these assumptions can have a significant impact on both the pension obligation recorded in the balance sheet and on the net charge recorded in the income statement.

Exceptional items and remeasurements
Exceptional items and remeasurements are items of income and expenditure that, in the 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 distort the comparability of our 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, and gains or losses on disposals of businesses or investments.

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

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

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

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 £6 million (before tax) and our annual amortisation charge on intangible assets by £1 million (before tax).

Revenue accruals
A 10% change in our estimate of unbilled revenues at 31 March 2009 would result in an increase or decrease in our recorded net assets and profit for the year by approximately £9 million net of tax.

Assets carried at fair value
A 10% change in assets and liabilities carried at fair value would result in an increase or decrease in the carrying value of derivative financial instruments of £5 million.

Hedge accounting
If the gains and losses arising on derivative financial instruments during the year ended 31 March 2009 had not achieved hedge accounting then the profit for the year would have been £50 million higher than that reported net of tax and net assets would have been £70 million higher.

Pensions
The Company's pension and post-retirement obligations are sensitive to the actuarial assumptions used. A 0.1% increase in the discount rate, a 0.5% increase in the rate of salary increases or an increase of one year in life expectancy would result in a change in the net obligation of £20 million, £19 million and £37 million and a change in the annual pension cost of £nil, £1 million and £nil respectively.

Accounting developments

New accounting standards and interpretations which have been issued but not yet adopted by NGET are discussed in the financial statements on pages 35 and 36.

Directors' Report

for the year ended 31 March 2009

In accordance with the requirements of the Companies Acts and UK Listing Authority's Listing, Disclosure and Transparency Rules, the following sections describe the matters that are required for inclusion in the Directors' Report and were approved by the Board. Further details of matters required to be included in the Directors' Report are incorporated by reference into this report, as detailed below.

Directors

The Directors serving as at the date of this report were:

Malcolm Cooper	Appointed July 2007
Mark Fairbairn	Appointed July 2007
Stuart Humphreys	Appointed 7 July 2008
Paul Whittaker	Appointed July 2007
Nick Winser	Appointed April 2003

Andy Chapman also served as Director during the period, resigning on 7 July 2008.

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

Principal activities and business review

A full description of the Company's principal activities, business and principal risks and uncertainties is contained in the Operating and Financial Review on pages 1 to 24, which are incorporated by reference into this report.

Material interests in shares

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

Dividends

An interim dividend of £300 million was paid during the year (2008: £290 million interim dividend). The Directors have not proposed a final dividend.

Donations

During 2008/09, some £1.4 million (2008: £1.7 million) was invested in support of community initiatives and relationships in the UK, including direct charitable donations of £0.1 million (2008: £0.2 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 £7.7 million during the year (2008: £3.0 million).

Financial instruments

Details on the use of financial instruments and financial risk management are included on pages 19 to 21 in the Operating and Financial Review.

Future developments

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

Disability

Through National Grid's inclusion and diversity programme, NGET remains committed to fair treatment of people with disabilities in relation to job applications, training, promotion and career development. Every effort is made to find appropriate alternative jobs for those who are unable to continue in their existing job due to disability.

Employee involvement

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

Policy and practice on payment of creditors

It is NGET's policy to include in contracts or other agreements, terms of payment with suppliers. Once agreed, NGET aims to abide by these terms of payment. The average creditor payment period at 31 March 2009 was 9 days (14 days at 31 March 2008).

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 2009 will be issued separately to shareholders.

On behalf of the Board

Helen Mahy
Company Secretary
5 June 2009

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

Contents of financial statements

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts, including the consolidated financial statements and the Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). In preparing the consolidated financial statements, the directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB). The consolidated financial statements and Company financial statements are required by law to give a true and fair view of the state of affairs of the Company on a consolidated and individual basis and of the consolidated profit of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the consolidated financial statements comply with IFRS as adopted by the European Union, and with regard to the Company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated financial statements and Company financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company on a consolidated and individual basis and to enable them to ensure that the consolidated financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the Company financial statements comply with the Companies Act 1985. They 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 25, confirms that, to the best of their knowledge:

- The consolidated financial statements and the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union and UK GAAP respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Company on a consolidated and individual basis; and
- The Annual Report includes a fair review of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Helen Mahy
Company Secretary
5 June 2009

Independent Auditors' report to the Members of National Grid Electricity Transmission plc

We have audited the consolidated and Company financial statements (the 'financial statements') of National Grid Electricity Transmission plc for the year ended 31 March 2009 which comprise the consolidated income statement, the consolidated and Company balance sheets, the consolidated cash flow statement, the consolidated statement of recognised income and expense, the Accounting Policies and Company Accounting Policies, the Adoption of new accounting policies, the Notes to the consolidated financial statements and the Notes to the Company financial statements. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the consolidated financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the items listed in the contents section of the Annual Report, excluding the audited 2009 financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2009 and of its profit and cash flows for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 March 2009;
- the Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham 5 June 2009

Accounting policies

for the year ended 31 March 2009

A. Basis of preparation of consolidated financial statements under IFRS

NGET's principal activities involve the transmission of electricity in Great Britain. The Company is a public limited company incorporated and domiciled in England, with its registered office at 1-3 Strand, London WC2 5EH.

These consolidated financial statements were approved for issue by the Board of Directors on 5 June 2009.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and as adopted by the European Union. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ending 31 March 2009 and in accordance with the Companies Act 1985 applicable to companies reporting under IFRS and Article 4 of the European Union IAS regulation. The 2008 comparative financial information has also been prepared on this basis.

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

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

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

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

B. Basis of consolidation

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

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

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

C. Foreign currencies

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

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

D. Intangible assets

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

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

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

Amortisation periods	Years
Software	3 to 5

E. Property, plant and equipment

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

Cost includes payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment as well as the cost of any associated asset retirement obligations.

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

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

Contributions received towards the cost of property, plant and equipment are included in 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.

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

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

F. Impairment of assets

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated.

Recoverable amount is defined as the higher of fair value less costs to sell and estimated value in use at the date the impairment review is undertaken.

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

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

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

G. Taxation

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that is 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 exists to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and it is intended to settle current tax asset and liabilities on a net basis.

H. Discontinued operations

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

I. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises cost of direct materials and those costs that have been incurred in bringing the inventories to their present location and condition.

J. Revenue

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

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

K. Segmental information

Segmental information is presented in accordance with the management responsibilities and economic characteristics, including consideration of risks and returns, of business activities. The Company assesses the performance of its businesses principally on the basis of operating profit before exceptional items and remeasurements. The primary reporting format is by business. As all of our operations are within the same geographical area, Great Britain, no secondary reporting format is presented.

L. Pensions

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

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

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

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

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

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

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

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

M. Leases

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

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

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

N. Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date.

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 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 net profit or loss for the period. Investment income on investments classified as available-for-sale is recognised on an effective interest rate basis and taken through interest income in the income statement.

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

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

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

Where we have derivatives embedded in financial instruments or other contracts that are closely related to those instruments or host contracts, no adjustment is made with respect to such derivative clauses. 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 existing between interest rates and inflation in the UK economy. Consequently, these embedded derivatives are not accounted for separately from the debt instrument.

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 annual amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

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

O. Hedge accounting

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

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

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

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

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

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

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

P. Share-based payments

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

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

Q. Business performance and exceptional items and remeasurements

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

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

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

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

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

R. Other operating income

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

S. Cash and cash equivalents

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

T. Dividends

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

U. Areas of judgement and key sources of estimation uncertainty

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

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

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

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

- Review of residual lives, carrying values and impairment charges for intangible assets and property, plant and equipment – accounting policies D, E and F.
- Estimation of liabilities for pension schemes – note 5.
- Valuation of financial instruments and derivatives – notes 12, 15 and 28.
- Revenue recognition and assessment of unbilled revenue – accounting policies J.
- Recoverability of deferred tax assets – accounting policy G and note 20.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2008/09

During the year ended 31 March 2009, the Company adopted the following amendments to International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the International Financial Reporting Interpretation Committee pronouncements (IFRIC). None of these had a material impact on consolidated results or assets and liabilities.

IFRIC 12 on service concession arrangements	Applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services, for example, under private finance initiative (PFI) contracts.
IFRIC 14 on defined benefit assets and minimum funding requirements	Considers the limit on the measurement of a defined benefit asset to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan plus unrecognised gains and losses, as set out in IAS 19 'Employee Benefits'. The interpretation considers when refunds or reductions in future contributions should be considered available, particularly when a minimum funding requirement exists.
Amendment to IAS 39 Financial Instruments: Recognition and measurement and IFRS 7 financial instruments: Disclosures on reclassification of financial assets.	Permits reclassification of financial assets in certain circumstances.

New IFRS accounting standards and interpretations not yet adopted

NGET has yet to adopt the following standards and interpretations. NGET has a number of transactions that fall within the scope of IFRIC 18 'Transfer of assets from customers' and the impact of this interpretation is being considered. The other standards and interpretations listed below are not expected to have a material impact on consolidated results or assets and liabilities.

IFRS 8 on operating segments	Sets out the requirements for the disclosure of information about an entity's operating segments and about the entity's products and services, the geographical areas in which it operates and its major customers. IFRS 8 achieves convergence with the US accounting standard, SFAS 131 'Disclosures about segments of an enterprise and related information' with minor differences. IFRS 8 has been adopted by the Company with effect from 1 April 2009.
IAS 23 revised on borrowing costs	Removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. IAS 23 revised has been adopted by the Company with effect from 1 April 2009.
IFRIC 13 on customer loyalty programmes	Clarifies that the sale of goods or services together with customer award credits (for example, loyalty points or the right to free products) is accounted for as a multiple-element transaction. The consideration received from the customer is allocated between the components of the arrangement based on their fair values, which will defer the recognition of some revenue. IFRIC 13 has been adopted by the Company with effect from 1 April 2009.
IAS 1 revised on the presentation of financial statements	Requires changes to the presentation of financial statements and adopts revised titles for the primary statements, although companies may continue to use the existing titles. IAS 1 revised has been adopted by the Company with effect from 1 April 2009.
IFRS 3R on business combinations	Makes a number of changes to the accounting for business combinations, including requirements that all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income; an option to calculate goodwill based on the parent's share of net assets only or to include goodwill related to the minority interest; and a requirement that all transaction costs be expensed. IFRS 3R will be adopted by the Company on 1 April 2010, subject to endorsement by the European Union.
IAS 27R on consolidated and individual financial statements	Requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. The revised standard also specifies the accounting when control is lost. IAS 27R will be adopted by the Company on 1 April 2010, subject to endorsement by the European Union.
Amendment to IFRS 2 on share-based payments	Clarifies the definition of vesting conditions and the accounting treatment of cancellations. Vesting conditions are defined as either service conditions or performance conditions. Cancellations by employees are accounted for in the same way as cancellations by the company. The amendment to IFRS 2 has been adopted by the Company with effect from 1 April 2009.
Amendments to IAS 32 and IAS 1 on puttable financial instruments and obligations arising on liquidation	Addresses the classification as a liability or as equity of certain puttable financial instruments and instruments, or components thereof, which impose upon an entity an obligation to deliver a pro rata share of net assets on liquidation. The amendment to IAS 32 and IAS 1 have been adopted by the company from 1 April 2009.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements of the cost of an investment in a subsidiary, Jointly Controlled Entity or Associate.	Permits investments to be recognised on first-time adoption of IFRS at cost or deemed cost (fair value of previous GAAP carrying amount) and removes the requirement to recognise dividends out of pre-acquisition profits as a reduction in the cost of investment. The amendments to IFRS 1 and IAS 27 have been adopted by the Company with effect from 1 April 2009.
Improvements to IFRS 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.
IFRIC 15 on agreements for the construction of real estate	Addresses the timing of revenue recognition for entities engaged in the construction of real estate for their customers. IFRIC 15 will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
IFRIC 16 on hedges of a net investment in a foreign operation.	Clarifies that a hedged risk may be designated at any level in a group and hedging instruments may be held by any company in a group (except the foreign entity being hedged), that net investment hedge accounting may not be adopted in respect of a presentational 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. IFRIC 16 will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
Amendments to IAS 39 financial instruments: Recognition and measurement on eligible hedged items.	Prohibits designating inflation as a hedgeable component of an instrument, unless cash flows relating to the separate inflation component are contractual and also prohibits the designation of a purchased option in its entirety as the hedge of a one-sided risk in a forecast transaction. The amendment to IAS 39 will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.
Amendment to IAS 39 Financial Instruments: Recognition and measurement: Reclassification of Financial Assets: Effective Date and Transition.	Clarifies the effective date of the reclassification of financial assets. The amendment is effective under IFRS but has not yet been endorsed by the European Union and has therefore not been adopted by the Company. Adoption of the amendment would not have any impact on results or assets and liabilities.
Revised IFRS 1 on first-time adoption of IFRS	Changes the structure while retaining the substance, of the previously issued version of IFRS 1. The revised version of IFRS 1 will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.
IFRIC 17 on the distribution of non-cash assets to owners	Requires such a distribution to be measured at the fair value of the asset and any difference between the carrying amount of the asset and its fair value to be recognised in the profit or loss. IFRIC 17 will be adopted by the Company with effect from 1 April 2010.
IFRIC 18 on the transfer of asset from customers	Addresses arrangements whereby an entity receives items of property, plant or equipment or cash which the entity must use to connect customers to a network or provide access to a supply of goods or services, or both. IFRIC 18 will be adopted by the Company with effect from 1 July 2009, subject to endorsement by the European Union.
Amendment to IFRS 7 on improving disclosures about financial instruments	Enhances disclosures about fair value and liquidity risk. The amendment will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
Amendments to IAS 39 and IFRIC 9 on embedded derivatives	Requires reassessments of whether an embedded derivative should be separated out if a financial asset is reclassified out of the fair value through profit or loss category. The amendment will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
Improvements to IFRS 2009	Contains amendments to various existing standards. The amendments will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.

Consolidated income statement

for the years ended 31 March

	Notes	**2009 £m**	**2009 £m**	2008 £m	2008 £m
Revenue	1(a)		**2,601**		2,145
Other operating income	2		**6**		28
Operating costs	3		**(1,886)**		(1,501)
Operating profit					
Before exceptional items	1(b)	**729**		677	
Exceptional items	4	**(8)**		(5)	
Total operating profit	1(b)		**721**		672
Interest income and similar income	6		**119**		144
Interest expense and other finance costs					
Before exceptional items and remeasurements	6	**(304)**		(313)	
Exceptional items and remeasurements	4, 6	**(32)**		5	
	6		**(336)**		(308)
Profit before taxation					
Before exceptional items and remeasurements		**544**		508	
Exceptional items and remeasurements		**(40)**		-	
Total profit before taxation			**504**		508
Taxation					
Before exceptional items and remeasurements	7	**(153)**		(142)	
Exceptional items and remeasurements	4, 7	**(3)**		47	
Total taxation	7		**(156)**		(95)
Profit after taxation					
Before exceptional items and remeasurements		**391**		366	
Exceptional items and remeasurements	4	**(43)**		47	
Profit for the year			**348**		413

The notes on pages 41 to 67 form part of the consolidated financial statements.

Consolidated balance sheet

at 31 March

	Notes	2009 £m	2008 £m
Non-current assets			
Intangible assets	9	**49**	56
Property, plant and equipment	10	**5,985**	5,354
Other non-current assets	11	**-**	4
Derivative financial assets	12	**134**	20
Total non-current assets		**6,168**	5,434
Current assets			
Inventories	13	**31**	18
Trade and other receivables	14	**177**	357
Financial investments	15	**360**	916
Derivative financial assets	12	**34**	76
Cash and cash equivalents	16	**387**	12
Total current assets		**989**	1,379
Total assets	1(d)	**7,157**	6,813
Current liabilities			
Borrowings	17	**(89)**	(927)
Derivative financial liabilities	12	**(24)**	(6)
Trade and other payables	18	**(570)**	(740)
Provisions	21	**(6)**	(4)
Total current liabilities		**(689)**	(1,677)
Non-current liabilities			
Borrowings	17	**(4,623)**	(3,387)
Derivative financial liabilities	12	**(55)**	(48)
Other non-current liabilities	19	**(210)**	(135)
Deferred tax liabilities	20	**(715)**	(670)
Pension obligations	5	**(408)**	(409)
Provisions	21	**(12)**	(11)
Total non-current liabilities		**(6,023)**	(4,660)
Total liabilities	1(d)	**(6,712)**	(6,337)
Net assets		**445**	476
Equity			
Called up share capital	22	**44**	44
Retained earnings	23	**446**	453
Cash flow hedge reserve	23	**(45)**	(21)
Total shareholders' equity		**445**	476

These financial statements, comprising the consolidated income statement, consolidated balance sheet, consolidated statement of recognised income and expense, consolidated cash flow statement, accounting policies, adoption of new accounting standards and related notes 1 to 32 were approved by the Board of Directors on 5 June 2009 and were signed on its behalf by:

Paul Whittaker Director

Stuart Humphreys Director

Consolidated statement of recognised income and expense

for the years ended 31 March

		2009 £m	2008 £m
Actuarial (losses)/gains	5	**(77)**	51
Net losses taken to equity in respect of cash flow hedges		**(33)**	(19)
Tax on items taken directly to or transferred from equity	7	**31**	(11)
Net (expense)/income recognised directly in equity		**(79)**	21
Profit for the year		**348**	413
Total recognised income and expense for the year		**269**	434

Consolidated cash flow statement

for the years ended 31 March

	Notes	**2009 £m**	2008 £m
Cash flows from operating activities			
Total operating profit		**721**	672
Adjustments for:			
Exceptional items and remeasurements		**8**	5
Depreciation and amortisation		**222**	245
Property disposals		**3**	3
Share based payment charge		**2**	2
Changes in working capital		**272**	(90)
Changes in pension obligations		**(98)**	(38)
Cash flows relating to exceptional items		**(5)**	(5)
Cash flows generated from operations		**1,125**	794
Tax (paid)/received		**(192)**	24
Net cash inflow from operating activities		**933**	818
Cash flows from investing activities			
Purchases of intangible assets		**(8)**	(15)
Purchases of property, plant and equipment		**(853)**	(702)
Disposal of property, plant and equipment		**(4)**	-
Interest received		**31**	58
Purchases of financial investments		**(339)**	(518)
Disposal of financial investments		**895**	-
Net cash flow used in investing activities		**(278)**	(1,177)
Cash flows from financing activities			
Proceeds from loans received		**2,298**	200
Repayment of loans		**(2,125)**	-
Net movements in short-term borrowings and derivatives		**27**	210
Interest paid		**(184)**	(188)
Dividends paid to shareholders		**(300)**	(290)
Net cash flow used in financing activities		**(284)**	(68)
Net increase/(decrease) in cash and cash equivalents		**371**	(427)
Cash and cash equivalents at the start of the year (i)		**12**	439
Net cash and cash equivalents at the end of the year (i)	16	**383**	12

(i) Net of bank overdrafts of £4m (2008: £nil, 2007: £26m).

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

1. Segmental analysis

The following table describes the main activities for each business segment:

Electricity Transmission	High-voltage electricity transmission networks in the UK

Other activities relate to contracting activities, the provision of support services and corporate activities not included within the above segment.

All of the Company's sales and operations take place within the UK and accordingly there is no secondary reporting format by geographical area.

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

(a) Revenue

	Total sales 2009 £m	**Sales between businesses 2009 £m**	**Sales to third parties 2009 £m**	Total sales 2008 £m	Sales between businesses 2008 £m	Sales to third parties 2008 £m
Business segment						
Electricity Transmission	**2,601**	**-**	**2,601**	2,142	-	2,142
Other activities	**1**	**1**	**-**	4	1	3
	2,602	**1**	**2,601**	2,146	1	2,145

(b) Operating profit/(loss)

	Before exceptional items		After exceptional items	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Business segment				
Electricity Transmission	**736**	671	**726**	666
Other activities	**(7)**	6	**(5)**	6
	729	677	**721**	672

(c) Capital expenditure and depreciation

	Capital expenditure		Depreciation and amortisation	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Business segment				
Electricity Transmission	**864**	800	**222**	244
Other activities	**-**	-	**-**	1
	864	800	**222**	245

Capital expenditure comprises additions to property, plant and equipment and intangible assets amounting to £855m (2008: £785m) and £9m (2008: £15m) respectively.

Depreciation and amortisation includes depreciation of property, plant and equipment and amortisation of intangible assets amounting to £206m (2008: £221m) and £16m (2008: £24m) respectively.

1. Segmental analysis continued

(d) Total assets and total liabilities

	Total assets		Total liabilities	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Business segment				
Electricity Transmission	**6,203**	5,557	**(657)**	(685)
Other activities	**19**	35	**(50)**	10
	6,222	5,592	**(707)**	(675)
Unallocated	**935**	1,221	**(6,005)**	(5,662)
	7,157	6,813	**(6,712)**	(6,337)

The analysis of total assets and total liabilities excludes inter-business balances. Unallocated total assets include amounts owed by fellow subsidiaries, cash and cash equivalents, taxation, financial investments and derivative assets. Unallocated total liabilities include amounts owed to fellow subsidiaries, borrowings, derivative financial liabilities, pension liabilities and taxation.

2. Other operating income

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

3. Operating costs

	Before exceptional items		Exceptional items		Total	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Depreciation of property, plant and equipment	**206**	221	**-**	-	**206**	221
Amortisation of intangible assets	**16**	24	**-**	-	**16**	24
Payroll costs	**117**	97	**1**	5	**118**	102
Other operating charges:						
Rates	**103**	99	**-**	-	**103**	99
Electricity transmission services scheme direct costs	**904**	575	**-**	-	**904**	575
Payments to Scottish electricity transmission network owners	**290**	270	**-**	-	**290**	270
Other	**242**	210	**7**	-	**249**	210
	1,878	1,496	**8**	5	**1,886**	1,501
Operating costs include:						
Consumption of inventories					**6**	4
Research expenditure					**8**	3
Operating lease rentals					**6**	5

(a) Payroll costs

	2009 £m	2008 £m
Wages and salaries	**117**	105
Social security costs	**12**	11
Other pension costs	**14**	21
Share-based payments	**2**	2
Severance costs (excluding pension costs)	**3**	3
	148	142
Less: payroll costs capitalised	**(30)**	(40)
	118	102

3. Operating costs continued

(b) Number of employees, including Directors

	31 March 2009 Number	Average 2009 Number	Average 2008 Number
UK			
Continuing operations	**2,493**	2,469	2,425

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

(c) Key management compensation

	2009 £m	2008 £m
Salaries and short-term employee benefits	**2**	1
Post-employment benefits	**1**	1
Share-based payments	**1**	1
	4	3

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

(d) Directors' emoluments

The aggregate amount of emoluments paid to Directors in respect of qualifying services for 2009 was £1,101,631 (2008: £1,190,235).

The highest paid director and two other directors exercised share options during 2009 (2008: highest paid director and three other Directors).

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

As at 31 March, retirement benefits were accruing to five Directors under a defined benefit scheme (2008: five directors, under a defined benefit scheme).

The aggregate emoluments for the highest paid Director were £482,485 for 2009 (2008: £423,716); and total accrued annual pension at 31 March 2009 for the highest paid Director was £81,751 (2008: £74,810).

(e) Auditors' remuneration

	2009 £m	2008 £m
Audit services		
Audit fee of parent company and consolidated financial statements	**0.3**	0.4
Other services		
Other services supplied pursuant to legislation	**0.2**	0.3

Comparatives have been restated to present items on a basis consistent with the current year classification

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

4. Exceptional items and remeasurements

	2009 £m	2008 £m
Exceptional items - restructuring costs (i)	**(8)**	(5)
Total exceptional items included within operating profit	**(8)**	(5)
Remeasurements - net (losses)/gains on derivative financial instruments (ii)	**(32)**	5
Total exceptional items and remeasurements included within finance costs	**(32)**	5
Total exceptional items and remeasurements before taxation	**(40)**	-
Exceptional tax item - deferred tax credit arising from reduction in the UK tax rate (iii)	**-**	47
Exceptional tax item - deferred tax charge arising from change in the IBAs regime (iv)	**(15)**	-
Tax on exceptional items - restructuring costs (i)	**3**	2
Tax on remeasurements - derivative financial instruments (ii)	**9**	(2)
Tax on exceptional items and remeasurements	**(3)**	47
Total exceptional items and remeasurements after taxation	**(43)**	47
Total exceptional items after taxation	**(20)**	44
Total remeasurements after taxation	**(23)**	3
Total exceptional items and remeasurements after taxation	**(43)**	47

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

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

(iii) The exceptional tax credit in the prior period arose from a reduction in the UK corporation tax rate from 30% to 28% included in the 2007 Finance Act. This resulted in a reduction in deferred tax liabilities.

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

5. Pensions

Substantially all of National Grid Electricity Transmission plc's employees are members of the National Grid Electricity Group of the Electricity Supply Pension Scheme which is a defined benefit pension scheme. For further details of the nature and terms of this scheme and the actuarial assumptions used to value the associated assets and pension obligations, refer to note 27.

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

	2009 £m	2008 £m
Defined benefit scheme costs		
Current service cost	**12**	18
Curtailment gains on redundancies	**(1)**	(1)
Cost of contractual termination on redundancies	**2**	3
Other augmentation	**1**	1
Total in payroll costs	**14**	21
Interest cost	**112**	97
Expected return on plan assets	**(93)**	(89)
Total in finance costs	**19**	8

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

	2009 £m	2008 £m
Actuarial (loss)/gain during the year	**(77)**	51
Adjustment to actuarial gain/(loss) relating to prior year	**5**	-
Cumulative actuarial (loss)/gain	**(32)**	40

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

	2009 £m	2008 £m
Present value of funded obligations	**(1,539)**	(1,716)
Fair value of plan assets	**1,145**	1,321
	(394)	(395)
Present value of unfunded obligations	**(14)**	(14)
Net liability in the balance sheet	**(408)**	(409)
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation (including unfunded obligations)	**(1,730)**	(1,824)
Current service cost	**(12)**	(18)
Interest cost	**(112)**	(97)
Actuarial gains	**224**	128
Net increase in liabilities from redundancies	**(1)**	(3)
Employee contributions	**(6)**	(6)
Benefits paid (including unfunded obligations)	**82**	83
Net transfers	**3**	8
Other augmentations	**(1)**	(1)
Closing defined benefit obligation (including unfunded obligations)	**(1,553)**	(1,730)
Changes in the fair value of plan assets		
Opening fair value of plan assets	**1,321**	1,336
Expected return on plan assets	**93**	89
Actuarial losses	**(301)**	(77)
Employer contributions	**111**	58
Employee contributions	**6**	6
Benefits paid (including unfunded obligations)	**(82)**	(83)
Net transfers	**(3)**	(8)
Closing fair value of plan assets	**1,145**	1,321
Actual return on plan assets	**(208)**	12
Expected contributions to defined benefit plans in the following year	**19**	19

6. Finance income and costs

	2009 £m	2008 £m
Interest income and similar income		
Expected return on pension plan assets	**91**	87
Interest income on financial instruments:		
Interest income from bank deposits and other financial assets	**27**	55
Interest receivable on finance leases	**1**	2
Interest income and similar income	**119**	144
Interest expense and other financial costs		
Interest on pension plan obligations	**(112)**	(97)
Interest expense on financial liabilities held at amortised cost:		
Interest on bank loans and overdrafts	**(23)**	(25)
Interest on other borrowings	**(233)**	(227)
Interest on derivatives	**(8)**	(17)
Less: interest capitalised (i)	**72**	53
Interest expense	**(304)**	(313)
Net (losses)/gains on derivative financial instruments included in remeasurements:		
Ineffectiveness on derivatives designated as fair value hedges (ii)	**(34)**	3
Ineffectiveness on derivatives designated as cash flow hedges	**4**	1
On derivatives not designated as hedges or ineligible for hedge accounting	**(2)**	1
Net (losses)/gains on derivative financial instruments included in remeasurements (iii)	**(32)**	5
Interest expense and other finance costs	**(336)**	(308)
Net finance costs	**(217)**	(164)
Comprising:		
Interest income and similar income	**119**	144
Interest expense and other finance costs		
Before exceptional items and remeasurements	**(304)**	(313)
Exceptional items and remeasurements	**(32)**	5
	(217)	(164)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 6.15% (2008: 6.4%).

(ii) Includes a net gain on instruments designated as fair value hedges of £63m (2008: £15m) less a net loss of £97m (2008: £12m) arising from the fair value adjustments to the carrying value of debt.

(iii) Includes a net foreign exchange loss on financing activities of £68m (2008: £84m gain). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

7. Taxation

Taxation on items charged to the income statement

	Before exceptional items and remeasurements		Exceptional items and remeasurements		Total	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
United Kingdom						
Corporation tax at 28% (2008: 30%)	**91**	145	**(12)**	-	**79**	145
Corporation tax adjustment in respect of prior years	**4**	(56)	**-**	-	**4**	(56)
	95	89	**(12)**	-	**83**	89
Deferred tax	**62**	3	**-**	-	**62**	3
Deferred tax charge arising from changes in the IBAs regime	**-**	-	**15**	-	**15**	-
Deferred tax credit arising from change in UK tax rates	**-**	-		(47)	**-**	(47)
Deferred tax adjustment in respect of prior years	**(4)**	50	**-**	-	**(4)**	50
	58	53	**15**	(47)	**73**	6
Total tax charge	**153**	142	**3**	(47)	**156**	95

Taxation on items (credited)/charged to equity

	2009 £m	2008 £m
Deferred tax credit on revaluation of cash flow hedges	**(9)**	(3)
Deferred tax (credit)/charge on actuarial gains/losses	**(22)**	14
Tax (credit)/charge recognised in consolidated statement of recognised income and expense	**(31)**	11
Deferred tax charge on share-based payments recognised directly in equity	**2**	6
Corporation tax credit on share-based payments recognised directly in equity	**(1)**	(3)
	(30)	14

The tax charge for the year after exceptional items and remeasurements is higher (2008: lower) than the standard rate of corporation tax in the UK of 28% (2008: 30%). The differences are explained below:

	Before exceptional items and remeasure-ments 2009 £m	**After exceptional items and remeasure-ments 2009 £m**	Before exceptional items and remeasure-ments 2008 £m	After exceptional items and remeasure-ments 2008 £m
Profit before taxation				
Before exceptional items and remeasurements	**544**	**544**	508	508
Exceptional items and remeasurements	**-**	**(40)**	-	-
Profit before taxation from continuing operations	**544**	**504**	508	508
Profit on continuing operations multiplied by the rate of corporation tax in the UK of 28% (2008: 30%)	**152**	**141**	152	152
Effects of:				
Adjustments in respect of previous years	**-**	**-**	(6)	(6)
Expenses not deductible for tax purposes	**1**	**16**	4	4
Non-taxable income	**-**	**(1)**	(8)	(8)
Remeasurement of deferred tax - change in UK tax rate	**-**	**-**	-	(47)
Total taxation from continuing operations	**153**	**156**	142	95
	%	**%**	%	%
At the effective income tax rate	**28.1**	**31.0**	28.0	18.7

7. Taxation (continued)

Factors that may affect future tax charges

A number of changes to the UK Corporation Tax system were announced in the April 2009 Budget Statement which are expected to be enacted in the Finance Act 2009.

These changes include temporary changes to the capital allowances regime and the introduction of a system for taxing foreign profits, which is expected to bring in a dividend exemption and a worldwide debt cap.

The dividend exemption is likely to be available for both UK and foreign distributions, falling within an exempt classification, received on or after 1 July 2009. This is not expected to have a material effect on our future tax charge.

The worldwide debt cap is likely to restrict the amount of finance expense available for UK tax purposes, based on the consolidated finance expense, and is expected to apply for the accounting period ended 31 March 2011 onwards. We are in the process of evaluating the impact of the worldwide debt cap will have on our future tax charge.

These changes have not been substantively enacted at the balance sheet date and therefore have not been reflected in these financial statements.

8. Dividends

The following table shows the dividends paid to equity shareholders:

	2009 pence (per ordinary share)	**2009 £m**	2008 pence (per ordinary share)	2008 £m
Ordinary dividends				
Interim dividend for the year ended 31 March 2009	**68.61**	**300**	-	-
Interim dividend for the year ended 31 March 2008	**-**	**-**	66.32	290

9. Intangible assets

	Software £m
Non-current	
Cost at 1 April 2007	145
Additions	15
Cost at 31 March 2008	160
Additions	9
Cost at 31 March 2009	169
Amortisation at 1 April 2007	(80)
Amortisation charge for the year	(24)
Amortisation at 31 March 2008	(104)
Amortisation charge for the year	(16)
Amortisation at 31 March 2009	(120)
Net book value at 31 March 2009	**49**
Net book value at 31 March 2008	56

10. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2007	147	6,413	730	112	7,402
Additions	5	3	778	(1)	785
Disposals	(2)	(14)	-	(36)	(52)
Reclassifications	4	242	(261)	15	-
Cost at 31 March 2008	154	6,644	1,247	90	8,135
Additions	26	602	224	3	855
Disposals	5	(73)	-	(1)	(69)
Reclassifications	-	3	(3)	-	-
Cost at 31 March 2009	185	7,176	1,468	92	8,921
Depreciation at 1 April 2007	(24)	(2,489)	-	(96)	(2,609)
Depreciation charge for the year	(3)	(207)	-	(11)	(221)
Disposals	-	14	-	35	49
Depreciation at 31 March 2008	(27)	(2,682)	-	(72)	(2,781)
Depreciation charge for the year	(5)	(191)	-	(10)	(206)
Disposals	-	28	-	23	51
Depreciation at 31 March 2009	(32)	(2,845)	-	(59)	(2,936)
Net book value at 31 March 2009	**153**	**4,331**	**1,468**	**33**	**5,985**
Net book value at 31 March 2008	127	3,962	1,247	18	5,354

The net book value of land and buildings comprised:

	2009 £m	2008 £m
Freehold	**110**	106
Long leasehold (over 50 years)	**3**	3
Short leasehold (under 50 years)	**40**	18
	153	127

The cost of property, plant and equipment at 31 March 2009 included £590m (2008: £519m) relating to interest capitalised.

Included within trade and other payables and other non-current liabilities at 31 March 2009 are contributions to the cost of property, plant and equipment amounting to £6m (2008: £4m) and £209m (2008: £118m) respectively.

11. Other non-current assets

	2009 £m	2008 £m
Lease receivables	-	4

The fair value of lease receivables approximates to their book value.

12. Derivative financial instruments

For further information and a detailed description of our derivative financial instruments and hedge type designations, refer to note 28. The fair value by designated hedge type can be analysed as follows:

	2009			2008		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Fair value hedges						
Interest rate swaps	66	-	66	5	(5)	-
Cross-currency interest rate swaps	64	-	64	-	(3)	(3)
	130	-	130	5	(8)	(3)
Cash flow hedges						
Interest rate swaps	4	(56)	(52)	20	(40)	(20)
Cross-currency interest rate swaps	9	-	9	70	-	70
	13	(56)	(43)	90	(40)	50
Derivatives not in a formal hedge relationship						
Interest rate swaps	16	(19)	(3)	1	(6)	(5)
Forward rate agreements	-	(4)	(4)	-	-	-
Cross-currency interest rate swaps	5	-	5	-	-	-
Foreign exchange forward contracts	4	-	4	-	-	-
	25	(23)	2	1	(6)	(5)
Total	168	(79)	89	96	(54)	42

The maturity of derivative financial instruments is as follows:

	2009			2008		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
In one year or less	34	(24)	10	76	(6)	70
Current	34	(24)	10	76	(6)	70
In more than one year but not more than two years	5	-	5	-	-	-
In more than two years but not more than three years	-	-	-	-	-	-
In more than three years but not more than four years	-	(11)	(11)	-	-	-
In more than four years but not more than five years	61	(1)	60	-	(5)	(5)
In more than five years	68	(43)	25	20	(43)	(23)
Non-current	134	(55)	79	20	(48)	(28)
	168	(79)	89	96	(54)	42

For each class of derivative the sterling equivalent notional value of the pay leg is as follows:

	2009 £m	2008 £m
Interest rate swaps	(1,922)	(1,987)
Cross-currency interest rate swaps	(698)	(514)
Foreign exchange forward contracts	(29)	(4)
Forward rate agreements	(1,980)	-
Total	(4,629)	(2,505)

13. Inventories

	2009 **£m**	2008 £m
Raw materials and consumables	**31**	13
Work in progress	**-**	5
	31	18

14. Trade and other receivables

	2009 **£m**	2008 £m
Trade receivables	**16**	23
Amounts owed by fellow subsidiaries	**20**	187
Other receivables	**8**	25
Prepayments and accrued income	**133**	122
	177	357

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

Provision for impairment of receivables

	£m
At 1 April 2007 and 31 March 2008	**1**
At 31 March 2009	**-**

As at 31 March 2009, trade receivables of £nil (2008: £3m) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2009 **£m**	2008 £m
Up to 3 months past due	**-**	-
3 to 6 months past due	**-**	-
Over 6 months past due	**-**	3
	-	3

For further information about our wholesale credit risk, refer to note 29.

15. Financial investments

	2009 **£m**	2008 £m
Current		
Loans and receivables - amounts due from fellow subsidiaries	**21**	916
Available-for-sale investments	**339**	-
Total financial and other investments	**360**	916

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

16. Cash and cash equivalents

	2009 **£m**	2008 £m
Cash at bank	**-**	12
Short-term deposits	**387**	-
Cash and cash equivalents excluding bank overdrafts	**387**	12
Bank overdrafts	**(4)**	-
Net cash and cash equivalents	**383**	12

The fair values of cash and cash equivalents and bank overdrafts approximate to their book amounts.

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

17. Borrowings

The following table analyses borrowings, including bank overdrafts:

	2009 £m	2008 £m
Current		
Bank loans	**28**	1
Bonds	**46**	518
Borrowings from fellow subsidiaries	**11**	408
Bank overdrafts	**4**	-
	89	927
Non-current		
Bank loans	**400**	400
Bonds	**4,223**	2,987
	4,623	3,387
Total borrowings	**4,712**	4,314

Total borrowings are repayable as follows:	2009 £m	2008 £m
In one year or less	**89**	927
In more than one year, but not more than two years	**258**	-
In more than two years, but not more than three years	**-**	249
In more than three years, but not more than four years	**200**	-
In more than four years, but not more than five years	**577**	200
In more than five years other than by instalments	**3,588**	2,938
	4,712	4,314

The fair value of borrowings at 31 March 2009 was £4,367m (2008: £4,200m). 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 2009 was £4,595m (2008: £4,298m).

As at 31 March 2009, the Company had committed credit facilities of £425m (2008: £425m) of which £425m was undrawn (2008: £425m undrawn). These undrawn facilities expire in more than one year but less than two years.

All of the unused facilities at 31 March 2009 and at 31 March 2008 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.

18. Trade and other payables

	2009 £m	2008 £m
Trade payables	**324**	388
Amounts owed to fellow subsidiaries	**83**	204
Social security and other taxes	**31**	4
Other payables	**26**	80
Deferred income	**106**	64
	570	740

Due to their short maturities, the fair value of trade and other payables (excluding deferred income) approximates to their book value.

19. Other non-current liabilities

	2009 £m	2008 £m
Other payables	**-**	15
Deferred income	**210**	120
	210	135

The fair value of other payables approximates to their book value.

20. Deferred tax assets and liabilities

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

	Accelerated tax depreciation £m	Employee share options £m	Pensions £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2007	-	(13)	(146)	(5)	(1)	(165)
Deferred tax liabilities at 31 March 2007	812	-	-		-	812
At 1 April 2007	812	(13)	(146)	(5)	(1)	647
Charged/(credited) to income statement	(3)	-	18	-	(9)	6
Credited to equity	-	6	14	(3)	-	17
At 31 March 2008	809	(7)	(114)	(8)	(10)	670
Deferred tax assets at 31 March 2008	-	(7)	(114)	(8)	(10)	(139)
Deferred tax liabilities at 31 March 2008	809	-	-	-	-	809
At 1 April 2008	809	(7)	(114)	(8)	(10)	670
Charged/(credited) to income statement	49	-	22	-	2	73
Charged/(credited) to equity	-	2	(21)	(9)	-	(28)
At 31 March 2009	**858**	**(5)**	**(113)**	**(17)**	**(8)**	**715**
Deferred tax assets at 31 March 2009	-	(5)	(113)	(17)	(8)	(143)
Deferred tax liabilities at 31 March 2009	858	-	-	-	-	858
	858	(5)	(113)	(17)	(8)	715

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 (2008: £nil).

21. Provisions

	Environmental £m	Other £m	Total provisions £m
At 1 April 2007	4	11	15
Additions	-	2	2
Utilised	(2)	-	(2)
At 31 March 2008	2	13	15
Additions	-	5	5
Utilised	-	(2)	(2)
At 31 March 2009	**2**	**16**	**18**

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

	2009 £m	2008 £m
Current	**6**	4
Non-current	**12**	11
	18	15

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

Other provisions
Other provisions include employer liability claims of £7m (2008: £6m). In accordance with insurance industry practice, these estimates are based on experience from previous years and there is therefore no identifiable payment date.

22. Share capital

	millions	£m
At 31 March 2008 and 2009 - ordinary shares of 10p each		
Allotted, called up and fully paid	437	44
Authorised	2,751	275

23. Reconciliation of movements in total equity

	Called-up share capital £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
At 31 March 2007	44	(5)	298	337
Total recognised income and expense for the year	-	(16)	450	434
Equity dividends	-	-	(290)	(290)
Share-based payments	-	-	(2)	(2)
Tax on share-based payments	-	-	(3)	(3)
At 31 March 2008	44	(21)	453	476
Total recognised income and expense for the year	-	(24)	293	269
Equity dividends	-	-	(300)	(300)
Share-based payments	-	-	1	1
Tax on share-based payments	-	-	(1)	(1)
At 31 March 2009	**44**	**(45)**	**446**	**445**

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

Gains and losses recognised in the cash flow hedge reserve on interest rate swap contracts as of 31 March 2009 will be continuously transferred to the income statement until the borrowings are repaid (note 17).

The amount of the cash flow hedge reserve due to be released from reserves to the income statement within the next year is £nil, with the remaining amount of £45m due to be released with the same maturity profile as borrowings in note 17.

24. Consolidated cash flow statement

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

	2009 £m	2008 £m
Movement in cash and cash equivalents	**371**	(427)
(Decrease)/increase in financial investments	**(556)**	518
Increase in borrowings and derivatives	**(200)**	(410)
Net interest paid	**155**	132
Change in net debt resulting from cash flows	**(230)**	(187)
Changes in fair value of financial assets and liabilities	**(65)**	(14)
Net interest charge	**(237)**	(214)
Other non-cash movements	**-**	18
Movement in net debt (net of related derivative financial instruments) in the year	**(532)**	(397)
Net debt at start of year	**(3,344)**	(2,947)
Net debt (net of related derivative financial instruments) at end of year	**(3,876)**	(3,344)

(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 2007	465	(26)	439	377	(3,728)	(35)	(2,947)
Cash flow	(453)	26	(427)	462	(241)	19	(187)
Fair value gains and losses	-	-	-	-	(89)	75	(14)
Interest charges	-	-	-	55	(252)	(17)	(214)
Other non-cash movements	-	-	-	22	(4)	-	18
At 31 March 2008	12	-	12	916	(4,314)	42	(3,344)
Cash flow	375	(4)	371	(583)	(106)	88	(230)
Fair value gains and losses	-	-	-	-	(32)	(33)	(65)
Interest charges	-	-	-	27	(256)	(8)	(237)
At 31 March 2009	387	(4)	383	360	(4,708)	89	(3,876)

Notes to the consolidated financial statements - supplementary information

25. Commitments and contingencies

(a) Future capital expenditure

	2009 £m	2008 £m
Contracted for but not provided	**763**	492

(b) Lease commitments

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

	2009 £m	2008 £m
Amounts due:		
In one year or less	**7**	6
In more than one year, but not more than two years	**6**	6
In more than two years, but not more than three years	**5**	5
In more than three years, but not more than four years	**4**	4
In more than four years, but not more than five years	**5**	5
In more than five years	**36**	41
	63	67

The majority of the leases are in respect of properties.

(c) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £1m (2008: £3m).

(d) Other commitments, contingencies and guarantees

The value of other commitments and guarantees at 31 March 2009 amounted to £40m (2008: £19m) and comprised the following:

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

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

26. Related party transactions

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

	Parent		Other related parties		Total	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Income:						
Goods and services supplied	**-**	-	**11**	4	**11**	4
Interest received on advances to fellow subsidiaries	**3**	7	**27**	30	**30**	37
	3	7	**38**	34	**41**	41
Expenditure:						
Services received	**-**	-	**(19)**	(24)	**(19)**	(24)
Corporate services received	**-**	-	**(12)**	(11)	**(12)**	(11)
Charges in respect of pensions costs	**-**	-	**(17)**	(16)	**(17)**	(16)
Charges in respect of share-based payments	**-**	-	**(2)**	(3)	**(2)**	(3)
Interest paid on borrowings from fellow subsidiaries	**(3)**	-	**(23)**	(17)	**(26)**	(17)
	(3)	-	**(73)**	(71)	**(76)**	(71)
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:						
Amounts receivable	**-**	-	**20**	197	**20**	197
Amounts payable	**-**	-	**(83)**	(204)	**(83)**	(204)
Advances to fellow subsidiaries (amounts due within one year):						
At 1 April	**71**	284	**845**	113	**916**	397
Advances	**-**	-	**-**	732	**-**	732
Repayments	**(71)**	(213)	**(824)**	-	**(895)**	(213)
At 31 March	**-**	71	**21**	845	**21**	916
Borrowings payable to fellow subsidiaries (amounts due within one year):						
At 1 April	**-**	-	**(408)**	(195)	**(408)**	(195)
Advances	**-**	-	**(9)**	(221)	**(9)**	(221)
Repayments	**-**	-	**406**	8	**406**	8
At 31 March	**-**	-	**(11)**	(408)	**(11)**	(408)

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 2009 (2008: £nil) and no expense recognised during the year (2008: £nil) in respect of bad or doubtful debts for related party transactions.

Details of key management compensation are provided in note 3(c).

27. Actuarial information on pensions

The Electricity Supply Pension Scheme is a funded scheme which is divided into two sections, one of which is National Grid's section. This section of the scheme provides final salary defined benefits and was closed to new entrants on 1 April 2006.

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

The latest full actuarial valuation as at 31 March 2007 has been carried out by Hewitt Associates Limited. The aggregate market value of the scheme's assets at that date was £1,345m and the value of the assets represented 77% of the actuarial value of benefits due to members, calculated on the basis of pensionable earnings and service at 31 March 2007 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £405m (£284m net of tax) on the valuation date in the light of which NGET agreed a recovery plan with the trustees.

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

Following the 2007 actuarial valuation, NGET and the trustees agreed a recovery plan which will see the remaining deficit paid off by March 2017. NGET paid deficit repair contributions of £90m (£63m net of tax) in the year to 31 March 2009 and a further payment of £90m (£60m net of tax) in April 2009.

As part of the 2007 valuation, National Grid arranged for banks to provide the trustees with letters of credit, including triggers to bring forward payment of the outstanding deficit and interest. The conditions under which payment of the outstanding deficit would be made are if NGET ceases to hold the licence granted under the Electricity Act 1989 or NGET's credit rating by two out of three specified agencies falls below an agreed level for a period of 40 days.

Asset allocations and actuarial assumptions

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

	2009	2008	2007
	%	%	%
Equities	**47.6**	55.5	61.2
Corporate bonds	**13.0**	9.0	7.6
Gilts	**33.0**	28.6	24.2
Property	**4.8**	5.8	6.6
Other	**1.6**	1.1	0.4
Total	**100.0**	100.0	100.0

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

The principal actuarial assumptions used were:

	2009	2008	2007
	%	%	%
Discount rate (i)	**6.8**	6.6	5.4
Expected return on plan assets	**6.3**	6.9	6.8
Rate of increase in salaries (ii)	**3.9**	4.7	4.2
Rate of increase in pensions in payment and deferment	**2.8**	3.8	3.3
Rate of increase in Retail Prices Index	**2.9**	3.7	3.2

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

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

27. Actuarial information on pensions continued

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

	2009 years	2008 years
Today:		
Males	**22.3**	22.1
Females	**23.7**	23.6
In 20 years:		
Males	**24.7**	24.6
Females	**26.5**	26.4

Sensitivities analysed - all other assumptions held constant:

	Change in in pension obligation		Change in in annual pension cost	
	2009 £m	2008 £m	**2009 £m**	2008 £m
0.1% increase in discount rate	**20**	25	**-**	1
0.5% increase in long-term rate of increase in salaries	**19**	24	**1**	1
Increase of one year in life expectations at age 60	**37**	45	**-**	-

The history of experience adjustments is as follows:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Details of experience gains/(losses)					
Present value of funded and unfunded obligations	**(1,553)**	(1,730)	(1,824)	(1,724)	(1,584)
Fair value of plan assets	**1,145**	1,321	1,336	1,334	1,161
	(408)	(409)	(488)	(390)	(423)
Difference between expected and actual return on plan assets	**(301)**	(77)	(25)	168	38
Experience losses on plan liabilities	**(19)**	(30)	(4)	(11)	(20)
Actuarial gains/(losses) on plan liabilities	**224**	128	(67)	(125)	2

28. Supplementary information on derivative financial instruments

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

Treasury financial instruments

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

Hedging policies using derivative financial instruments are further explained in note 30. Derivatives that are held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges. These are described as follows:

Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the item in relation to the risk being hedged are recognised in remeasurements within 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 which is swapped into a fixed sterling rate. 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.

29. Financial risk

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

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Boards of Directors of National Grid plc and NGET. This department identifies, evaluates and hedges financial risks in close co-operation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity as discussed further in our treasury policy, described on pages 19 and 21 of the Operating and Financial Review.

29. Financial risk continued

(a) Market risk

(i) Foreign exchange risk

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

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

During 2009 and 2008, derivative financial instruments were used to manage exchange risk as follows:

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

	2008				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Cash and cash equivalents	12	-	-	-	12
Financial investments	916	-	-	-	916
Borrowings	(3,730)	(485)	(1)	(98)	(4,314)
Pre-derivative position	(2,802)	(485)	(1)	(98)	(3,386)
Derivative effect	(545)	485	4	98	42
Net debt position	(3,347)	-	3	-	(3,344)

The currency exposure on other financial instruments is as follows:

	2009				2008			
	Sterling £m	**Euro £m**	**US dollar £m**	**Total £m**	Sterling £m	Euro £m	US dollar £m	Total £m
Trade and other receivables	**44**	**-**	**-**	**44**	198	25	12	235
Trade and other payables	**(433)**	**-**	**-**	**(433)**	(672)	-	-	(672)
Other non-current liabilities	**-**	**-**	**-**	**-**	(15)	-	-	(15)

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from our borrowings. Borrowings issued at variable rates expose NGET to cash flow interest rate risk. Borrowings issued at fixed rates expose NGET to fair value interest rate risk. The interest rate risk management policy as further explained on page 20 is to minimise the finance costs (being interest costs and changes in the market value of debt), subject to certain constraints. Some of the borrowings issued are index-linked, that is their cost is linked to changes in the UK Retail Prices Index (RPI). NGET believes that these borrowings provide a good hedge for revenues and our regulatory asset values that are also RPI-linked.

Interest rate risk arising from our financial investments is primarily variable.

29. Financial risk continued

(a) Market risk continued

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

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

	2009 £m	2008 £m
Fixed interest rate borrowings		
In one year or less	**61**	914
In more than one year but not more than two years	**258**	-
In more than two years but not more than three years	**-**	249
In more than three years but not more than four years	**-**	-
In more than four years but not more than five years	**577**	-
In more than five years	**1,373**	893
	2,269	2,056
Floating interest rate borrowings (including RPI)	**2,442**	2,258
Non-interest bearing borrowings	**1**	-
Total borrowings	**4,712**	4,314

During 2009 and 2008, net debt was managed using derivative instruments to hedge interest rate risk as follows:

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

2008	Fixed rate £m	Floating rate £m	RPI(i) £m	Other(ii) £m	Total £m
Cash and cash equivalents	-	12	-	-	12
Financial investments	-	886	-	30	916
Borrowings	(2,056)	(402)	(1,856)	-	(4,314)
Pre-derivative position	(2,056)	496	(1,856)	30	(3,386)
Derivative effect	338	(292)	(4)	-	42
Net debt position	(1,718)	204	(1,860)	30	(3,344)

(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 2009/10 maturing short dated derivative contracts.

29. Financial risk continued

(b) Credit risk

Credit risk is managed on a portfolio basis for National Grid as a whole. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Treasury related credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. The Company's limits are managed by the central treasury department of National Grid plc, as explained in our treasury policies on page 19.

As at 31 March 2009 and 2008, we had a number of exposures to individual counterparties. In accordance with our treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. The Company does not expect any significant losses from non-performance by these counterparties.

The counterparty exposure under derivative financial contracts as shown in note 12 was £168m (2008: £96m); after netting agreements it was £125m (2008: £70m).

Wholesale and retail credit risk

Our principal commercial exposure is governed by the credit rules within the regulated Connection and Use of System Code. This lays down the level of credit relative to the regulatory asset value for each credit rating. We have no retail credit risk. Management does not expect any significant losses of receivables that have not been provided for as shown in note 14.

(c) Liquidity analysis

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

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

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

At 31 March 2008	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	(885)	-	(250)	(3,163)	(4,298)
Interest payments on borrowings (i)	(139)	(129)	(128)	(2,531)	(2,927)
Other non-interest bearing liabilities	(672)	(15)	-	-	(687)
Derivative financial liabilities					
Derivative contracts - receipts	78	8	8	854	948
Derivative contracts - payments	(15)	(14)	(14)	(1,216)	(1,259)
Total at 31 March 2008	(1,633)	(150)	(384)	(6,056)	(8,223)

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

29. Financial risk continued

(d) Sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity to changes in market variables, being UK interest rates and the UK Retail Prices Index.

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

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant, and on the basis of the hedge designations in place at 31 March 2009 and 31 March 2008, respectively. As a consequence, this sensitivity analysis relates to the position at these dates and is not representative of the year then ended, as all of these items varied.

The following assumptions were made in calculating the sensitivity analysis:

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

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

	2009		2008	
	Income statement -/+ £m	**Equity -/+ £m**	Income statement -/+ £m	Equity -/+ £m
UK Retail Prices Index +/- 0.50%	**7**	**-**	6	-
UK interest rates +/- 0.50%	**3**	**18**	1	9

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

(e) Capital and risk management

NGET's objective when managing capital is to safeguard its ability to continue as a going concern and to remain within regulatory constraints. The principal measure of balance sheet efficiency is gearing calculated as net debt expressed as a percentage of regulatory asset value. The gearing ratio at 31 March 2009 was 58% compared to 52% at 31 March 2008. We regularly review and maintain or adjust the capital structure as appropriate in order to manage the level of gearing.

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

30. Share options and reward plans

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

Active share plans

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

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

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

Additional information in respect of active share plans

	2009 **000s**	2008 000s
Performance Share Plan		
Awards of ordinary share equivalents at 1 April	**698**	3,345
Awards made	**233**	231
Lapses/forfeits	**(24)**	(389)
Transfers (i)	**(6)**	(2,449)
Awards vested	**(30)**	(40)
Awards of ordinary share equivalents at 31 March	**871**	698
Conditional awards available for release at 31 March	**225**	-
Deferred Share Plan		
Awards of ordinary share equivalents at 1 April	**32**	371
Awards made	**21**	18
Transfers (i)	**-**	(341)
Awards vested	**-**	(16)
Awards of ordinary share equivalents at 31 March	**53**	32
Conditional awards available for release at 31 March	**-**	-

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

Non-active share plans

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

The Executive Share Option Plan applied to senior executives, including Executive Directors of National Grid plc. Options were subject to the achievement of performance targets related to National Grid's TSR over a three-year period and those for 2000 are awaiting retest. The share options are generally exercisable between the third and tenth anniversaries of the date of grant if the relevant performance target is achieved.

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

Additional information in respect of non-active share plans

	2009 **000s**	2008 000s
Share Matching Plan		
Awards at 1 April	**8**	288
Awards granted	**-**	-
Awards transferred out	**-**	(266)
Awards exercised	**(5)**	(14)
Awards at 31 March	**3**	8
Options exercisable at 31 March	**3**	3

30. Share options and reward plans continued

Share options

Movements in options to subscribe for ordinary shares under the various option schemes for the two years ended 31 March 2009 are shown below and include those options related to shares issued to employee benefit trusts.

	Sharesave scheme options		Executive Plan options		Total options
	Weighted average price £	millions	Weighted average price £	millions	millions
At 1 April 2007	3.86	6.1	4.61	2.0	8.1
Granted	6.55	1.0	-	-	1.0
Lapsed - expired	4.36	(0.1)	5.31	(0.1)	(0.2)
Exercised	3.40	(1.7)	4.92	(0.2)	(1.9)
Transfers (i)	3.86	0.1	4.38	(1.2)	(1.1)
At 31 March 2008	4.52	5.4	4.87	0.5	5.9
Granted	4.88	2.9	-	-	2.9
Lapsed - expired	6.21	(0.9)	5.26	-	(0.9)
Exercised	3.73	(0.6)	4.54	(0.2)	(0.8)
Transfers (i)	4.52	0.1	-	-	0.1
At 31 March 2009	**4.51**	**6.9**	**5.00**	**0.3**	**7.2**

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

Included within options outstanding at 31 March 2009 and 31 March 2008 were the following options which were exercisable:

At 31 March 2009	**4.25**	**0.0**	**4.70**	**0.2**	**0.2**
At 31 March 2008	3.64	0.2	4.58	0.3	0.5

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2009 was 2 years and 4 month. These options have exercise prices between £3.17 and £6.55.

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

	2009 £	2008 £
Sharesave scheme options	6.99	7.79
Executive Plan options	6.81	7.68

Additional information in respect of share options

Options outstanding and exercisable and their weighted average exercise prices for the respective ranges of exercise prices and years at 31 March 2009 are as follows:

	Weighted average exercise price of exercisable options £	Number exercisable	Weighted average exercise price of outstanding options £	Number outstanding	Exercise price per share pence	Normal dates of exercise years
Executive Plan	4.36	7,787	4.36	7,787	435.75	2003 - 2010
	5.26	21,435	5.26	206,914	526.00	2004 - 2011
	4.64	135,572	4.64	135,572	460.25 - 481.50	2006 - 2013
	4.70	164,794	5.00	350,273		

Share-based payment charges

The charge to the income statement for the year ended 31 March 2009 was £2m (2008: £2m).

Awards under share option plans

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

	2009	2008
Average share price	**684.0p**	846.0p
Average exercise price	**488.0p**	655.0p
Average fair value	**153.7p**	190.0p

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

30. Share options and reward plans continued

Share options continued

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

	2009	2008
Dividend yield (%)	**5.0**	4.5
Volatility (%)	**22.4-26.1**	15.6-18.9
Risk-free investment rate (%)	**2.5**	4.2
Average life (years)	**4.2**	4.1

The fair values of awards under the Sharesave scheme have been calculated using the Black-Scholes European model. This is considered appropriate given the short exercise window of sharesave options. The fair value of awards made in 2007 and 2008 onwards have been calculated by reference to the prior year's Black-Scholes European model calculation.

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

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

Awards under other share scheme plans

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

	2009	2008
Average share price	**670.1p**	766.9p
Average fair value	**458.1p**	522.8p

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

	2009	2008
Dividend yield (%)	4.4	4.4
Risk-free investment rate (%)	2.5	4.1

Fair values have been calculated using a Monte Carlo simulation model, for awards with total shareholder return performance conditions made prior to 1 April 2006. The fair value of awards made in 2008 and 2007 have been calculated by reference to the prior year's Monte Carlo simulation model calculation. Fair values of awards with performance conditions based on earnings per share have been calculated using the share price at date of grant less the present value of dividends foregone during the performance period.

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

31. 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.

32. Subsidiary undertakings

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

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

Company accounting policies

for the year ended 31 March 2009

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.

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

These financial statements are presented in pounds sterling because that 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. Furthermore, 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. 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.

C. Tangible fixed assets

Tangible fixed assets are included in the balance sheet at their cost less accumulated depreciation. Costs include payroll costs and finance costs incurred which are directly attributable to the construction of tangible fixed assets.

Tangible fixed assets 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, extensions to, or significant increases in, the capacity of tangible fixed assets.

Contributions received towards the cost of tangible fixed assets are included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the life of the assets.

Depreciation is not provided on freehold land or assets in the course of construction. Other tangible fixed assets 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 tangible fixed assets are, in general, as shown in the table below:

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

D. Impairment of fixed assets

Impairments of fixed assets are calculated as the difference between the carrying values of the net assets of income generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit.

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that fixed assets are not carried above their estimated recoverable amounts. Impairments are recognised in the profit and loss account, and, where material, are disclosed as exceptional. Impairment reversals are recognised when, in management's opinion, the reversal is permanent.

E. 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.

Current tax assets and liabilities arising from transfer pricing adjustments, which are expected to be fully recovered through group relief, are initially estimated and recognised in the current year where material. Further adjustments are recognised when tax returns are submitted to the tax authorities. In the prior year, current tax asset and liabilities arising from transfer pricing adjustments, which were expected to be fully recovered through group relief, were recognised when tax returns were submitted to the tax authorities.

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.

F. Stocks

Stocks are stated at the lower of cost and net realisable value.

G. Revenue

Revenue represents the sales value derived from the transmission of electricity and the provision of related services during the year, including an assessment of services provided, but not invoiced as at the year end. It excludes value added tax and intra-group sales.

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.

H. Pensions

For defined benefit pension schemes, the regular service cost of providing retirement benefits to employees during the period, together with the cost of any benefits relating to past service, are recognised within operating costs.

The interest cost on retirement benefit scheme liabilities and the expected return on scheme assets during the year, are recognised in the profit and loss account within net interest.

The actuarial value of pension liabilities, net of the market value of the assets of the scheme are recognised as a liability in the balance sheet, net of the related deferred tax asset.

The difference between the actual and expected returns on scheme assets and the experience gains or losses arising on scheme liabilities, together with gains or losses arising from changes in actuarial assumptions, are recognised directly in equity within the profit and loss account reserve.

I. Leases

Operating lease payments are charged to the profit and loss account on a straight-line basis over the term of the lease.

J. 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.

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, is recognised on an effective interest rate basis in the profit and loss account.

Borrowings, which include interest-bearing loans, UK Retail Price 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 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 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 on financial instruments measured at fair value that are quoted in active markets are based on bid process 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.

K. Hedge accounting

The Company enters into derivative financial instruments ('derivatives') and non-derivative financial instruments in order to manage 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 and forward foreign currency contracts.

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.

L. Share-based payments

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

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

M. Restructuring costs

Costs arising from the Company's restructuring programmes primarily relate to redundancy costs. Redundancy costs are charged to the profit and loss account in the period in which the Company becomes irrevocably committed to incurring the costs and the main features of the restructuring plan have been announced to affected employees.

N. 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.

Company balance sheet

at 31 March

	Notes	2009 £m	2008 £m
Fixed assets			
Tangible assets	5	**6,034**	5,409
		6,034	5,409
Current assets			
Stocks	6	**31**	18
Debtors (amounts falling due within one year)	7	**177**	357
Debtors (amounts falling due after more than one year)	7	**-**	4
Derivative financial instruments (amounts falling due within one year)	8	**34**	76
Derivative financial instruments (amounts falling due after more than one year)	8	**134**	20
Current asset investments	9	**408**	917
Cash at bank and in hand		**339**	9
		1,123	1,401
Creditors (amounts falling due within one year)			
Borrowings	12	**(91)**	(927)
Derivative financial instruments	8	**(24)**	(6)
Other creditors		**(568)**	(742)
	10	**(683)**	(1,675)
Net current (liabilities)/assets		**440**	(274)
Total assets less current liabilities		**6,474**	5,135
Creditors (amounts falling due after more than one year)			
Borrowings	12	**(4,623)**	(3,387)
Derivative financial instruments	8	**(55)**	(48)
Other creditors		**(210)**	(135)
	11	**(4,888)**	(3,570)
Provisions for liabilities and charges	13	**(823)**	(805)
Net assets before pension liability		**763**	760
Net pension liability	14	**(280)**	(278)
Net assets employed		**483**	482
Capital and reserves			
Called up share capital	15	**44**	44
Cash flow hedge reserve	16	**(45)**	(21)
Profit and loss account	16	**484**	459
Total shareholders' funds		**483**	482

Commitments and contingencies are shown in note 17 to the Company financial statements.

The notes on pages 72 to 77 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 5 June 2009 and were signed on its behalf by:

Paul Whittaker Director

Stuart Humphreys 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 FRSs and abstracts. None of these had a material impact on the consolidated 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 FRS 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 from 1 April 2009.
Amendment to FRS 25 on puttable financial instruments and obligations arising on liquidation	Addresses the classification as a liability or as equity 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 hedge able 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.
Amendment to FRS 29	Incorporates the changes made to IFRS 7 to require enhanced disclosures about fair value measurements and liquidity risk, and incorporates the credit risk disclosures for loans and receivables.

2. Auditors' remuneration

Auditors' remuneration in respect of the Company is set out below:

	2009 £m	2008 £m
Audit services		
Audit fee of parent company and consolidated financial statements	**0.3**	0.4
Other services		
Other services supplied pursuant to legislation	**0.2**	0.3

Comparatives have been restated to present items on a basis consistent with the current year classification

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

3. Number of employees, including Directors

	2009 Average number	2008 Average number
United Kingdom	**2,469**	2,425

4. Directors' emoluments

Details of Directors' emoluments are provided in note 3(d) to the consolidated financial statements.

5. Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2008	154	6,654	1,273	211	8,292
Additions	27	591	198	55	871
Disposals	-	(73)	-	(1)	(74)
Reclassifications	4	4	(3)	(5)	-
Cost at 31 March 2009	185	7,176	1,468	260	9,089
Depreciation at 1 April 2008	(27)	(2,688)	-	(168)	(2,883)
Depreciation charge for the year	(4)	(192)	-	(35)	(231)
Disposals	-	58	-	1	59
Reclassifications	(1)	(23)	-	24	-
Depreciation at 31 March 2009	(32)	(2,845)	-	(178)	(3,055)
Net book value at 31 March 2009	**153**	**4,331**	**1,468**	**82**	**6,034**
Net book value at 31 March 2008	127	3,966	1,273	43	5,409

The net book value of land and buildings comprised:

	2009 £m	2008 £m
Freehold	**110**	106
Long leasehold (over 50 years)	**3**	3
Short leasehold (under 50 years)	**40**	18
	153	127

The cost of tangible fixed assets at 31 March 2009 included £590m (2008: £519m) relating to interest capitalised.

Included within creditors (amounts falling due within one year) and creditors (amounts falling due after more than one year) are contributions to the cost of tangible fixed assets amounting to £6m (2008: £4m) and £209m (2008: £118m) respectively.

6. Stocks

	2009 £m	2008 £m
Raw materials and consumables	**31**	13
Work in progress	**-**	5
	31	18

7. Debtors

	2009 £m	2008 £m
Amounts falling due within one year:		
Trade debtors	**17**	23
Amounts owed by fellow subsidiary undertakings	**20**	187
Other debtors	**7**	25
Corporation tax recoverable	**-**	-
Prepayments and accrued income	**133**	122
	177	357
Amounts falling due after more than one year:		
Other debtors	**-**	4
	-	4
Total debtors	**177**	361

8. Derivative financial instruments

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

	2009			2008		
	Assets	**Liabilities**	**Total**	Assets	Liabilities	Total
Amounts falling due in one year	**34**	**(24)**	**10**	76	(6)	70
Amounts falling due after more than one year	**134**	**(55)**	**79**	20	(48)	(28)
	168	**(79)**	**89**	96	(54)	42

For each class of derivative the sterling equivalent notional value of the pay leg is as follows:

	2009	2008
	£m	£m
Interest rate swaps	**(1,922)**	(1,987)
Cross-currency interest rate swaps	**(698)**	(514)
Foreign exchange forward currency	**(29)**	(4)
Forward rate agreements	**(1,980)**	-
	(4,629)	(2,505)

9. Financial investments

	2009	2008
	£m	£m
Advances to fellow subsidiary undertakings	**408**	917

10. Creditors (amounts falling due within one year)

	2009	2008
	£m	£m
Borrowings (note 12)	**91**	927
Derivative financial instruments (note 8)	**24**	6
Trade creditors	**198**	289
Accruals	**133**	106
Amounts owed by group undertakings	**1**	-
Amounts owed to fellow subsidiary undertakings	**79**	206
Social security and other taxes	**31**	4
Other creditors	**18**	73
Deferred income	**108**	64
	683	1,675

11. Creditors (amounts falling due after more than one year)

	2009	2008
	£m	£m
Borrowings (note 12)	**4,623**	3,387
Derivative financial instruments (note 8)	**55**	48
Other creditors	**-**	15
Deferred income	**210**	120
	4,888	3,570

Deferred income mainly comprises contributions to capital projects.

12. Borrowings

The following table analyses the company's borrowings:

	2009 £m	2008 £m
Amounts falling due within one year		
Bank loans	**30**	1
Bank overdrafts	**4**	-
Bonds	**46**	518
Borrowings from fellow subsidiary undertakings	**11**	408
	91	927
Amounts falling due after more than one year		
Bank loans	**400**	400
Bonds	**4,223**	2,987
	4,623	3,387
Total borrowings	**4,714**	4,314

	2009 £m	2008 £m
Total borrowings are repayable as follows:		
In one year or less	**91**	927
More than one year, but not more than two years	**258**	-
More than two years, but not more than three years	**-**	249
More than three years, but not more than four years	**200**	-
More than four years, but not more than five years	**577**	200
More than five years, other than by instalments	**3,588**	2,938
	4,714	4,314

The notional amount outstanding of the Company's debt portfolio at 31 March 2009 was £4,595m (2008: £4,298m).

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

13. Provisions for liabilities and charges

	Deferred taxation £m	Environ-mental £m	Other £m	Total £m
At 31 March 2008	790	2	13	805
(Credited)/charged to profit and loss account	24	-	5	29
Transferred to reserves	(9)	-	-	(9)
Utilised	-	-	(2)	(2)
At 31 March 2009	**805**	**2**	**16**	**823**

Details of the environmental provision and other provisions are shown in note 21 to the consolidated financial statements.

Deferred taxation

Deferred taxation provided in the financial statements comprises:

	2009 £m	2008 £m
Accelerated capital allowances	**829**	809
Other timing differences, excluding pensions liability	**(24)**	(19)
Included within provisions for liabilities and charges	**805**	790
Pensions liability	**(109)**	(108)
	696	682

There are no other significant unrecognised deferred tax assets or liabilities.

14. Pensions

Substantially all of the Company's employees are members of the National Grid Electricity Group of the Electricity Supply Pension Scheme. Further details of the scheme and the actuarial assumptions used to value the associated assets and pension obligations are provided in notes 5 and 27 to the consolidated financial statements.

The amounts recognised in the balance sheet of the Company are as follows:

	2009 £m	2008 £m
Present value of funded obligations	**(1,520)**	(1,693)
Fair value of plan assets	**1,145**	1,321
	(375)	(372)
Present value of unfunded obligations	**(14)**	(14)
Net liability in the balance sheet	**(389)**	(386)
Related deferred tax asset	**109**	108
Net pension liability	**(280)**	(278)

	2009 £m	2008 £m
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation (including unfunded obligations)	**1,707**	1,799
Current service cost	**18**	19
Interest cost	**111**	95
Actuarial (gains)/losses	**(221)**	(125)
Net increase in liabilities from redundancies	**1**	3
Employee contributions	**6**	6
Benefits paid	**(86)**	(83)
Net transfers	**(3)**	(8)
Other augmentations	**1**	1
Closing defined benefit obligation (including unfunded obligations)	**1,534**	1,707

	2009 £m	2008 £m
Changes in the fair value of plan assets		
Opening fair value of plan assets	**1,321**	1,336
Expected return on plan assets	**93**	89
Actuarial losses	**(301)**	(77)
Employer contributions	**115**	58
Employee contributions	**6**	6
Benefits paid	**(86)**	(83)
Net transfers	**(3)**	(8)
Closing fair value of plan assets	**1,145**	1,321

15. Share capital

	millions	£m
At 31 March 2008 and 2009 - ordinary shares of 10p each		
Allotted, called up and fully paid	437	44
Authorised	2,751	275

16. Reserves

	Cash flow hedge reserve £m	Profit and loss account £m
At 31 March 2008	(21)	459
Actuarial losses (net of tax)	-	(54)
Net expense transferred to equity in respect of cash flow hedges (net of tax)	(24)	-
Share-based payments	-	1
Tax on share-based payments	-	1
Profit for the year	-	377
Dividends	-	(300)
At 31 March 2009	**(45)**	**484**

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 tax for the year was £377m (2008: £412m).

17. Commitments and contingencies

(a) Future capital expenditure

	2009 £m	2008 £m
Contracted for but not provided	**763**	492

(b) Lease commitments

At 31 March 2009, the Company's total operating lease commitments for the financial year ending 31 March 2010 amounted to £7m (2008 commitments for 2009: £6m) and are analysed by lease expiry date as follows:

	Land and buildings		Other		Total	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Expiring:						
In one year or less	**-**	-	**1**	-	**1**	-
In more than one year, but not more than five years	**1**	-	**1**	1	**2**	1
In more than five years	**4**	4	**-**	1	**4**	5
	5	4	**2**	2	**7**	6

The Company's total commitments under non-cancellable operating leases were as follows:

	2009 £m	2008 £m
Amounts:		
In one year or less	**7**	6
In more than one year, but not more than two years	**6**	6
In more than two years, but not more than three years	**5**	5
In more than three years, but not more than four years	**4**	4
In more than four years, but not more than five years	**5**	5
In more than five years	**36**	40
	63	66

(c) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £1m (2008: £3m).

(d) Other commitments, contingencies and guarantees

The value of other commitments and guarantees at 31 March 2009 amounted to £40m (2008: £19m) and comprised the following:

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

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

Glossary and definitions

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

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

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

FRS
UK Financial Reporting Standard.

GAAP
Generally accepted accounting principles.

GW
Gigawatt, 10^9 watts.

GWh
Gigawatt hours.

HSE
Health and Safety Executive.

IAS
International Accounting Standard.

IFRIC
The International Financial Reporting Interpretations Committee, which provides guidance on how to apply accounting standards.

IFRS
International Financial Reporting Standard.

KPI
Key Performance Indicator.

Lost time injury
A work-related injury which causes a person to be away from work for at least one normal shift after the shift on which the injury occurs, because the person is unfit to perform his or her duties.

National Grid
National Grid plc, the ultimate parent company of National Grid Electricity Transmission plc and its controlling party.

Ofgem
The Office of Gas and Electricity Markets.

RAV
Regulatory asset value

tonnes CO_2 equivalent
Measure of greenhouse gas emissions in relation to the impact of carbon dioxide.

TW
Terawatt, 10^{12} watts.

TWh
Terawatt hours.

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