Accounting policies

for the year ended 31 March 2010

A. Basis of preparation of consolidated financial statements under IFRS

National Grid's principal activities involve the transmission and distribution of electricity and gas in Great Britain and the northeastern United States. The Company is a public limited liability company incorporated and domiciled in England, with its registered office at 1-3 Strand, London WC2N 5EH.

The Company has its primary listing on the London Stock Exchange and is also quoted on the New York Stock Exchange. These consolidated financial statements were approved for issue by the Board of Directors on 19 May 2010.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS as adopted by the European Union. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ending 31 March 2010 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the European Union IAS Regulation. The 2009 and 2008 comparative financial information has also been prepared on this basis.

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

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

Our Ravenswood generation station, KeySpan Communications business and KeySpan engineering companies were classified as discontinued operations in the consolidated income statement, in accordance with our accounting policy I. These businesses were sold during the year ended 31 March 2009, except for two engineering companies, which were sold subsequent to that date.

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, together with a share of the results, assets and liabilities of jointly controlled entities (joint ventures) and associates using the equity method of accounting, where the investment is carried at cost plus post-acquisition changes in the share of net assets of the joint venture, less any provision for impairment.

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. A joint venture is an entity established to engage in economic activity, which the Company jointly controls with its fellow venturers. An associate is an entity which is neither a subsidiary nor a joint venture, but over which the Company has significant influence.

Losses in excess of the consolidated interest in joint ventures are not recognised, except where the Company or its subsidiaries have made a commitment to make good those losses.

Where necessary, adjustments are made to bring the accounting policies applied under UK generally accepted accounting principles (UK GAAP), US generally accepted accounting principles (US GAAP) or other frameworks used in the individual financial statements of the Company, subsidiaries, joint ventures and associates into line with those used by the Company in its consolidated financial statements under IFRS. Intercompany transactions are eliminated.

The results of subsidiaries, joint ventures and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Acquisitions are accounted for using the purchase method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

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. Non-monetary assets are not retranslated unless they are carried at fair value.

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

On consolidation, the assets and liabilities of operations that have a functional currency different from the Company's functional currency of pounds sterling, principally our US operations that have a functional currency of US dollars, are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the weighted average exchange rates for the period where these do not differ materially from rates at the date of the transaction. Exchange differences arising are classified as equity and transferred to the consolidated translation reserve.

D. Goodwill

Goodwill arising on a business combination represents the difference between the cost of acquisition and the Company's consolidated interest in the fair value of the identifiable assets and liabilities of a subsidiary or joint venture as at the date of acquisition.

Goodwill is recognised as an asset and is not amortised, but is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill recorded under UK GAAP arising on acquisitions before 1 April 2004, the date of transition to IFRS, has been frozen at that date, subject to subsequent testing for impairment.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

E. Intangible assets other than goodwill

With the exception of goodwill, as described above, 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 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.

On a business combination, as well as recording separable intangible assets possessed by the acquired entity at their fair value, identifiable intangible assets that arise from contractual or other legal rights are also included in the balance sheet at their fair value. Acquisition-related intangible assets principally comprise customer relationships.

Non-current intangible assets, other than goodwill, are amortised on a straight-line basis over their estimated economic useful lives. Amortisation periods for categories of intangible assets are:

Amortisation periods	Years
Software	3 to 5
Acquisition-related intangibles	10 to 25
Other – licences and other intangibles	3 to 5

Intangible emission allowances are accounted for in accordance with accounting policy V.

F. Property, plant and equipment

Property, plant and equipment is recorded at cost or deemed cost at the date of transition to IFRS, 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 includes assets in which the Company's interest comprises legally protected statutory or contractual rights of use.

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

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

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

No depreciation is provided on freehold land or assets in the course of construction.

Other items of property, plant and equipment are depreciated, principally on a straight-line basis, at rates estimated to write off their book values over their estimated economic useful lives. In assessing estimated economic useful 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 65
Plant and machinery	
Electricity transmission plant	15 to 60
Electricity distribution plant	15 to 60
Electricity generation plant	20 to 40
Interconnector plant	15 to 60
Gas plant – mains, services and regulating equipment	30 to 100
Gas plant – storage	40
Gas plant – meters	10 to 33
Motor vehicles and office equipment	up to 10

G. 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.

Goodwill is tested for impairment at least annually. Otherwise, tests for impairment are carried out only if there is some indication that the carrying value of the assets may have been impaired.

Material impairments are recognised in the income statement and are disclosed separately.

H. Taxation

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts 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 and investment tax credits

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

Accounting policies continued

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

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities, 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 tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Investment tax credits are amortised over the economic life of the assets that give rise to the credits.

I. Discontinued operations, assets and businesses held for sale

Cash flows and operations that relate to a major component of the business or geographical region that has been sold or is classified as held for sale are shown separately from continuing operations.

Assets and businesses classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. No depreciation is charged on assets and businesses classified as held for sale.

Assets and businesses are classified as held for sale if their carrying amount will be recovered or settled principally through a sale transaction rather than through continuing use. This condition is regarded as being met only when the sale is highly probable and the assets or businesses are available for immediate sale in their present condition or is a subsidiary acquired exclusively with a view to resale. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Finance income or costs are included in discontinued operations only in respect of financial assets or liabilities classified as held for sale or derecognised on sale.

J. Inventories

Inventories are stated at the lower of cost (calculated on a weighted average basis) and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

K. Decommissioning and environmental costs

Provision is made for decommissioning and environmental costs, based on future estimated expenditures, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated economic useful lives; otherwise such changes are recognised in the income statement.

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

L. Revenue

Revenue primarily represents the sales value derived from the generation, transmission, and distribution of energy and recovery of US stranded costs together with the sales value derived from the provision of other services to customers during the year and excludes value added tax and intra-group sales.

US stranded costs are various generation-related costs incurred prior to the divestiture of generation assets beginning in the late 1990s and costs of legacy contracts that are being recovered from customers. The recovery of stranded costs and other amounts allowed to be collected from customers under regulatory arrangements are recognised in the period in which they are recoverable from customers.

Revenue includes an assessment of unbilled energy and transportation services supplied to customers between the date of the last meter reading and the year end.

Where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery, no liability is recognised as such an adjustment to future prices relates to the provision of future services. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

M. Segmental information

Segmental information is based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between operating segments. The Board of Directors is deemed to be the chief operating decision maker and assesses the performance of operations principally on the basis of operating profit before exceptional items, remeasurements and stranded cost recoveries (see accounting policy T).

N. Pensions and other post-retirement benefits

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

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

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

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

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

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

The 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.

O. Leases

Rentals under operating leases are charged to the income statement 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 the 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.

P. Financial instruments

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

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

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

Other financial investments are recognised at fair value plus, in the case of available-for-sale financial investments, directly related incremental transaction costs and are subsequently carried at fair value on the balance sheet. Changes in the fair value of investments classified as fair value through profit and loss are included in the income statement, while changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered as an indicator that the securities are impaired. Investment income on investments classified as fair value through profit and loss and on available-for-sale investments is recognised using the effective interest method 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 these 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 production of qualifying assets (being assets that necessarily take a substantial period of time to prepare for their intended use or sale) are added to their cost. Such additions cease when the assets are substantially ready for their intended use.

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

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

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

Accounting policies continued

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.

Q. Commodity contracts

Commodity contracts that meet the definition of a derivative and which do not meet the exemption for normal sale, purchase or usage are carried at fair value.

Remeasurements of commodity contracts carried at fair value are recognised in the income statement, with changes due to movements in commodity prices recorded in operating costs and changes relating to movements in interest rates recorded in finance costs.

Where contracts are traded on a recognised exchange and margin payments are made, the contract fair values are reported net of the associated margin payments.

Energy purchase contracts for the forward purchase of electricity or gas that are used to satisfy physical delivery requirements to customers or for energy that the Company uses itself meet the normal purchase, sale or usage exemption of IAS 32 'Financial Instruments: Presentation'. They are, therefore, not recognised in the financial statements. Disclosure of commitments under such contracts is made in the notes to the financial statements (see note 28).

R. Hedge accounting

The Company and its subsidiaries enter into both derivative financial instruments (derivatives) and non-derivative financial instruments in order to manage interest rate and foreign currency exposures, and commodity price risks 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 the 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. National Grid uses three 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 with 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.

Thirdly, foreign exchange gains or losses arising on financial instruments that are designated and effective as hedges of the Company's consolidated net investment in overseas operations (net investment hedges) are recorded directly in equity, with any ineffective portion recognised immediately in the income statement.

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

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 income statement in the same periods in which the previously hedged item affects net profit or loss. Amounts deferred in equity with respect to net investment hedges are subsequently recognised in the income statement in the event of the disposal of the overseas operations concerned. 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.

S. Share-based payments

The Company issues equity-settled, share-based payments to certain employees of the Company's subsidiary undertakings.

Equity-settled, share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest.

T. Business performance and exceptional items, remeasurements and stranded cost recoveries

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

Exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles are items of income and expense that, in the judgement of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of 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 or decommissioning provisions, integration of acquired businesses, restructuring costs and gains or losses on disposals of businesses or investments.

Costs arising from restructuring programmes include 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 commodity contracts and of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective.

Stranded cost recoveries represent the recovery of historical generation-related costs in the US, related to generation assets that are no longer owned by National Grid. Such costs are being recovered from customers as permitted by regulatory agreements.

Acquisition-related intangibles comprise intangible assets, principally customer relationships, that are only recognised as a consequence of accounting required for a business combination. The amortisation of acquisition-related intangibles distorts the comparison of the financial performance of acquired businesses with non-acquired businesses.

U. Other operating income

Other operating income relates to income which is considered to be part of normal recurring operating activities, but which does not represent revenue (see accounting policy L), and includes property sales, emissions trading income and pension deficit recovery.

V. Emission allowances

Emission allowances, principally relating to the emissions of carbon dioxide in the UK and sulphur and nitrous oxides in the US, are recorded as intangible assets within current assets and are initially recorded at cost and subsequently at the lower of cost and net realisable value. Where emission allowances are granted by relevant authorities, cost is deemed to be equal to the fair value at the date of allocation. Receipts of such grants are treated as deferred income, which is recognised in the income statement as the related charges for emissions are recognised or on impairment of the related intangible asset. A provision is recorded in respect of the obligation to deliver emission allowances and emission charges are recognised in the income statement in the period in which emissions are made.

Income from emission allowances that are sold is reported as part of other operating income.

W. Cash and cash equivalents

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

X. Other equity reserves

Other equity reserves comprise the translation reserve (see accounting policy C), cash flow hedge reserve (see accounting policy R), available-for-sale reserve (see accounting policy P), the capital redemption reserve and the merger reserve. The latter arose as a result of the application of merger accounting principles under the then prevailing UK GAAP, which under IFRS 1 was retained for mergers that occurred prior to the IFRS transition date of 1 April 2004. Under merger accounting principles, the difference between the carrying amount of the capital structure of the acquiring vehicle and that of the acquired business was treated as a merger difference and included within reserves.

As the amounts included in other equity reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

Y. Dividends

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

Z. 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 estimations 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 as follows:

- The categorisation of certain items as exceptional items, remeasurements and stranded cost recoveries and the definition of adjusted earnings – notes 3 and 9.
- The exemptions adopted on transition to IFRS on 1 April 2004 including, in particular, those relating to business combinations.
- Classification of business activities as held for sale and discontinued operations – accounting policy I.
- Hedge accounting – accounting policy R.
- Energy purchase contracts – classification as being for normal purchase, sale or usage – accounting policy Q and note 28.

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

- Impairment of goodwill – accounting policy D and note 10.
- Review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – accounting policies E, F and G.
- Estimation of liabilities for pensions and other post-retirement benefits – note 4.
- Valuation of financial instruments and derivatives – notes 17 and 31.
- Revenue recognition and assessment of unbilled revenue – accounting policy L.
- Recoverability of deferred tax assets – accounting policy H and note 16.
- Environmental and decommissioning provisions – note 24.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2009/10

During the year ended 31 March 2010, the Company adopted the following International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) or amendments, and interpretations by the International Financial Reporting Interpretations Committee (IFRIC). The impact of IFRIC 18 is to increase operating profit for the year ended 31 March 2010 and reduce liabilities at 31 March 2010 by £22m. In accordance with the transition provisions of IFRIC 18 'Transfers of assets from customers', comparative amounts have not been restated. None of the other pronouncements had a material impact on the Company's consolidated results or assets and liabilities.

IFRIC 18 on transfers of assets from customers	Addresses arrangements whereby an entity receives items of property, plant and equipment or cash which the entity must use to connect customers to a network or provide access to a supply of goods or services, or both.
IAS 1 revised on the presentation of financial statements	Requires changes to the presentation of financial statements and adopts revised titles for the primary statements, although companies may continue to use the existing titles.
Amendment to IFRS 7 on improving disclosures about financial instruments	Introduces a three-level hierarchy for fair value measurement disclosures and requires entities to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk. The additional information required by this amendment can be found in note 32 and note 33.
IFRS 8 on operating segments	Sets out the requirements for the disclosure of information about an entity's operating segments and about the entity's products and services, the geographical areas in which it operates and its major customers.
IAS 23 revised on borrowing costs	Removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.
IFRIC 13 on customer loyalty programmes	Clarifies that the sale of goods or services together with customer award credits (for example, loyalty points or the right to free products) is accounted for as a multiple-element transaction. The consideration received from the customer is allocated between the components of the arrangement based on their fair values, which will defer the recognition of some revenue.
Amendment to IFRS 2 on share-based payments	Clarifies the definition of vesting conditions and the accounting treatment of cancellations. Vesting conditions are defined as either service conditions or performance conditions. Cancellations by employees are accounted for in the same way as cancellations by the Company.
Amendments to IAS 32 and IAS 1 on puttable financial instruments and obligations arising on liquidation	Addresses the classification as a liability or as equity of certain puttable financial instruments and instruments, or components thereof, which impose upon an entity an obligation to deliver a pro rata share of net assets on liquidation.
Amendment to IFRS 1 First time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements on the cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	Permits investments to be recognised on first time adoption of IFRS at cost or deemed cost (fair value or previous GAAP carrying amount) and removes the requirement to recognise dividends out of pre-acquisition profits as a reduction in the cost of the investment.
Improvements to IFRS 2008	Contains amendments to various existing standards.
IFRIC 15 on agreements for the construction of real estate	Addresses the timing of revenue recognition for entities engaged in the construction of real estate for their customers.
IFRIC 16 on hedges of a net investment in a foreign operation	Clarifies that a hedged risk may be designated at any level in a group and hedging instruments may be held by any company in a group (except the foreign entity being hedged), that net investment hedge accounting may not be adopted in respect of a presentation currency and, on disposal the amounts to be reclassified from equity to profit or loss are the cumulative gain or loss on the hedging instrument and the cumulative translation difference on the foreign operation disposed of.
Amendment to IAS 39 Financial Instruments: Recognition and measurement: Reclassification of Financial Assets: Effective Date and Transition	Clarifies the effective date of the reclassification of financial assets.
Amendments to IAS 39 and IFRIC 9 on embedded derivatives	Requires reassessment of whether an embedded derivative should be separated out if a financial asset is reclassified out of the fair value through profit or loss category.

New IFRS accounting standards and interpretations not yet adopted

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

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

Consolidated income statement

for the years ended 31 March

	Notes	2010 £m	2010 £m	2009 £m	2009 £m	2008 £m	2008 £m
Revenue	1(a)		**13,988**		15,624		11,423
Other operating income			**19**		63		75
Operating costs	2		**(10,714)**		(13,064)		(8,534)
Operating profit							
Before exceptional items, remeasurements and stranded cost recoveries	1(b)	**3,121**		2,915		2,595	
Exceptional items, remeasurements and stranded cost recoveries	3	**172**		(292)		369	
Total operating profit	1(b)		**3,293**		2,623		2,964
Interest income and similar income	5		**1,005**		1,315		1,275
Interest expense and other finance costs							
Before exceptional items and remeasurements	5	**(2,160)**		(2,465)		(2,045)	
Exceptional items and remeasurements	3,5	**47**		(84)		(16)	
Total interest expense and other finance costs	5		**(2,113)**		(2,549)		(2,061)
Share of post-tax results of joint ventures and associates	15		**8**		5		4
Profit before taxation							
Before exceptional items, remeasurements and stranded cost recoveries	1(b)	**1,974**		1,770		1,829	
Exceptional items, remeasurements and stranded cost recoveries	3	**219**		(376)		353	
Total profit before taxation	1(b)		**2,193**		1,394		2,182
Taxation							
Before exceptional items, remeasurements and stranded cost recoveries	6	**(553)**		(517)		(579)	
Exceptional items, remeasurements and stranded cost recoveries	3,6	**(251)**		45		(28)	
Total taxation	6		**(804)**		(472)		(607)
Profit from continuing operations after taxation							
Before exceptional items, remeasurements and stranded cost recoveries		**1,421**		1,253		1,250	
Exceptional items, remeasurements and stranded cost recoveries	3	**(32)**		(331)		325	
Profit for the year from continuing operations			**1,389**		922		1,575
Profit for the year from discontinued operations							
Before exceptional items and remeasurements	7	**–**		9		28	
Exceptional items and remeasurements	7	**–**		16		1,590	
Profit for the year from discontinued operations	7		**–**		25		1,618
Profit for the year			**1,389**		947		3,193
Attributable to:							
Equity shareholders of the parent			**1,386**		944		3,190
Minority interests			**3**		3		3
			1,389		947		3,193
Earnings per share from continuing operations*							
Basic	9		**56.1p**		36.9p		59.5p
Diluted	9		**55.8p**		36.6p		59.1p
Earnings per share*							
Basic	9		**56.1p**		37.9p		120.7p
Diluted	9		**55.8p**		37.6p		120.0p

*Comparative EPS data have been restated to reflect the impact of the additional shares issued as scrip dividends

The notes on pages 125 to 178 form part of the consolidated financial statements.

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2010 £m	2009 £m	2008 £m
Profit for the year		**1,389**	947	3,193
Other comprehensive income/(loss):				
Exchange adjustments		**33**	464	(25)
Actuarial net (losses)/gains	4	**(731)**	(2,018)	432
Deferred tax on actuarial net gains and losses	6	**175**	678	(98)
Net losses taken to equity in respect of cash flow hedges		**(45)**	(1)	(32)
Transferred to profit or loss on cash flow hedges		**3**	(53)	(7)
Deferred tax on cash flow hedges	6	**9**	19	2
Net gains taken to equity on available-for-sale investments		**54**	9	6
Transferred to profit or loss on sale of available-for-sale investments		**(6)**	(18)	–
Deferred tax on available-for-sale investments	6	**(5)**	7	2
Share of post-tax other comprehensive income of joint ventures and associates		**5**	–	–
Other comprehensive (loss)/income for the year		**(508)**	(913)	280
Total comprehensive income for the year		**881**	34	3,473
Total comprehensive income attributable to:				
Equity shareholders of the parent		**879**	26	3,470
Minority interests		**2**	8	3
		881	34	3,473

Consolidated balance sheet

as at 31 March

	Notes	2010 £m	2009 £m
Non-current assets			
Goodwill	10	**5,102**	5,391
Other intangible assets	11	**389**	370
Property, plant and equipment	12	**30,855**	29,545
Deferred tax assets	16	**–**	137
Pension asset	4	**–**	269
Other non-current assets	13	**162**	106
Financial and other investments	14,15	**486**	361
Derivative financial assets	17	**1,494**	1,533
Total non-current assets		**38,488**	37,712
Current assets			
Inventories and current intangible assets	18	**407**	556
Trade and other receivables	19	**2,293**	2,672
Financial and other investments	14	**1,397**	2,197
Derivative financial assets	17	**248**	593
Cash and cash equivalents	20	**720**	737
Total current assets		**5,065**	6,755
Total assets	1(d)	**43,553**	44,467
Current liabilities			
Borrowings	21	**(2,806)**	(3,253)
Derivative financial liabilities	17	**(212)**	(307)
Trade and other payables	22	**(2,847)**	(2,835)
Current tax liabilities		**(391)**	(383)
Provisions	24	**(303)**	(248)
Total current liabilities		**(6,559)**	(7,026)
Non-current liabilities			
Borrowings	21	**(22,318)**	(23,540)
Derivative financial liabilities	17	**(662)**	(633)
Other non-current liabilities	23	**(1,974)**	(2,092)
Deferred tax liabilities	16	**(3,324)**	(2,661)
Pensions and other post-retirement benefit obligations	4	**(3,098)**	(3,080)
Provisions	24	**(1,407)**	(1,451)
Total non-current liabilities		**(32,783)**	(33,457)
Total liabilities		**(39,342)**	(40,483)
Net assets		**4,211**	3,984
Equity			
Called up share capital	25	**298**	294
Share premium account		**1,366**	1,371
Retained earnings		**7,316**	7,135
Other equity reserves	26	**(4,781)**	(4,830)
Shareholders' equity		**4,199**	3,970
Minority interests		**12**	14
Total equity		**4,211**	3,984

These financial statements comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, accounting policies, adoption of new accounting standards and the notes to the consolidated financial statements 1 to 37, were approved by the Board of Directors on 19 May 2010 and were signed on its behalf by:

Sir John Parker Chairman
Steve Lucas Finance Director

Consolidated statement of changes in equity

for the years ended 31 March

	Called-up share capital £m	Share premium account £m	Retained earnings £m	Other equity reserves £m	Total shareholders' equity £m	Minority interests £m	Total equity £m
At 1 April 2007	308	1,332	7,635	(5,150)	4,125	11	4,136
Total comprehensive income/(loss) for the year	–	–	3,524	(54)	3,470	3	3,473
Equity dividends	–	–	(780)	–	(780)	–	(780)
Issue of ordinary share capital	1	12	–	–	13	–	13
B shares converted to ordinary shares	–	27	–	–	27	–	27
Other movements in minority interests	–	–	–	–	–	4	4
Share-based payment	–	–	18	–	18	–	18
Transfer between reserves	–	–	63	(63)	–	–	–
Issue of treasury shares	–	–	10	–	10	–	10
Repurchase of share capital and purchase of treasury shares	(15)	–	(1,522)	15	(1,522)	–	(1,522)
Tax on share-based payment	–	–	(5)	–	(5)	–	(5)
At 31 March 2008	294	1,371	8,943	(5,252)	5,356	18	5,374
Total comprehensive (loss)/income for the year	–	–	(396)	422	26	8	34
Equity dividends	–	–	(838)	–	(838)	–	(838)
Other movements in minority interests	–	–	–	–	–	(12)	(12)
Share-based payment	–	–	22	–	22	–	22
Issue of treasury shares	–	–	8	–	8	–	8
Repurchase of share capital and purchase of treasury shares	–	–	(603)	–	(603)	–	(603)
Tax on share-based payment	–	–	(1)	–	(1)	–	(1)
At 31 March 2009	294	1,371	7,135	(4,830)	3,970	14	3,984
Total comprehensive income for the year	–	–	830	49	879	2	881
Equity dividends	–	–	(893)	–	(893)	–	(893)
Scrip dividend related share issue	4	(5)	205	–	204	–	204
Other movements in minority interests	–	–	–	–	–	(4)	(4)
Share-based payment	–	–	25	–	25	–	25
Issue of treasury shares	–	–	18	–	18	–	18
Purchase of treasury shares	–	–	(7)	–	(7)	–	(7)
Tax on share-based payment	–	–	3	–	3	–	3
At 31 March 2010	**298**	**1,366**	**7,316**	**(4,781)**	**4,199**	**12**	**4,211**

Consolidated cash flow statement

for the years ended 31 March

	Notes	2010 £m	2009 £m	2008 £m
Cash flows from operating activities				
Total operating profit	1(b)	**3,293**	2,623	2,964
Adjustments for:				
Exceptional items, remeasurements and stranded cost recoveries	3	**(172)**	292	(369)
Depreciation and amortisation		**1,188**	1,122	994
Share-based payment charge		**25**	22	18
Changes in working capital		**431**	54	(150)
Changes in provisions		**(98)**	(99)	(5)
Changes in pensions and other post-retirement benefit obligations		**(521)**	(678)	(333)
Cash flows relating to exceptional items		**(135)**	(131)	(132)
Cash flows relating to stranded cost recoveries		**361**	359	278
Cash flows generated from continuing operations		**4,372**	3,564	3,265
Cash flows relating to discontinued operations (excluding tax)	27(a)	**–**	(8)	10
Cash generated from operations		**4,372**	3,556	3,275
Tax received/(paid)		**144**	(143)	(110)
Net cash inflow from operating activities		**4,516**	3,413	3,165
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired		**–**	–	(3,502)
Acquisition of other investments		**(86)**	(73)	(26)
Sale of investments in subsidiaries and other investments		**6**	–	55
Purchases of intangible assets		**(104)**	(78)	(45)
Purchases of property, plant and equipment		**(3,007)**	(3,107)	(2,832)
Disposals of property, plant and equipment		**15**	27	26
Dividends from joint ventures		**18**	–	–
Interest received		**21**	85	206
Purchases of financial investments		**(2,832)**	(6,173)	(8,788)
Sales of financial investments		**3,637**	6,272	8,833
Cash flows used in continuing operations – investing activities		**(2,332)**	(3,047)	(6,073)
Cash flows relating to discontinued operations – investing activities (net of tax)	27(b)	**–**	1,049	3,050
Net cash flow used in investing activities		**(2,332)**	(1,998)	(3,023)
Cash flows from financing activities				
Proceeds from issue of share capital and sale of treasury shares		**18**	8	23
Proceeds from loans received		**1,933**	4,892	1,568
Repayment of loans		**(2,257)**	(2,618)	(650)
Net movements in short-term borrowings and derivatives		**(175)**	(633)	671
Interest paid		**(1,003)**	(1,061)	(900)
Exceptional finance costs on the redemption of debt		**(33)**	–	–
Dividends paid to shareholders		**(688)**	(838)	(780)
Cash paid to shareholders under B share scheme		**–**	–	(26)
Repurchase of share capital and purchase of treasury shares		**(7)**	(627)	(1,498)
Net cash flow used in financing activities		**(2,212)**	(877)	(1,592)
Net (decrease)/increase in cash and cash equivalents	27(c)	**(28)**	538	(1,450)
Exchange movements		**(1)**	18	4
Cash included within assets of businesses held for sale		**–**	–	23
Net cash and cash equivalents at start of year		**720**	164	1,587
Net cash and cash equivalents at end of year (i)	20	**691**	720	164

(i) Net of bank overdrafts of £29m (2009: £17m; 2008: £10m).

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

1. Segmental analysis

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

Transmission UK	High voltage electricity transmission networks, the gas transmission network in Great Britain, UK liquefied natural gas (LNG) storage activities and the French electricity interconnector.
Transmission US	High voltage electricity transmission networks in New York and New England.
Gas Distribution UK	Four of the eight regional networks of Great Britain's gas distribution system.
Gas Distribution US	Gas distribution in New York and New England.
Electricity Distribution & Generation US	Electricity distribution in New York and New England and electricity generation in New York.

Other activities primarily relate to non-regulated businesses and other commercial operations not included within the above segments, including: UK-based gas and electricity metering activities; UK property management; a UK LNG import terminal; other LNG operations; US unregulated transmission pipelines; US gas fields; together with corporate activities.

For the year ended 31 March 2009, discontinued operations comprise the Ravenswood generation station in New York City and the engineering and communications operations in the US acquired as part of the KeySpan acquisition. These businesses were sold during the year ended 31 March 2009 except for two engineering companies which were sold subsequent to the year end. For the year ended 31 March 2008, discontinued operations also include the wireless infrastructure and communications operations in the UK and the US and an electricity interconnector in Australia, all of which were disposed of during 2007. For additional disclosures relating to discontinued operations, refer to note 7.

Sales between operating segments are priced having regard to the regulatory and legal requirements to which the businesses are subject.

(a) Revenue

	Total sales 2010 £m	**Sales between segments 2010 £m**	**Sales to third parties 2010 £m**	Total sales 2009 £m	Sales between segments 2009 £m	Sales to third parties 2009 £m	Total sales 2008 £m	Sales between segments 2008 £m	Sales to third parties 2008 £m
Operating segments – continuing operations									
Transmission UK	**3,460**	**6**	**3,454**	3,487	2	3,485	2,956	16	2,940
Transmission US	**405**	**74**	**331**	420	83	337	299	61	238
Gas Distribution UK	**1,517**	**70**	**1,447**	1,466	79	1,387	1,383	70	1,313
Gas Distribution US	**3,708**	**5**	**3,703**	4,786	3	4,783	2,845	2	2,843
Electricity Distribution & Generation US	**4,339**	**1**	**4,338**	4,972	1	4,971	3,508	2	3,506
Other activities	**738**	**23**	**715**	719	58	661	642	59	583
	14,167	**179**	**13,988**	15,850	226	15,624	11,633	210	11,423
Total excluding stranded cost recoveries			**13,612**			15,189			11,041
Stranded cost recoveries			**376**			435			382
			13,988			15,624			11,423
Geographical areas									
UK			**5,524**			5,334			4,787
US			**8,464**			10,290			6,636
			13,988			15,624			11,423

The table above represents revenue from continuing operations only.

The analysis of revenue by geographical area is on the basis of destination. There are no material sales between the UK and US geographical areas.

In accordance with the Company's accounting policy on revenue recognition, where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect the over-recovery, no liability is recognised. Similarly, no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. In the UK, there was an under-recovery of £100m at 31 March 2010 (2009: £52m; 2008: £23m). In the US, under-recoveries and other regulatory entitlements to future revenue (including stranded cost recoveries) amounted to £2,333m at 31 March 2010 (2009: £2,289m; 2008: £1,652m).

Notes to the consolidated financial statements continued

1. Segmental analysis continued

A reconciliation of the operating segments' measure of profit to total profit before taxation is provided below. Further details of the exceptional items, remeasurements and stranded cost recoveries are provided in note 3.

(b) Operating profit

	Before exceptional items, remeasurements and stranded cost recoveries			After exceptional items, remeasurements and stranded cost recoveries		
	2010 £m	2009 £m	2008 £m	**2010 £m**	2009 £m	2008 £m
Operating segments – continuing operations						
Transmission UK	**1,311**	1,126	1,021	**1,252**	1,063	1,013
Transmission US	**153**	175	128	**151**	173	122
Gas Distribution UK	**723**	672	595	**682**	629	574
Gas Distribution US	**414**	612	392	**448**	226	487
Electricity Distribution & Generation US	**374**	265	330	**701**	531	696
Other activities	**146**	65	129	**59**	1	72
	3,121	2,915	2,595	**3,293**	2,623	2,964
Geographical areas						
UK	**2,180**	1,875	1,752	**2,007**	1,729	1,667
US	**941**	1,040	843	**1,286**	894	1,297
	3,121	2,915	2,595	**3,293**	2,623	2,964
Reconciliation to profit before tax:						
Operating profit	**3,121**	2,915	2,595	**3,293**	2,623	2,964
Interest income and similar income	**1,005**	1,315	1,275	**1,005**	1,315	1,275
Interest expense and other finance costs	**(2,160)**	(2,465)	(2,045)	**(2,113)**	(2,549)	(2,061)
Share of post-tax results of joint ventures and associates	**8**	5	4	**8**	5	4
Profit before tax – continuing operations	**1,974**	1,770	1,829	**2,193**	1,394	2,182

The table above represents operating profit from continuing operations only, as disclosed in the consolidated income statement, and excludes the results of discontinued operations.

(c) Capital expenditure and depreciation

	Capital expenditure			Depreciation and amortisation		
	2010 £m	2009 £m	2008 £m	**2010 £m**	2009 £m	2008 £m
Operating segments – continuing operations						
Transmission UK	**1,254**	1,259	1,600	**373**	353	372
Transmission US	**240**	182	111	**59**	56	40
Gas Distribution UK	**670**	598	514	**201**	177	181
Gas Distribution US	**409**	421	188	**173**	172	91
Electricity Distribution & Generation US	**372**	355	257	**215**	223	146
Other activities	**307**	427	383	**173**	146	164
	3,252	3,242	3,053	**1,194**	1,127	994
Discontinued operations	**–**	–	1	**–**	–	–
	3,252	3,242	3,054	**1,194**	1,127	994
Geographical areas						
UK	**2,187**	2,270	2,493	**733**	679	709
US	**1,065**	972	560	**461**	448	285
Rest of the world	**–**	–	1	**–**	–	–
	3,252	3,242	3,054	**1,194**	1,127	994

Capital expenditure comprises additions to property, plant and equipment and other non-current intangible assets amounting to £3,148m (2009: £3,164m; 2008: £3,009m) and £104m (2009: £78m; 2008: £45m) respectively.

Depreciation and amortisation includes expensed depreciation of property, plant and equipment and amortisation of other intangible assets amounting to £1,131m (2009: £1,058m; 2008: £940m) and £63m (2009: £69m; 2008: £54m) respectively.

1. Segmental analysis continued

(d) Total assets

	Total assets	
	2010 £m	2009 £m
Operating segments		
Transmission UK	**11,085**	10,451
Transmission US	**2,467**	2,238
Gas Distribution UK	**6,592**	6,158
Gas Distribution US	**9,454**	10,112
Electricity Distribution & Generation US	**7,289**	7,854
Other activities	**2,557**	2,289
	39,444	39,102
Joint ventures	**250**	168
Unallocated	**3,859**	5,197
	43,553	44,467
Geographical areas		
UK	**19,720**	18,527
US	**19,974**	20,743
Unallocated	**3,859**	5,197
	43,553	44,467

The analysis of total assets includes all attributable goodwill and excludes inter segment balances. Unallocated total assets comprise cash and cash equivalents, taxation, current financial investments and total derivative financial assets.

2. Operating costs

	Before exceptional items, remeasurements and stranded cost recoveries			Exceptional items, remeasurements and stranded cost recoveries			Total		
	2010 £m	2009 £m	2008 £m	**2010 £m**	2009 £m	2008 £m	**2010 £m**	2009 £m	2008 £m
Depreciation of property, plant and equipment	**1,131**	1,058	940	**–**	–	–	**1,131**	1,058	940
Amortisation of intangible assets	**57**	64	50	**6**	5	4	**63**	69	54
Payroll costs	**1,354**	1,415	1,071	**48**	34	108	**1,402**	1,449	1,179
Other operating charges:									
Purchases of electricity	**1,592**	2,199	1,589	**(19)**	28	(95)	**1,573**	2,227	1,494
Purchases of gas	**2,294**	3,228	2,011	**(52)**	334	(141)	**2,242**	3,562	1,870
Rates and property taxes	**907**	881	608	**–**	–	–	**907**	881	608
Electricity transmission services scheme direct costs	**691**	904	574	**–**	–	–	**691**	904	574
Payments to Scottish electricity transmission network owners	**260**	243	226	**–**	–	–	**260**	243	226
Other	**2,224**	2,345	1,452	**221**	326	137	**2,445**	2,671	1,589
	10,510	12,337	8,521	**204**	727	13	**10,714**	13,064	8,534
Operating costs include:									
Inventory consumed							**475**	788	390
Research expenditure							**19**	10	13
Operating lease rentals									
Plant and machinery							**55**	48	33
Other							**32**	33	30

Notes to the consolidated financial statements continued

2. Operating costs continued

(a) Payroll costs

	2010 £m	2009 £m	2008 £m
Wages and salaries	**1,596**	1,615	1,169
Social security costs	**120**	118	84
Other pension costs	**161**	160	218
Share-based payments	**25**	22	18
Severance costs (excluding pension costs)	**16**	16	14
	1,918	1,931	1,503
Less: payroll costs capitalised	**(516)**	(482)	(324)
	1,402	1,449	1,179

Payroll costs above represent continuing operations only. Payroll costs of discontinued operations for the year ended 31 March 2010 were £nil (2009: £11m; 2008: £16m).

(b) Number of employees

	31 March 2010 Number	Average 2010 Number	31 March 2009 Number*	Average 2009 Number*
UK	**10,211**	**10,269**	10,297	10,296
US	**17,895**	**17,798**	17,694	17,829
Continuing operations	**28,106**	**28,067**	27,991	28,125
Discontinued operations	**–**	**–**	–	83
	28,106	**28,067**	27,991	28,208

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

The vast majority of employees in the US are either directly or indirectly employed in the transmission, distribution and generation of electricity or the distribution of gas, while those in the UK are either directly or indirectly employed in the transmission and distribution of gas or the transmission of electricity. At 31 March 2010, 3,533 (2009: 3,597) employees were employed in other operations, excluding shared services.

(c) Key management compensation

	2010 £m	2009 £m	2008 £m
Salaries and short-term employee benefits	**10**	11	9
Post-employment benefits	**4**	3	8
Share-based payments	**5**	5	3
	19	19	20

Key management compensation relates to the Board of Directors, including the Executive Directors and Non-executive Directors for the years presented.

(d) Directors' emoluments

Details of Directors' emoluments are contained in the auditable part of the Directors' Remuneration Report, which forms part of these financial statements.

2. Operating costs continued

(e) Auditors' remuneration

	2010 £m	2009 £m	2008 £m
Audit services:			
Audit of parent company and consolidated financial statements	**1.1**	1.5	1.4
Other services:			
Audit of subsidiary financial statements pursuant to legislation	**5.4**	5.8	5.1
Other services supplied pursuant to legislation	**1.9**	2.4	2.4
Services relating to tax compliance	**0.6**	0.6	0.7
Services relating to tax advisory	**0.8**	0.3	0.5
Services relating to corporate finance transactions	**–**	0.1	0.7
All other services	**1.2**	0.8	0.4
	11.0	11.5	11.2
Total services pursuant to legislation	**8.4**	9.7	8.9
Total other services	**2.6**	1.8	2.3
	11.0	11.5	11.2

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

All other services include fees relating to corporate responsibility reporting, treasury related projects, work in connection with our rights issue and sundry services, all of which have been subject to Audit Committee approval.

Notes to the consolidated financial statements continued

3. Exceptional items, remeasurements and stranded cost recoveries

	2010 £m	2009 £m	2008 £m
Exceptional items – restructuring costs (i)	**(149)**	(192)	(133)
Exceptional items – environmental related provisions (ii)	**(63)**	(78)	(92)
Exceptional items – gain on disposal of subsidiary and associate (iii)	**11**	–	6
Exceptional items – other (iv)	**(67)**	(5)	(23)
Remeasurements – commodity contracts (v)	**71**	(443)	232
Stranded cost recoveries (vi)	**369**	426	379
Total exceptional items, remeasurements and stranded cost recoveries included within operating profit	**172**	(292)	369
Exceptional items – debt redemption costs (vii)	**(33)**	–	–
Remeasurements – commodity contracts (v)	**(1)**	(2)	(9)
Remeasurements – net gains/(losses) on derivative financial instruments (viii)	**81**	(82)	(7)
Total exceptional items and remeasurements included within finance costs	**47**	(84)	(16)
Total exceptional items, remeasurements and stranded cost recoveries before taxation	**219**	(376)	353
Exceptional tax item – deferred tax credit arising from the reduction in the UK tax rate (ix)	**–**	–	170
Exceptional tax item – deferred tax charge arising from change in UK industrial building allowance regime (x)	**–**	(49)	–
Exceptional tax item – other (xi)	**(41)**	–	–
Tax on exceptional items – restructuring costs (i)	**45**	59	49
Tax on exceptional items – environmental related provisions (ii)	**8**	16	20
Tax on exceptional items – gain on disposal of subsidiary and associate (iii)	**(2)**	–	(4)
Tax on exceptional items – other (iv)	**19**	2	5
Tax on exceptional items – debt redemption costs (vii)	**2**	–	–
Tax on remeasurements – commodity contracts (v)	**(28)**	179	(90)
Tax on remeasurements – derivative financial instruments (viii)	**(106)**	8	(28)
Tax on stranded cost recoveries (vi)	**(148)**	(170)	(150)
Tax on exceptional items, remeasurements and stranded cost recoveries	**(251)**	45	(28)
Total exceptional items, remeasurements and stranded cost recoveries after taxation	**(32)**	(331)	325
Total exceptional items after taxation	**(270)**	(247)	(2)
Total commodity contract remeasurements after taxation	**42**	(266)	133
Total derivative financial instrument remeasurements after taxation	**(25)**	(74)	(35)
Total stranded cost recoveries after taxation	**221**	256	229
Total exceptional items, remeasurements and stranded cost recoveries after taxation	**(32)**	(331)	325

(i) Restructuring costs include costs related to the integration of KeySpan of £30m (2009: £53m; 2008: £101m), the further restructuring of our liquefied natural gas (LNG) storage facilities of £41m (2009: £50m; 2008: £nil), transformation related initiatives of £56m (2009: £68m; 2008: £11m) and costs associated with the outsourcing of elements of our UK shared services organisation of £22m. Charges in the comparative years also included planned cost reduction programmes in our UK businesses (2009: £21m; 2008: £21m).

(ii) Environmental charges include £21m related to specific exposures in the US together with £42m arising from changes in landfill tax legislation in the UK. For the year ended 31 March 2010, the UK charge was £42m (2009: £37m; 2008: £44m) and the US charge £21m (2009: £41m; 2008: £48m). Costs incurred with respect to US environmental provisions are substantially recoverable from customers.

(iii) During the year there was a gain of £5m on the sale of a 30.29% investment in the associate Steuben Gas Storage Company. In addition there was the release of various unutilised provisions amounting to £6m originally recorded on the sale of Advantica in 2008.

(iv) Other costs for the year ended 31 March 2010 include: an impairment charge of £11m and an amortisation charge of £6m (2009: £5m; 2008: £4m) in relation to acquisition-related intangibles; a charge of £9m relating to US healthcare costs arising from recent legislative changes; and £41m related to a fine of £15m together with associated costs and provisions against receivables and other balance sheet items. For further details on the fine levied upon us by the Gas and Electricity Markets Authority (GEMA) refer to note 28 (f).

(v) Remeasurements – commodity contracts represent mark-to-market movements on certain physical and financial commodity contract obligations in the US. These contracts primarily relate to the forward purchase of energy for supply to customers, or to the economic hedging thereof, that are required to be measured at fair value and that do not qualify for hedge accounting. Under the existing rate plans in the US, commodity costs are recoverable from customers although the timing of recovery may differ from the pattern of costs incurred. These movements are comprised of those impacting operating profit which are based on the change in the commodity contract liability and those impacting finance costs as a result of the time value of money.

(vi) Stranded cost recoveries include the recovery of some of our historical investments in generating plants that were divested as part of the restructuring and wholesale power deregulation process in New England and New York during the 1990s. Stranded cost recoveries on a pre-tax basis consist of revenue of £376m (2009: £435m; 2008: £382m) and operating costs of £7m (2009: £9m; 2008: £3m).

(vii) Debt redemption costs in the year represent one-off costs relating to the early redemption of a significant loan.

(viii) Remeasurements – net gains/(losses) on derivative financial instruments comprise gains/(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 which are offset by adjustments to the carrying value of debt. The tax charge in the year ended 31 March 2010 includes a £78m (2009: £1m; 2008: £11m) charge in respect of prior years.

(ix) The exceptional tax credit in the year ended 31 March 2008 of £170m 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.

(x) The exceptional tax charge of £49m in the year ended 31 March 2009 arose from a change in the UK industrial building allowance regime arising in the 2008 Finance Act. This resulted in an increase in deferred tax liabilities.

(xi) The exceptional tax charge of £41m arises due to a change in US tax legislation under the Patient Protection and Affordable Care Act.

4. Pensions and other post-retirement benefits

Substantially all National Grid's employees are members of either defined benefit or defined contribution pension plans.

In the UK the principal schemes are the National Grid UK Pension Scheme and the National Grid section of the Electricity Supply Pension Scheme. In the US we have a number of defined benefit and defined contribution pension plans and we also provide healthcare and life insurance benefits to eligible retired US employees. The fair value of plan assets and present value of defined benefit obligations as incorporated in these financial statements are updated annually. For further details regarding the nature and terms of each scheme/plan and the actuarial assumptions used to value the associated assets and pension or other post-retirement benefit obligations, refer to note 30.

The amounts recognised in the income statement with respect to pensions and other post-retirement benefits are as follows:

	Pensions			US other post-retirement benefits		
	2010 £m	2009 £m	2008 £m	**2010 £m**	2009 £m	2008 £m
Defined contribution scheme costs	**7**	5	5	**–**	–	–
Defined benefit scheme costs						
Current service cost*	**112**	134	125	**26**	32	21
Past service cost	**19**	–	5	**6**	7	5
Curtailment gain on redundancies	**(7)**	(4)	(16)	**–**	–	(4)
Settlements on redundancies	**–**	–	16	**–**	–	–
Special termination benefits on redundancies	**26**	19	80	**–**	–	1
Curtailment cost – augmentations	**4**	6	3	**–**	–	–
US healthcare reform cost	**–**	–	–	**9**	–	–
Total in payroll costs – continuing	**161**	160	218	**41**	39	23
Curtailment gain on sale of subsidiary undertaking	**–**	–	(12)	**–**	–	–
Interest cost	**1,050**	1,106	912	**143**	144	89
Expected return on plan assets	**(931)**	(1,163)	(1,014)	**(50)**	(73)	(50)
Total in finance costs – continuing	**119**	(57)	(102)	**93**	71	39
Current service cost	**–**	2	2	**–**	–	1
Total in discontinued operations	**–**	2	2	**–**	–	1

*As a result of flexible pension saving, a salary sacrifice arrangement introduced from December 2009, the current service cost has increased by £2m with a corresponding decrease in wages and salaries

The amounts recognised in the statement of comprehensive income are as follows:

	Pensions			US other post-retirement benefits		
	2010 £m	2009 £m	2008 £m	**2010 £m**	2009 £m	2008 £m
Actuarial net (loss)/gain during the year	**(572)**	(1,906)	497	**(159)**	(112)	(65)
Exchange differences	**64**	(141)	3	**76**	(408)	3
Total recognised for the year	**(508)**	(2,047)	500	**(83)**	(520)	(62)
Cumulative actuarial (loss)/gain	**(1,156)**	(584)	1,322	**(362)**	(203)	(91)

Notes to the consolidated financial statements continued

4. Pensions and other post-retirement benefits continued

The amounts recognised in the balance sheet with respect to pensions and other post-retirement benefits are as follows:

	Pensions			US other post-retirement benefits		
	2010 £m	2009 £m	2008 £m	**2010 £m**	2009 £m	2008 £m
Present value of funded obligations	**(19,372)**	(15,797)	(16,233)	**(2,602)**	(2,299)	(1,784)
Fair value of plan assets	**18,186**	14,797	16,536	**950**	722	737
	(1,186)	(1,000)	303	**(1,652)**	(1,577)	(1,047)
Present value of unfunded obligations	**(226)**	(203)	(158)	**–**	–	–
Other post-employment liabilities	**–**	–	–	**(62)**	(74)	(34)
Unrecognised past service cost	**–**	–	–	**28**	43	36
Net (liability)/asset in the balance sheet	**(1,412)**	(1,203)	145	**(1,686)**	(1,608)	(1,045)
Liabilities	**(1,412)**	(1,472)	(701)	**(1,686)**	(1,608)	(1,045)
Assets	**–**	269	846	**–**	–	–
Net (liability)/asset	**(1,412)**	(1,203)	145	**(1,686)**	(1,608)	(1,045)

Changes in the present value of the defined benefit obligations (including unfunded obligations)	**2010 £m**	2009 £m	2008 £m	**2010 £m**	2009 £m	2008 £m
Opening defined benefit obligations	**(16,000)**	(16,391)	(16,127)	**(2,299)**	(1,784)	(1,126)
Current service cost	**(112)**	(136)	(127)	**(26)**	(32)	(22)
Interest cost	**(1,050)**	(1,106)	(912)	**(143)**	(144)	(89)
Actuarial (losses)/gains	**(3,563)**	1,719	1,335	**(360)**	215	8
Curtailment gain on redundancies	**7**	4	16	**–**	–	4
Curtailment gain on sale of subsidiary undertaking	**–**	–	12	**–**	–	–
Net transfers and disposals	**(3)**	3	8	**–**	–	–
Special termination benefits	**(26)**	(19)	(80)	**–**	–	(1)
Curtailment cost – augmentations	**(4)**	(6)	(3)	**–**	–	–
Acquisition of subsidiary undertakings	**–**	–	(1,362)	**–**	–	(639)
Plan amendments	**(19)**	–	(5)	**9**	–	–
Plan amendments – US healthcare reform	**–**	–	–	**(9)**	–	–
Medicare subsidy received	**–**	–	–	**(10)**	–	–
Employee contributions	**(10)**	(13)	(15)	**–**	–	–
Benefits paid	**1,008**	1,003	875	**132**	116	78
Exchange adjustments	**174**	(1,058)	(6)	**104**	(670)	3
Closing defined benefit obligations	**(19,598)**	(16,000)	(16,391)	**(2,602)**	(2,299)	(1,784)

Changes in the fair value of plan assets	**2010 £m**	2009 £m	2008 £m	**2010 £m**	2009 £m	2008 £m
Opening fair value of plan assets	**14,797**	16,536	15,468	**722**	737	531
Expected return on plan assets	**931**	1,163	1,014	**50**	73	50
Actuarial gains/(losses)	**2,991**	(3,625)	(838)	**201**	(327)	(73)
Assets distributed on settlements and transfers	**–**	–	(16)	**–**	–	–
Transfers in/(out)	**3**	(3)	(8)	**–**	–	–
Employer contributions	**572**	799	465	**137**	93	46
Employee contributions	**10**	13	15	**–**	–	–
Acquisition of subsidiary undertakings	**–**	–	1,302	**–**	–	259
Benefits paid	**(1,008)**	(1,003)	(875)	**(132)**	(116)	(76)
Exchange adjustments	**(110)**	917	9	**(28)**	262	–
Closing fair value of plan assets	**18,186**	14,797	16,536	**950**	722	737
Actual return on plan assets	**3,922**	(2,462)	176	**251**	(254)	(23)
Expected contributions to defined benefit plans in the following year	**353**	552	581	**148**	123	128

5. Finance income and costs

	2010 £m	2009 £m	2008 £m
Interest income and similar income			
Expected return on pension and other post-retirement benefit plan assets	**981**	1,236	1,064
Interest income on financial instruments:			
Interest income from bank deposits and other financial assets	**18**	60	209
Interest receivable on finance leases	**–**	1	2
Gains transferred from equity on disposal of available-for-sale investments	**6**	18	–
Interest income and similar income	**1,005**	1,315	1,275
Interest expense and other finance costs			
Interest on pension and other post-retirement benefit plan obligations	**(1,193)**	(1,250)	(1,001)
Interest expense on financial liabilities held at amortised cost:			
Interest on bank loans and overdrafts	**(80)**	(136)	(71)
Interest on other borrowings	**(938)**	(1,135)	(990)
Interest on finance leases	**–**	(14)	(11)
Interest on derivatives	**22**	5	(46)
Unwinding of discounts on provisions	**(70)**	(68)	(45)
Less: Interest capitalised (i)	**99**	133	119
Interest expense and other finance costs before exceptional items and remeasurements	**(2,160)**	(2,465)	(2,045)
Exceptional items			
Exceptional debt redemption costs	**(33)**	–	–
Remeasurements			
Net gains/(losses) on derivative financial instruments included in remeasurements (ii):			
Ineffectiveness on derivatives designated as fair value hedges (iii)	**67**	(34)	1
Ineffectiveness on derivatives designated as cash flow hedges	**(5)**	(18)	13
Ineffectiveness on derivatives designated as net investment hedges	**(19)**	(2)	14
On undesignated forward rate risk relating to derivatives designated as net investment hedges	**51**	112	(53)
On derivatives not designated as hedges or ineligible for hedge accounting	**(13)**	(140)	18
Financial element of remeasurements on commodity contracts	**(1)**	(2)	(9)
	80	(84)	(16)
Interest expense and other finance costs	**(2,113)**	(2,549)	(2,061)
Net finance costs	**(1,108)**	(1,234)	(786)
Comprising:			
Interest income and similar income	**1,005**	1,315	1,275
Interest expense and other finance costs:			
Before exceptional items and remeasurements	**(2,160)**	(2,465)	(2,045)
Exceptional items and remeasurements	**47**	(84)	(16)
After exceptional items and remeasurements	**(2,113)**	(2,549)	(2,061)
	(1,108)	(1,234)	(786)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 2.8% (2009: 5.7%; 2008: 6.3%).

(ii) Includes a net foreign exchange gain on financing activities of £334m (2009: £1,500m loss; 2008: £885m loss) offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

(iii) Includes a net loss on instruments designated as fair value hedges of £90m (2009: £382m gain; 2008: £87m gain) offset by a net gain of £157m (2009: £416m loss; 2008: £86m loss) arising from fair value adjustments to the carrying value of debt.

Notes to the consolidated financial statements continued

6. Taxation

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

	2010 £m	2009 £m	2008 £m
Taxation before exceptional items, remeasurements and stranded cost recoveries	**553**	517	579
Exceptional tax items (see note 3)	**41**	49	(170)
Taxation on other exceptional items, remeasurements and stranded cost recoveries	**210**	(94)	198
Taxation on total exceptional items, remeasurements and stranded cost recoveries (see note 3)	**251**	(45)	28
Total tax charge	**804**	472	607

Taxation as a percentage of profit before taxation

	2010 %	2009 %	2008 %
Before exceptional items, remeasurements and stranded cost recoveries	**28.0**	29.2	31.7
After exceptional items, remeasurements and stranded cost recoveries	**36.7**	33.9	27.8

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

	2010 £m	2009 £m	2008 £m
United Kingdom			
Corporation tax at 28% (2009: 28%; 2008: 30%)	**197**	37	214
Corporation tax adjustment in respect of prior years (i)	**(31)**	(54)	(156)
Deferred tax	**259**	339	42
Deferred tax adjustment in respect of prior years (ii)	**(5)**	–	67
	420	322	167
Overseas			
Corporate tax	**74**	105	209
Corporate tax adjustment in respect of prior years	**(364)**	38	31
Deferred tax	**279**	37	191
Deferred tax adjustment in respect of prior years	**395**	(30)	9
	384	150	440
Total tax charge	**804**	472	607

(i) The UK corporation tax adjustment in respect of prior years includes a £76m charge (2009: £2m credit; 2008: £9m charge) that relates to exceptional items, remeasurements and stranded cost recoveries.

(ii) The UK deferred tax adjustment in respect of prior years includes a £1m charge (2009: £1m charge; 2008: £2m charge) that relates to exceptional items, remeasurements and stranded cost recoveries.

Taxation on items (credited)/charged to equity

	2010 £m	2009 £m	2008 £m
Corporation tax credit on share-based payments	**(3)**	(2)	(7)
Deferred tax charge on share of other comprehensive income of joint ventures and associates	**4**	–	–
Deferred tax charge/(credit) on available-for-sale investments	**5**	(7)	(2)
Deferred tax credit on revaluation of cash flow hedges	**(9)**	(19)	(2)
Deferred tax charge on share-based payments	**–**	3	12
Deferred tax (credit)/charge on actuarial (losses)/gains (i)	**(175)**	(678)	98
	(178)	(703)	99
Total tax (credit)/charge recognised in the consolidated statement of comprehensive income	**(175)**	(704)	94
Total tax (credit)/charge relating to share-based payments recognised directly in equity	**(3)**	1	5
	(178)	(703)	99

(i) 2010 includes a £42m charge relating to a change in US tax legislation under the Patient Protection and Affordable Care Act.

6. Taxation continued

The tax charge for the year after exceptional items, remeasurements and stranded cost recoveries is higher than (2009: higher; 2008: lower) the standard rate of corporation tax in the UK of 28% (2009: 28%; 2008: 30%). The differences are explained below:

	Before exceptional items, remeasurements and stranded cost recoveries 2010 £m	**After exceptional items, remeasurements and stranded cost recoveries 2010 £m**	Before exceptional items, remeasurements and stranded cost recoveries 2009 £m	After exceptional items, remeasurements and stranded cost recoveries 2009 £m	Before exceptional items, remeasurements and stranded cost recoveries 2008 £m	After exceptional items, remeasurements and stranded cost recoveries 2008 £m
Profit before taxation						
Before exceptional items, remeasurements and stranded cost recoveries	**1,974**	**1,974**	1,770	1,770	1,829	1,829
Exceptional items, remeasurements and stranded cost recoveries	**–**	**219**	–	(376)	–	353
Profit before taxation from continuing operations	**1,974**	**2,193**	1,770	1,394	1,829	2,182
Profit from continuing operations multiplied by rate of corporation tax in the UK of 28% (2009: 28%; 2008: 30%)	**553**	**614**	496	390	549	655
Effects of:						
Adjustments in respect of prior years	**(82)**	**(5)**	(45)	(46)	(60)	(49)
Expenses not deductible for tax purposes	**62**	**237**	76	82	102	117
Non-taxable income	**(6)**	**(131)**	(35)	(34)	(75)	(51)
Adjustment in respect of foreign tax rates	**37**	**77**	38	32	25	67
Impact of share-based payments	**–**	**–**	1	1	2	2
Remeasurement of deferred tax – change in UK tax rate	**–**	**–**	–	–	–	(170)
Other	**(11)**	**12**	(14)	47	36	36
Total taxation from continuing operations	**553**	**804**	517	472	579	607

	%	**%**	%	%	%	%
Effective income tax rate	**28.0**	**36.7**	29.2	33.9	31.7	27.8

Factors that may affect future tax charges

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

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

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

In connection with the US, on 23 March 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. This legislation includes a new tax that effectively eliminates the tax free treatment applied to the subsidy National Grid receives from the US government's Medicare Part D program. Therefore an increase in the effective tax rate will apply for accounting periods ending 31 March 2011 onwards but this is expected to be minimal.

Notes to the consolidated financial statements continued

7. Discontinued operations

For the years ended 31 March 2009 and 2008, discontinued operations comprised the Ravenswood generation station in New York City and the engineering and communications operations in the US acquired as part of the KeySpan acquisition. The Ravenswood generation station was sold on 26 August 2008, KeySpan Communications was sold on 25 July 2008 and one of our KeySpan engineering companies was sold on 11 July 2008. Subsequent to the year ended 31 March 2009, the remaining two engineering companies were sold.

For the year ended 31 March 2008, discontinued operations also included our former wireless infrastructure operations in the UK and US, and the Basslink electricity interconnector in Australia. The wireless infrastructure operations in the UK and US were sold on 3 April 2007 and 15 August 2007 respectively, while the Basslink electricity interconnector business was sold on 31 August 2007.

Results of discontinued operations

	2010 £m	2009 £m	2008 £m
Revenue	**–**	97	201
Operating costs	**–**	(84)	(166)
Total operating profit from discontinued operations	**–**	13	35
Remeasurement finance income (i)	**–**	–	8
Profit before tax from discontinued operations	**–**	13	43
Taxation	**–**	(4)	(7)
Profit after tax from discontinued operations	**–**	9	36
Gain on disposal of Ravenswood	**–**	27	–
Gain on disposal of UK and US wireless operations	**–**	–	1,506
Gain on disposal of Basslink	**–**	–	80
Gain on disposal of discontinued operations before tax	**–**	27	1,586
Taxation (ii)	**–**	(11)	(4)
Gain on disposal of discontinued operations	**–**	16	1,582
Total profit for the year from discontinued operations			
Before exceptional items, remeasurements and stranded cost recoveries	**–**	9	28
Exceptional items, remeasurements and stranded cost recoveries	**–**	16	1,590
	–	25	1,618

(i) Remeasurement finance income comprised £8m of mark-to-market gains on financial instruments.

(ii) The tax charge for the year ended 31 March 2009 included a current tax charge of £564m offset by a deferred tax credit of £564m.

8. Dividends

	2010 pence (per ordinary share)	**2010 Total £m**	**2010 settled via scrip £m**	2009 pence (per ordinary share)	2009 Total £m	2008 pence (per ordinary share)	2008 Total £m
Interim dividend for the year ended 31 March 2010	**13.65**	**336**	**68**	–	–	–	–
Final dividend for the year ended 31 March 2009	**23.00**	**557**	**137**	–	–	–	–
Interim dividend for the year ended 31 March 2009	**–**	**–**	**–**	12.64	307	–	–
Final dividend for the year ended 31 March 2008	**–**	**–**	**–**	21.30	531	–	–
Interim dividend for the year ended 31 March 2008	**–**	**–**	**–**	–	–	11.70	300
Final dividend for the year ended 31 March 2007	**–**	**–**	**–**	–	–	17.80	480
	36.65	**893**	**205**	33.94	838	29.50	780

In addition, the Directors are proposing a final dividend for 2010 of 24.84p per share that will absorb approximately £615m of shareholders' equity (assuming all amounts are settled in cash). It will be paid on 18 August 2010 to shareholders who are on the register of members at 4 June 2010. A scrip dividend will be offered as an alternative.

9. Earnings per share

Earnings per ordinary share have been calculated by dividing the profit for the year attributable to equity shareholders of the parent company by the weighted average number of ordinary shares in issue during the year.

Adjusted earnings per share, excluding exceptional items, remeasurements and stranded cost recoveries, are provided to reflect the business performance subtotals used by the Company as described in accounting policy T. For further details of exceptional items, remeasurements and stranded cost recoveries, refer to note 3.

Diluted earnings per share have been calculated by dividing the net profit attributable to equity shareholders by the diluted weighted average number of ordinary shares outstanding during the year, adjusted to reflect the dilutive effect of the employee share plan.

(a) Basic earnings per share

	Earnings 2010 £m	**Earnings per share 2010 pence**	Earnings 2009 £m	Earnings per share 2009* pence	Earnings 2008 £m	Earnings per share 2008* pence
Adjusted earnings – continuing operations	**1,418**	**57.4**	1,250	50.2	1,247	47.2
Exceptional items after taxation	**(270)**	**(10.9)**	(247)	(9.9)	(2)	(0.1)
Commodity contract remeasurements after taxation	**42**	**1.7**	(266)	(10.7)	133	5.0
Derivative financial instrument remeasurements after taxation	**(25)**	**(1.0)**	(74)	(3.0)	(35)	(1.3)
Stranded cost recoveries after taxation	**221**	**8.9**	256	10.3	229	8.7
Earnings – continuing operations	**1,386**	**56.1**	919	36.9	1,572	59.5
Adjusted earnings – discontinued operations	**–**	**–**	9	0.4	28	1.1
Gain on disposal of operations after taxation	**–**	**–**	16	0.6	1,582	59.8
Other exceptional items and remeasurements	**–**	**–**	–	–	8	0.3
Earnings – discontinued operations	**–**	**–**	25	1.0	1,618	61.2
Earnings	**1,386**	**56.1**	944	37.9	3,190	120.7

	2010 millions	2009* millions	2008* millions
Weighted average number of shares – basic*	**2,470**	2,490	2,644

*Comparative EPS data have been restated to reflect the impact of the additional shares issued as scrip dividends

(b) Diluted earnings per share

	Earnings 2010 £m	**Earnings per share 2010 pence**	Earnings 2009 £m	Earnings per share 2009* pence	Earnings 2008 £m	Earnings per share 2008* pence
Adjusted diluted earnings – continuing operations	**1,418**	**57.1**	1,250	49.9	1,247	46.9
Exceptional items after taxation	**(270)**	**(10.9)**	(247)	(9.9)	(2)	(0.1)
Commodity contract remeasurements after taxation	**42**	**1.7**	(266)	(10.6)	133	5.0
Derivative financial instrument remeasurements after taxation	**(25)**	**(1.0)**	(74)	(3.0)	(35)	(1.3)
Stranded cost recoveries after taxation	**221**	**8.9**	256	10.2	229	8.6
Diluted earnings – continuing operations	**1,386**	**55.8**	919	36.6	1,572	59.1
Adjusted diluted earnings – discontinued operations	**–**	**–**	9	0.4	28	1.1
Gain on disposal of operations after taxation	**–**	**–**	16	0.6	1,582	59.5
Other exceptional items and remeasurements	**–**	**–**	–	–	8	0.3
Diluted earnings – discontinued operations	**–**	**–**	25	1.0	1,618	60.9
Diluted earnings	**1,386**	**55.8**	944	37.6	3,190	120.0

	2010 millions	2009* millions	2008* millions
Weighted average number of shares – diluted*	**2,483**	2,507	2,659

*Comparative EPS data have been restated to reflect the impact of the additional shares issued as scrip dividends

(c) Reconciliation of basic to diluted average number of shares

	2010 millions	2009 millions	2008 millions
Weighted average number of ordinary shares – basic	**2,470**	2,490	2,644
Effect of dilutive potential ordinary shares – employee share plans	**13**	17	15
Weighted average number of ordinary shares – diluted	**2,483**	2,507	2,659

Notes to the consolidated financial statements continued

10. Goodwill

	£m
Cost at 1 April 2008	3,904
Exchange adjustments	1,487
Cost at 31 March 2009	5,391
Exchange adjustments	(289)
Cost at 31 March 2010	5,102
Net book value at 31 March 2010	**5,102**
Net book value at 31 March 2009	5,391

The amounts disclosed above as at 31 March 2010 include balances relating to our US gas operations of £3,077m (2009: £3,251m), our New England electricity distribution operations of £881m (2009: £931m), our operations run by our subsidiary Niagara Mohawk Power Corporation of £898m (2009: £949m) and our New England transmission operations of £246m (2009: £260m).

Goodwill is reviewed annually for impairment and the recoverability of goodwill at 31 March 2010 has been assessed by comparing the carrying amount of our operations described above (our cash generating units) with the expected recoverable amount on a value-in-use basis. In each assessment the value-in-use has been calculated based on our five year plan projections that incorporate our best estimates of future cash flows, customer rates, costs, future prices and growth. Such projections reflect our current regulatory rate plans taking into account regulatory arrangements to allow for future rate plan filings and recovery of investment. For much of the five year plan period our regulatory rate plans have been agreed with regulators. Our five year plans have proved to be reliable guides in the past and the Directors believe the estimates are appropriate.

A future growth rate of 3% is used to extrapolate projections beyond five years. The growth rate has been determined having regard to long-term historical data on growth in US real gross domestic product (GDP). Based on our business's place in the underlying US economy, it is appropriate for the terminal growth rate to be based upon the overall growth in real GDP and, given the nature of our operations, to extend over a long period of time.

Cash flow projections have been discounted to reflect the time value of money, using an effective pre-tax discount rate of 10% (2009: 10%). The discount rate represents the estimated weighted average cost of capital of these operations.

While it is conceivable that a key assumption in the calculation could change, the Directors believe that no reasonably foreseeable changes to key assumptions would result in an impairment of goodwill, such is the margin by which the estimated fair value exceeds the carrying amount.

11. Other intangible assets

	Software £m	Acquisition-related £m	Other £m	Total £m
Non-current				
Cost at 1 April 2008	373	92	27	492
Exchange adjustments	32	37	1	70
Additions	78	–	–	78
Reclassifications (i)	50	–	(12)	38
Disposals	(8)	–	–	(8)
Cost at 31 March 2009	525	129	16	670
Exchange adjustments	(8)	(7)	–	(15)
Additions	103	–	1	104
Reclassifications (i)	5	–	1	6
Disposals	(1)	–	–	(1)
Cost at 31 March 2010	624	122	18	764
Amortisation at 1 April 2008	(214)	(4)	(3)	(221)
Exchange adjustments	(12)	(1)	(1)	(14)
Amortisation charge for the year	(59)	(5)	(5)	(69)
Reclassifications (i)	(5)	–	1	(4)
Disposals	8	–	–	8
Amortisation at 31 March 2009	(282)	(10)	(8)	(300)
Exchange adjustments	6	–	–	6
Amortisation charge for the year	(52)	(6)	(5)	(63)
Impairment charge for the year	(7)	(11)	–	(18)
Reclassifications (i)	–	–	(1)	(1)
Disposals	1	–	–	1
Amortisation at 31 March 2010	(334)	(27)	(14)	(375)
Net book value at 31 March 2010	**290**	**95**	**4**	**389**
Net book value at 31 March 2009	243	119	8	370

(i) Primarily represents reclassifications between property, plant and equipment, trade and other receivables and between categories.

Notes to the consolidated financial statements continued

12. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2008	1,152	30,584	2,626	843	35,205
Exchange adjustments	280	3,903	107	2	4,292
Additions	43	2,026	1,005	90	3,164
Disposals	(20)	(204)	(12)	(31)	(267)
Reclassifications	49	1,207	(1,241)	(15)	–
Cost at 31 March 2009	1,504	37,516	2,485	889	42,394
Exchange adjustments	(54)	(765)	(19)	(2)	(840)
Additions	43	893	2,108	104	3,148
Disposals	(12)	(288)	(2)	(48)	(350)
Reclassifications (i)	91	1,874	(2,031)	83	17
Cost at 31 March 2010	1,572	39,230	2,541	1,026	44,369
Depreciation at 1 April 2008	(202)	(10,179)	–	(493)	(10,874)
Exchange adjustments	(18)	(1,050)	–	(3)	(1,071)
Depreciation charge for the year (ii)	(36)	(958)	–	(83)	(1,077)
Impairment charge for the year (iii)	–	(29)	–	–	(29)
Disposals	19	157	–	26	202
Reclassifications	(5)	(25)	–	30	–
Depreciation at 31 March 2009	(242)	(12,084)	–	(523)	(12,849)
Exchange adjustments	4	206	–	2	212
Depreciation charge for the year (ii)	(30)	(1,027)	–	(91)	(1,148)
Impairment charge for the year (iii)	(3)	(23)	(2)	(1)	(29)
Disposals	10	261	–	44	315
Reclassifications (i)	(22)	43	–	(36)	(15)
Depreciation at 31 March 2010	(283)	(12,624)	(2)	(605)	(13,514)
Net book value at 31 March 2010	**1,289**	**26,606**	**2,539**	**421**	**30,855**
Net book value at 31 March 2009	1,262	25,432	2,485	366	29,545

(i) Primarily represents reclassifications between categories, other intangible assets and trade and other receivables.

(ii) Includes amounts in respect of capitalised depreciation of £17m (2009: £19m).

(iii) Relates to write-down of property, plant and equipment items in the liquefied natural gas (LNG) storage facilities.

The net book value of land and buildings comprised:

	2010 £m	2009 £m
Freehold	**1,208**	1,191
Long leasehold (over 50 years)	**5**	5
Short leasehold (under 50 years)	**76**	66
	1,289	1,262

The cost of property, plant and equipment at 31 March 2010 included £903m (2009: £822m) relating to interest capitalised.

Included within trade and other payables and other non-current liabilities at 31 March 2010 are contributions to the cost of property, plant and equipment amounting to £39m (2009: £37m) and £1,478m (2009: £1,449m) respectively.

The carrying value of property, plant and equipment held under finance leases at 31 March 2010 was £202m (2009: £240m). Additions during the year included £13m (2009: £19m) of property, plant and equipment held under finance leases.

13. Other non-current assets

	2010 £m	2009 £m
Prepayments	**7**	6
Other receivables	**71**	92
Commodity contract assets	**84**	8
	162	106

There is no material difference between the fair value and the carrying value of other non-current assets.

For further information on commodity contract assets, refer to note 33. Other receivables include £47m (2009: £61m) receivable from the Long Island Power Authority.

14. Financial and other investments

	2010 £m	2009 £m
Non-current		
Available-for-sale investments	**236**	193
Investments in joint ventures and associates (note 15)	**250**	168
	486	361
Current		
Available-for-sale investments	**1,285**	2,038
Loans and receivables	**112**	159
	1,397	2,197
Total financial and other investments	**1,883**	2,558
Financial and other investments include the following:		
Investments in short-term money funds	**1,000**	1,758
Managed investments in equity and bonds (i)	**385**	363
Restricted cash balances		
Collateral	**58**	159
Other	**57**	–
Cash surrender value of life insurance policies	**126**	102
Investment in joint ventures and associates (note 15)	**250**	168
Other investments	**7**	8
	1,883	2,558

(i) Includes £286m of current investments which are held by insurance captives and are therefore restricted.

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

The maximum exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our treasury related credit risk, refer to note 32(c). None of the financial investments are past due or impaired.

15. Investments in joint ventures and associates

	2010 £m	2009 £m
Share of net assets at 1 April	**168**	71
Exchange adjustments	**(7)**	19
Additions	**86**	73
Share of retained profit for the year	**8**	5
Dividends received	**(18)**	–
Share of other comprehensive income	**9**	–
Other movements	**4**	–
Share of net assets at 31 March	**250**	168

A list of principal joint ventures and associates is provided in note 36.

Notes to the consolidated financial statements continued

16. 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 reporting periods:

Deferred tax (assets)/liabilities

	Accelerated tax depreciation £m	Share-based payments £m	Pensions and other post-retirement benefits £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2008	(2)	(16)	(875)	(17)	(382)	(1,292)
Deferred tax liabilities at 31 March 2008	3,797	–	249	31	474	4,551
At 1 April 2008	3,795	(16)	(626)	14	92	3,259
Exchange adjustments	471	–	(303)	3	7	178
(Credited)/charged to income statement (i)	(257)	(1)	219	5	(184)	(218)
Charged/(credited) to equity	–	3	(678)	(26)	–	(701)
Other	288	1	–	–	(283)	6
At 31 March 2009	4,297	(13)	(1,388)	(4)	(368)	2,524
Deferred tax assets at 31 March 2009	(2)	(13)	(1,457)	(33)	(504)	(2,009)
Deferred tax liabilities at 31 March 2009	4,299	–	69	29	136	4,533
At 1 April 2009	4,297	(13)	(1,388)	(4)	(368)	2,524
Exchange adjustments	(54)	–	84	(3)	13	40
Charged/(credited) to income statement	1,129	1	154	(42)	(314)	928
Credited to equity	–	–	(175)	–	–	(175)
Other	(285)	–	180	(42)	154	7
At 31 March 2010	**5,087**	**(12)**	**(1,145)**	**(91)**	**(515)**	**3,324**
Deferred tax assets at 31 March 2010	(2)	(12)	(1,235)	(103)	(657)	(2,009)
Deferred tax liabilities at 31 March 2010	5,089	–	90	12	142	5,333
	5,087	(12)	(1,145)	(91)	(515)	3,324

(i) Deferred tax credited to the income statement for the year ended 31 March 2009 includes a £564m tax credit reported within profit for the year from discontinued operations.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The following is an analysis of the deferred tax balances (after offset) for balance sheet purposes:

	2010 £m	2009 £m
Deferred tax liabilities	**3,324**	2,661
Deferred tax assets	**–**	(137)
	3,324	2,524

At the balance sheet date there were no material current deferred tax assets or liabilities (2009: £nil).

Deferred tax assets in respect of capital losses, trading losses and non-trade deficits have not been recognised as their future recovery is uncertain or not currently anticipated. The deferred tax assets not recognised are as follows:

	2010 £m	2009 £m
Capital losses	**401**	214
Non-trade deficits	**2**	2
Trading losses	**2**	4

The trading losses arise overseas and are available to carry forward and set off against future overseas profits and will expire on 31 March 2017. In addition, the capital losses and non-trade deficits arise in the UK and are available to carry forward indefinitely. However, the capital losses can only be offset against specific types of future capital gains and non-trade deficits against specific future non-trade profits.

The aggregate amount of temporary differences associated with the unremitted earnings of overseas subsidiaries and joint ventures for which deferred tax liabilities have not been recognised at the balance sheet date is approximately £1,495m (2009: £1,137m). No liability is recognised in respect of the differences because the Company and its subsidiaries are in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

17. Derivative financial instruments

Our use of derivatives may entail a derivative transaction qualifying for one or more hedge type designations under IAS 39. For further information and a detailed description of our derivative financial instruments and hedge type designations, refer to note 31. The fair value amounts by designated hedge type can be analysed as follows:

	2010			2009		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Fair value hedges						
Interest rate swaps	128	(4)	124	193	–	193
Cross-currency interest rate swaps	589	(20)	569	899	(26)	873
	717	(24)	693	1,092	(26)	1,066
Cash flow hedges						
Interest rate swaps	2	(112)	(110)	5	(94)	(89)
Cross-currency interest rate swaps	924	(16)	908	1,056	(5)	1,051
Foreign exchange forward contracts	2	–	2	–	–	–
	928	(128)	800	1,061	(99)	962
Net investment hedges						
Cross-currency interest rate swaps	135	(660)	(525)	55	(1,033)	(978)
Foreign exchange forward contracts	5	(42)	(37)	62	–	62
	140	(702)	(562)	117	(1,033)	(916)
Derivatives not in a formal hedge relationship						
Interest rate swaps	200	(233)	(33)	247	(257)	(10)
Cross-currency interest rate swaps	58	(1)	57	67	(9)	58
Foreign exchange forward contracts	3	(43)	(40)	32	(1)	31
Forward rate agreements	–	(47)	(47)	–	(16)	(16)
Other	–	–	–	11	–	11
	261	(324)	(63)	357	(283)	74
	2,046	(1,178)	868	2,627	(1,441)	1,186
Hedge positions offset within derivative instruments	(304)	304	–	(501)	501	–
Total	1,742	(874)	868	2,126	(940)	1,186

The maturity of derivative financial instruments is as follows:

	2010			2009		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
In one year or less	248	(212)	36	593	(307)	286
Current	248	(212)	36	593	(307)	286
In more than one year, but not more than two years	278	(174)	104	44	(28)	16
In more than two years, but not more than three years	152	(69)	83	259	(229)	30
In more than three years, but not more than four years	240	(106)	134	128	(48)	80
In more than four years, but not more than five years	57	(14)	43	281	(113)	168
In more than five years	767	(299)	468	821	(215)	606
Non-current	1,494	(662)	832	1,533	(633)	900
	1,742	(874)	868	2,126	(940)	1,186

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

	2010 £m	2009 £m
Interest rate swaps	(13,320)	(12,382)
Cross-currency interest rate swaps	(9,528)	(10,701)
Foreign exchange forward contracts	(1,989)	(2,802)
Forward rate agreements	(10,454)	(10,388)
Other	(314)	(758)
Total	(35,605)	(37,031)

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

Notes to the consolidated financial statements continued

18. Inventories and current intangible assets

	2010 £m	2009 £m
Raw materials and consumables	**162**	163
Work in progress	**12**	13
Fuel stocks	**198**	341
Current intangible assets – emission allowances	**35**	39
	407	556

The above table includes a £19m provision for obsolescence as at 31 March 2010 (2009: £15m).

19. Trade and other receivables

	2010 £m	2009 £m
Trade receivables	**1,296**	1,569
Other receivables	**39**	47
Commodity contract assets	**21**	41
Prepayments and accrued income	**937**	1,015
	2,293	2,672

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 their book value. Commodity contract assets are recorded at fair value. For further details of commodity risk, refer to note 33. All other receivables are recorded at amortised cost.

Provision for impairment of receivables

	2010 £m	2009 £m
At 1 April	**303**	159
Exchange adjustments	**(15)**	72
Charge for the year, net of recoveries	**161**	206
Uncollectible amounts written off against receivables	**(138)**	(134)
At 31 March	**311**	303

As at 31 March 2010, trade receivables of £248m (2009: £283m) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2010 £m	2009 £m
Up to 3 months past due	**111**	160
3 to 6 months past due	**35**	45
Over 6 months past due	**102**	78
	248	283

For further information on our wholesale and retail credit risk, refer to note 32(c). For further information on our commodity risk, refer to note 33.

20. Cash and cash equivalents

	2010 £m	2009 £m
Cash at bank	**136**	87
Short-term deposits	**584**	650
Cash and cash equivalents excluding bank overdrafts	**720**	737
Bank overdrafts	**(29)**	(17)
Net cash and cash equivalents	**691**	720

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

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

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 32(a)(i).

At 31 March 2010, £59m (2009: £52m) of cash and cash equivalents were restricted. This primarily relates to cash held in insurance captive companies.

21. Borrowings

	2010 £m	2009 £m
Current		
Bank loans	**890**	604
Bonds	**1,730**	1,826
Commercial paper	**121**	766
Finance leases	**29**	33
Other loans	**7**	7
Bank overdrafts	**29**	17
	2,806	3,253
Non-current		
Bank loans	**2,163**	3,140
Bonds	**19,835**	20,002
Finance leases	**173**	205
Other loans	**147**	193
	22,318	23,540
Total	**25,124**	26,793

Total borrowings are repayable as follows:

	2010 £m	2009 £m
In one year or less	**2,806**	3,253
In more than one year, but not more than two years	**2,146**	2,014
In more than two years, but not more than three years	**1,356**	2,543
In more than three years, but not more than four years	**1,890**	1,400
In more than four years, but not more than five years	**1,862**	2,457
In more than five years:		
by instalments	**22**	76
other than by instalments	**15,042**	15,050
	25,124	26,793

The fair value of borrowings at 31 March 2010 was £26,196m (2009: £25,230m). Market values, where available, have been used to determine fair value. 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 at 31 March 2010 was £25,011m (2009: £26,619m).

Notes to the consolidated financial statements continued

21. Borrowings continued

Charges over property, plant and other assets were provided as collateral over borrowings totalling £515m at 31 March 2010 (2009: £493m).

Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £501m (2009: £473m) in respect of cash received under collateral agreements. Cash placed under collateral agreements is shown in note 14.

Obligations under finance leases at the balance sheet dates are analysed as follows:

	2010 £m	2009 £m
Gross finance lease liabilities repayable as follows:		
In one year or less	30	46
In more than one year, but not more than five years	107	148
In more than five years	135	124
	272	318
Less: finance charges allocated to future periods	(70)	(80)
	202	238
The present value of finance lease liabilities is as follows:		
In one year or less	29	33
In more than one year, but not more than five years	86	117
In more than five years	87	88
	202	238

For further details of our bonds in issue and borrowing facilities, refer to note 34.

22. Trade and other payables

	2010 £m	2009 £m
Trade payables	1,702	1,653
Commodity contract liabilities	184	203
Social security and other taxes	132	111
Other payables	585	650
Deferred income	244	218
	2,847	2,835

Due to their short maturities, the fair value of trade and other payables (excluding deferred income) approximates their book value. Commodity contract liabilities are recorded at fair value. For further details of commodity risk, refer to note 33. All other trade and other payables are recorded at amortised cost.

23. Other non-current liabilities

	2010 £m	2009 £m
Commodity contract liabilities	143	156
Other payables	265	396
Deferred income	1,566	1,540
	1,974	2,092

Commodity contract liabilities are recorded at fair value. For further details of commodity risk, refer to note 33. All other non-current liabilities are recorded at amortised cost. There is no material difference between the fair value and the carrying value of other non-current liabilities.

24. Provisions

	Decom-missioning £m	Environ-mental £m	Emissions £m	Restructuring £m	Other £m	Total provisions £m
At 1 April 2008	87	837	114	66	293	1,397
Exchange adjustments	33	240	33	–	73	379
Additions	4	101	6	43	28	182
Unused amounts reversed	(3)	(23)	(9)	–	–	(35)
Unwinding of discount	2	58	–	–	8	68
Utilised	(15)	(109)	(119)	(9)	(40)	(292)
At 31 March 2009	108	1,104	25	100	362	1,699
Exchange adjustments	(9)	(46)	(1)	–	(12)	(68)
Additions	5	85	4	36	16	146
Reclassifications*	–	–	–	–	70	70
Unused amounts reversed	(1)	(4)	–	(1)	(2)	(8)
Unwinding of discount	2	54	–	–	14	70
Utilised	(8)	(117)	(6)	(30)	(38)	(199)
At 31 March 2010	**97**	**1,076**	**22**	**105**	**410**	**1,710**

*Primarily represents reclassifications from other non-current liabilities

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

	2010 £m	2009 £m
Current	**303**	248
Non-current	**1,407**	1,451
	1,710	1,699

Decommissioning provision

The decommissioning provision of £97m at 31 March 2010 (2009: £108m) primarily represented the net present value of the estimated expenditure (discounted at a nominal rate of 6%) expected to be incurred until 2015 in respect of the decommissioning of certain nuclear generating units that National Grid no longer owns. It also included £46m (2009: £47m) of expenditure relating to other asset retirement obligations expected to be incurred until 2064.

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to a number of sites owned and managed by subsidiary undertakings, with the exception of certain US sites that National Grid no longer owns. The environmental provision is as follows:

	2010		2009*		
	Discounted £m	**Undiscounted £m**	Discounted £m	Undiscounted £m	Real discount rate
UK gas site decontamination (i)	**262**	**376**	226	317	2.0%
US sites (ii)	**813**	**942**	876	1,037	3.2%
Other (iii)	**1**	**1**	2	2	n/a
	1,076	**1,319**	1,104	1,356	

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

(i) Represents the statutory decontamination costs of old gas manufacturing sites in the UK. The anticipated timing of the cash flows for statutory decontamination cannot be predicted with certainty, but they are expected to be incurred over the financial years 2011 to 2058 with some 40% of the spend over the next five years.

There are a number of uncertainties that affect the calculation of the provision for UK gas site decontamination, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. We have made our best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision and hence the income statement.

The undiscounted amount of the provision is the undiscounted best estimate of the liability having regard to the uncertainties above.

(ii) The remediation expenditure in the US is expected to be incurred between financial years 2011 and 2067. The uncertainties regarding the calculation of this provision are similar to those considered in respect of UK gas decontamination. However, unlike the UK, with the exception of immaterial amounts of such costs, this expenditure is expected to be recoverable from rate payers under the terms of various rate agreements in the US.

(iii) The remainder of the environmental provision relates to the expected cost of remediation of certain other sites in the UK. This is expected to be utilised within the next five years and there is no material difference between the discounted and undiscounted amounts.

Notes to the consolidated financial statements continued

24. Provisions continued

Emissions provision

The provision for emission costs is expected to be settled using emission allowances granted.

Restructuring provision

At 31 March 2010, £24m of the total restructuring provision (2009: £30m) consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties. The remainder of the restructuring provision related to business reorganisation costs in the UK, to be paid until 2015.

Other provisions

Other provisions at 31 March 2010 included £63m (2009: £61m) of estimated liabilities in respect of past events insured by insurance subsidiary undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates are based on experience from previous years and there is, therefore, no identifiable payment date. Other provisions also included £6m (2009: £12m) in respect of the sales of four UK gas distribution networks relating to property transfer costs; and £13m (2009: £13m) in respect of obligations associated with investments in joint ventures.

As at 31 March 2010 other provisions also included a £192m (2009: £219m) onerous lease provision. The associated operating lease related to the Ravenswood generation station but the lease commitment remained with National Grid following the sale of Ravenswood.

25. Share capital

	Allotted, called up and fully paid	
Ordinary shares	millions	£m
At 31 March 2007	2,701	308
Issued during the year ended 31 March 2008 (i)	8	1
Repurchased during the year ended 31 March 2008 (ii)	(127)	(15)
At 31 March 2008 & 2009	2,582	294
Issued during the year in lieu of dividends (iii)	35	4
At 31 March 2010	**2,617**	**298**

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

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

(iii) The issue of shares in lieu of cash dividends is considered to be a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to share premium account.

The share capital of the Company consists of ordinary shares of $11\frac{17}{43}$ pence nominal value each and American Depositary Shares. The ordinary and American Depositary Shares allow holders to receive dividends and vote at general meetings of the Company. Shares held in treasury are not entitled to vote or receive dividends. There are no restrictions on the transfer or sale of ordinary shares.

Rights issue

On 19 May 2010, the Board resolved to offer a fully underwritten rights issue to shareholders to raise up to £3.2bn through the issue of up to 990,439,017 new ordinary shares of $11\frac{17}{43}$ pence nominal value each. The rights issue will be offered on the basis of 2 new shares at 335 pence per new share for every 5 existing shares. The new shares (representing approximately 40% of the existing issued share capital excluding treasury shares and 28.6% of the enlarged issued share capital excluding treasury shares immediately following completion of the rights issue) when fully paid will rank pari passu in all respects with the existing shares, except that they will have no right to participate in the final dividend of 24.84 pence per ordinary share proposed to be paid in respect of the year ended 31 March 2010.

B shares

In June 2005, we issued a Circular to Shareholders, outlining a £2bn return of cash to shareholders by way of a B share scheme. Shareholders were issued one B share (a non-cumulative preference share of 10 pence nominal value per share) for every existing ordinary share they held. Shareholders then had choices in respect of the B shares and the return of cash, details of which were set out in the Circular to Shareholders.

Under the return of cash scheme the holders of B shares who elected not to receive the return of cash immediately could retain their B shares for future repurchase. Under the terms set out in the Circular dated 6 June 2005, a final repurchase offer was made in August 2007 for all outstanding B shares. As a result on 28 September 2007, the Company converted 41,988,387 B shares into 3,705,193 ordinary shares of $11\frac{17}{43}$ pence each. Fractions were disregarded and 202,514 B shares were deferred and then subsequently cancelled on 29 January 2008.

25. Share capital continued

Treasury shares

At 31 March 2010, the Company held 144m (2009: 153m; 2008: 67m) of its own shares. The market value of these shares as at 31 March 2010 was £925m (2009: £821m; 2008: £462m).

The Company made the following transactions in respect of its own shares during the year ended 31 March 2010:

(i) During the year, 4m (2009: 1m; 2008: 0.1m) treasury shares were gifted to National Grid Employee Share Trusts and 5m (2009: 2m; 2008: 3m) treasury shares were reissued in relation to employee share schemes, in total representing approximately 0.3% (2009: 0.1%; 2008: 0.1%) of the ordinary shares in issue as at year-end date. The nominal value of these shares was £1m (2009: £0.3m; 2008: £0.3m) and the total proceeds received were £18m (2009: £8m; 2008: £10m).

(ii) During the year, the Company made gifts totalling £7m (2009: £5m; 2008: £6m) to National Grid Employee Share Trusts, to enable the trustees to make purchases of National Grid plc shares in order to satisfy the requirements of employee share option and reward plans.

The maximum number of shares held during the year was 154m ordinary shares (2009: 154m; 2008: 67m) representing approximately 5.9% (2009: 6%; 2008: 3%) of the ordinary shares in issue as at 31 March 2010 and having a nominal value of £18m (2009: £18m; 2008: £8m).

The Company made the following additional transactions in respect of its own shares during the years ended 31 March 2009 and 2008:

(i) During the year, the Company repurchased under its share repurchase programme 85m (2008: 73m) ordinary shares for aggregate consideration of £597m (2008: £570m) including transaction costs. The shares repurchased had a nominal value of £10m (2008: £8m) and represented approximately 3% (2008: 3%) of the ordinary shares in issue at the year end.

Additional information in respect of share capital

	2010 millions	**2010 £m**	2009 millions	2009 £m	2008 millions	2008 £m
Consideration received in respect of ordinary shares issued during the year	**–**	**–**	–	–	8	23
Authorised share capital – ordinary shares (i)	**4,392**	**501**	4,392	501	4,392	501

(i) On 28 September 2007, the Company increased its authorised ordinary share capital by 3,705,193 ordinary shares to 4,391,705,193 ordinary shares of $11\frac{17}{43}$ pence each.

For details in respect of share options and reward plans, refer to note 35.

26. Other equity reserves

	Translation £m	Cash flow hedge £m	Available-for-sale £m	Capital redemption £m	Merger £m	Total £m
At 1 April 2007	(48)	26	1	4	(5,133)	(5,150)
Total other comprehensive (loss)/income for the year	(25)	(37)	8	–	–	(54)
Repurchase of share capital	–	–	–	15	–	15
Transfer between reserves	–	(31)	–	–	(32)	(63)
At 31 March 2008	(73)	(42)	9	19	(5,165)	(5,252)
Total other comprehensive (loss)/income for the year	457	(30)	(5)	–	–	422
At 31 March 2009	384	(72)	4	19	(5,165)	(4,830)
Total other comprehensive (loss)/income for the year	30	(25)	44	–	–	49
At 31 March 2010	**414**	**(97)**	**48**	**19**	**(5,165)**	**(4,781)**

The merger reserve represents the difference between the carrying value of subsidiary undertakings investments and their respective capital structures following the Lattice demerger from BG Group plc and the 1999 Lattice refinancing of £(5,745)m and merger differences of £221m and £359m.

During the year ended 31 March 2008, a £32m gain on transfer of fixed assets to a former joint venture which subsequently became a subsidiary undertaking was transferred from other reserves to profit and loss reserve, as a result of the disposal of our wireless business.

Gains and losses recognised in the cash flow hedge reserve on interest rate swap contracts as of 31 March 2010 will be continuously transferred to the income statement until the borrowings are repaid. The amount of the cash flow hedge reserve due to be released from reserves to the income statement within the next year is £7m, with the remaining amount due to be released with the same maturity profile as borrowings due after more than one year as shown in note 21.

Notes to the consolidated financial statements continued

27. Consolidated cash flow statement

(a) Cash flow from operating activities – discontinued operations

	2010 £m	2009 £m	2008 £m
Operating profit	–	13	35
Adjustments for:			
Changes in working capital, provisions and pensions	–	(21)	(25)
Cash flow relating to discontinued operations	–	(8)	10

(b) Cash flow from investing activities – discontinued operations

	2010 £m	2009 £m	2008 £m
Disposal proceeds (i)	–	1,617	3,064
Tax arising on disposal	–	(564)	–
Other investing activities	–	(4)	(14)
Cash flow relating to discontinued operations	–	1,049	3,050

(i) Disposal proceeds are in respect of the sale of assets and liabilities classified as held for sale.

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

	2010 £m	2009 £m	2008 £m
(Decrease)/increase in cash and cash equivalents	**(28)**	538	(1,450)
Decrease in financial investments	**(805)**	(99)	(45)
Decrease/(increase) in borrowings and related derivatives	**499**	(1,641)	(1,589)
Cash paid to shareholders under B share scheme	–	–	26
Net interest paid on the components of net debt	**999**	956	694
Change in net debt resulting from cash flows	**665**	(246)	(2,364)
Changes in fair value of financial assets and liabilities and exchange movements	**865**	(3,625)	(133)
Net interest charge on the components of net debt	**(996)**	(1,161)	(901)
Borrowings of subsidiary undertaking acquired	–	–	(2,446)
Other non-cash movements	–	–	(9)
Movement in net debt (net of related derivative financial instruments) in the year	**534**	(5,032)	(5,853)
Net debt (net of related derivative financial instruments) at start of year	**(22,673)**	(17,641)	(11,788)
Net debt (net of related derivative financial instruments) at end of year	**(22,139)**	(22,673)	(17,641)

(d) 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(i) £m
At 31 March 2007	1,593	(6)	1,587	2,098	(15,711)	238	(11,788)
Cash flow	(1,446)	(4)	(1,450)	(251)	(729)	66	(2,364)
Fair value gains and losses and exchange movements	4	–	4	4	(990)	849	(133)
Interest charges	–	–	–	211	(1,066)	(46)	(901)
Acquisition of subsidiary undertaking	–	–	–	33	(2,479)	–	(2,446)
Other non-cash movements	23	–	23	–	(18)	(14)	(9)
At 31 March 2008	174	(10)	164	2,095	(20,993)	1,093	(17,641)
Cash flow	545	(7)	538	(184)	(1,316)	716	(246)
Fair value gains and losses and exchange movements	18	–	18	207	(3,222)	(628)	(3,625)
Interest charges	–	–	–	79	(1,245)	5	(1,161)
At 31 March 2009	737	(17)	720	2,197	(26,776)	1,186	(22,673)
Cash flow	(16)	(12)	(28)	(826)	2,079	(560)	665
Fair value gains and losses and exchange movements	(1)	–	(1)	2	644	220	865
Interest charges	–	–	–	24	(1,042)	22	(996)
At 31 March 2010	**720**	**(29)**	**691**	**1,397**	**(25,095)**	**868**	**(22,139)**
Balances at 31 March 2010 comprise:							
Non-current assets	–	–	–	–	–	1,494	1,494
Current assets	720	–	720	1,397	–	248	2,365
Current liabilities	–	(29)	(29)	–	(2,777)	(212)	(3,018)
Non-current liabilities	–	–	–	–	(22,318)	(662)	(22,980)
	720	(29)	691	1,397	(25,095)	868	(22,139)

(i) Includes accrued interest at 31 March 2010 of £232m (2009: £258m).

Notes to the consolidated financial statements – supplementary information

28. Commitments and contingencies

(a) Future capital expenditure

	2010 £m	2009* £m
Contracted for but not provided	**1,738**	1,626

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

(b) Lease commitments

Total commitments under non-cancellable operating leases (the majority of which were in respect of properties) were as follows:

	2010 £m	2009* £m
In one year or less	**91**	96
In more than one year, but not more than two years	**84**	92
In more than two years, but not more than three years	**79**	86
In more than three years, but not more than four years	**96**	85
In more than four years, but not more than five years	**76**	104
In more than five years	**500**	622
	926	1,085

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

(c) Energy purchase commitments

At 31 March 2010, there were obligations under contracts for the forward purchase of energy. The following table analyses these commitments, excluding commodity contracts carried at fair value.

	2010 £m	2009 £m
In one year or less	**1,566**	990
In more than one year, but not more than two years	**653**	816
In more than two years, but not more than three years	**411**	620
In more than three years, but not more than four years	**343**	412
In more than four years, but not more than five years	**284**	379
In more than five years	**278**	428
	3,535	3,645

Energy commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves. Such commitments are for our normal purchase, sale or usage and hence are accounted for as ordinary purchase contracts. Details of commodity contracts that do not meet the normal purchase, sale or usage criteria and hence are accounted for as derivative contracts are shown in note 33.

Notes to the consolidated financial statements continued

28. Commitments and contingencies continued

(d) Other commitments, contingencies and guarantees

The value of other commitments, contingencies and guarantees at 31 March 2010 amounted to £2,119m (2009: £1,846m), including guarantees amounting to £1,189m (2009: £1,202m) and other commitments and contingencies largely relating to gas purchasing and property remediation of £930m (2009: £644m). Details of the guarantees entered into by the Company or its subsidiary undertakings at 31 March 2010 are shown below:

(i) a guarantee in respect of Ravenswood Unit 40 financing amounting to approximately £377m. This expires in 2040;

(ii) a letter of support of obligations under a shareholders' agreement relating to the interconnector project between Britain and The Netherlands amounting to approximately £254m. This expires on commissioning expected early 2011;

(iii) guarantees of certain obligations in respect of the UK Grain LNG Import Terminal amounting to approximately £164m. These run for varying lengths of time, expiring between now and 2028;

(iv) a guarantee amounting to approximately £120m of half of the obligations of the interconnector project between Britain and The Netherlands. This expires on commissioning expected early 2011;

(v) guarantees of the liabilities of a metering subsidiary under meter operating contracts amounting to £53m. These are ongoing;

(vi) an uncapped guarantee, for which the maximum liability is estimated at £40m, to The Crown Estates in support of the transfer of the interconnector between France and England to National Grid Interconnectors Limited as part of the Licence to Assign Lease. This is ongoing;

(vii) letters of credit in support of gas balancing obligations amounting to £26m, lasting for less than one year;

(viii) guarantees of £14m relating to certain property obligations. The bulk of these expire by December 2025;

(ix) collateral of £15m to secure syndicate insurance obligations which are evergreen;

(x) guarantees in respect of a former associate amounting to £14m, the bulk of which relates to its obligations to supply telecommunications services. These are open-ended;

(xi) guarantees of the liabilities of our subsidiary, National Grid Carbon Limited, under contracts in connection with work on a carbon capture and storage demonstration project amounting to £20m. These expire on completion of the project expected 2011; and

(xii) other guarantees amounting to £92m arising in the normal course of business and entered into on normal commercial terms. These guarantees run for varying lengths of time.

(e) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £14m (2009: £28m).

(f) Litigation and claims

We reported in previous Annual Reports and Accounts a decision by the Gas and Electricity Markets Authority (GEMA) to fine National Grid £41.6m for a breach of the UK Competition Act 1998 in respect of term contracts with gas suppliers entered into by our UK metering services business in 2004. This decision was overturned in part and the fine reduced to £30m by the Competition Appeal Tribunal in April 2009 and the fine was further reduced to £15m by the Court of Appeal in a reserved judgement (not otherwise affecting the Competition Appeal Tribunal's judgement) issued in February 2010. On 22 March 2010, National Grid applied for leave to appeal the Court of Appeal's judgement to the Supreme Court.

As at 31 March 2010, we have provided for the fine together with associated costs and have provided against certain trade receivables and other balance sheet items. Without prejudice to our position in relation to appealing the Court of Appeal's judgement, the £15m fine was paid to GEMA on 1 April 2010.

In October 2008, we informed Ofgem that mains replacement activity carried out by the UK Gas Distribution business may have been misreported. Ofgem's investigation continues, so that at present it is too early to determine the likely outcome of the investigation and any potential consequences arising from it.

As previously reported, in May 2007, KeySpan received a civil investigative demand from the Antitrust Division of the US Department of Justice (the DOJ) and a further one in April 2008, requesting the production of documents and information relating to its investigation of competitive issues in the New York City electricity capacity market prior to the Company's acquisition of KeySpan. In February 2010, the DOJ filed a proposed final judgement in the US District Court for the Southern District of New York. Under the terms of the proposed settlement, the DOJ and KeySpan agreed that KeySpan will pay $12m in full and final resolution of the DOJ's civil investigative demands. This agreement contains no admissions of liability by KeySpan and remains subject to court approval, which is currently anticipated later in 2010.

On 18 March 2010, a putative class action was commenced against KeySpan and Morgan Stanley in the Supreme Court for the State of New York in Bronx County. The complaint alleges that a financial swap transaction between KeySpan and Morgan Stanley in January 2006 caused customers of Consolidated Edison, Inc. to overpay for electricity between May 2006 and February 2008. The complaint seeks compensatory damages of not less than $160m, as well as punitive damages plus legal costs. National Grid's management believes that the complaint and its allegations are without merit.

29. 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 joint ventures and a pension plan and were in the normal course of business and are summarised below:

	2010 £m	2009 £m	2008 £m
Sales: Services supplied to a pension plan and joint ventures	5	4	3
Purchases: Services received from joint ventures	73	44	33
Interest income: Interest received on loans with joint ventures	1	–	–
Receivable from a pension plan and joint ventures	1	–	–
Payable to joint ventures	6	6	2
Dividends received from joint ventures	18	–	–

Amounts receivable from and payable to related parties are due on normal commercial terms.

At 31 March 2010, there was a loan receivable from Blue-NG Limited (a joint venture) of £23m (2009: £nil; 2008: £nil) of which £4m is non interest-bearing and the remainder bears interest at 14% per annum.

Details of investments in principal subsidiary undertakings, joint ventures and associates are disclosed in note 36 and information relating to pension fund arrangements is disclosed in notes 4 and 30. For details of Directors' and key management remuneration, refer to note 2(c) and the auditable section of the Directors' Remuneration Report.

30. Actuarial information on pensions and other post-retirement benefits

UK pension schemes

National Grid's defined benefit pension arrangements are funded with assets held in separate trustee administered funds. The arrangements are 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 schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes. From April 2009 Flexible Pension Saving (FPS), a salary sacrifice arrangement, was introduced for active defined contribution section members of the National Grid UK Pension Scheme. FPS was introduced in respect of active defined benefit members of both pension schemes in December 2009. Member contributions and National Grid's service charge reflects this new arrangement.

National Grid UK Pension Scheme

The National Grid UK Pension Scheme ceased to offer final salary defined benefits for new hires from 31 March 2002. A defined contribution arrangement was offered for employees joining from 1 April 2002.

The latest full actuarial valuation was carried out by Towers Watson as at 31 March 2007. The market value of the scheme's assets was £12,923m and the value of the assets represented 97% 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 £442m (£318m net of tax) on the valuation date in light of which the Company 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 32.4% of pensionable earnings (29.4% employers and 3% employees). In addition, the employers pay an allowance for administration expenses which was 3.2% of pensionable earnings, giving a total Company rate of 32.6% of pensionable earnings. The employer contribution rate will be reviewed at the next valuation on 31 March 2010, while the administration rate is reviewed annually.

In accordance with the recovery plan agreed with the trustees at the 2007 valuation, the Company paid its final contribution of £59m (£42m net of tax) during the year which ensured that the deficit reported at the 2007 valuation was paid in full. Contributions to the scheme during the year to 31 March 2011 are expected to comprise ongoing normal contributions only.

Electricity Supply Pension Scheme

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

The latest full actuarial valuation was carried out by Hewitt Associates as at 31 March 2007. The market value of the scheme's assets was £1,345m and the value of the assets represented 77% of the actuarial value of benefits due to members, calculated on the basis of pensionable earnings and service at 31 March 2007 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £405m (£292m net of tax) on the valuation date in light of which the Company agreed a recovery plan with the trustees.

Notes to the consolidated financial statements continued

30. Actuarial information on pensions and other post-retirement benefits continued

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). These contribution rates will be reviewed at the next valuation on 31 March 2010.

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

Since 2007, National Grid has also agreed to bring forward payment of the outstanding deficit plus interest in the event that certain triggers are breached. The conditions under which payment of the outstanding deficit would be made are if National Grid Electricity Transmission plc (NGET) ceases to hold the licence granted under the Electricity Act 1989 or NGET's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

US pension plans

National Grid's defined benefit pension plans in the US provide annuity or lump sum payments for all vested employees. In addition, employees are provided with matched defined contribution benefits. The assets of the plans are held in separate trustee administered funds.

Employees do not contribute to the defined benefit plans. Employer contributions are made in accordance with the rules set out by the US Internal Revenue Code. These contributions vary according to the funded status of the plans and the amounts that are tax deductible. At present, there is some flexibility in the amount that is contributed on an annual basis. In general, the Company's policy for funding the US pension plans is to contribute amounts collected in rates. These contributions are expected to meet the requirements of the Pension Protection Act of 2006.

US retiree healthcare and life insurance plans

National Grid provides healthcare and life insurance benefits to eligible retired US employees. Eligibility is based on certain age and length of service requirements and in most cases retirees contribute to the cost of their coverage.

In the US, there is no governmental requirement to pre fund post-retirement health and welfare plans. However, there may be requirements under the various state regulatory agreements to contribute to these plans. Depending upon the rate jurisdiction and the plan, the funding level may be: equal to the expense as determined under US GAAP; equal to the amount collected in rates; equal to the maximum tax deductible contribution; or zero. These requirements may change as rate agreements are reset.

National Grid expects to contribute $404m to the US pension plans and $224m to other post-retirement benefit plans in the year to 31 March 2011, although this figure may vary due to changes in market conditions and regulatory recovery.

Asset allocations and actuarial assumptions

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

	UK pensions			US pensions			US other post-retirement benefits		
	2010 %	2009 %	2008 %	**2010 %**	2009 %	2008 %	**2010 %**	2009 %	2008 %
Equities (i)	**36.8**	35.2	35.9	**52.8**	50.4	60.6	**68.6**	63.7	63.1
Corporate bonds (ii)	**32.3**	32.7	25.0	**41.5**	42.3	33.6	**24.8**	34.2	32.3
Gilts	**22.4**	22.2	29.8	**–**	–	–	**–**	–	–
Property	**5.9**	5.4	6.7	**–**	–	–	**–**	–	–
Other	**2.6**	4.5	2.6	**5.7**	7.3	5.8	**6.6**	2.1	4.6
Total	**100.0**	100.0	100.0	**100.0**	100.0	100.0	**100.0**	100.0	100.0

(i) Included within equities at 31 March 2010 were ordinary shares of National Grid plc with a value of £17m (2009: £17m; 2008: £24m).

(ii) Included within corporate bonds at 31 March 2008 was an investment in a bond issued by a subsidiary undertaking with a value of £20m.

In respect of UK schemes, 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 each scheme. The expected real returns on specific asset classes reflect historical returns, investment yields on the measurement date and general future return expectations, and have been set after taking advice from the schemes' actuaries. The current target asset allocation for the National Grid UK Pension Scheme is 33% equities and 67% bond-like (including property). The current target asset allocation for National Grid's section of the Electricity Supply Pension Scheme is 52% equities, 41% bonds, 7% property and other.

In respect of US plans, the estimated rate of return for various passive asset classes is based both on analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of our long-term assumptions. A small premium is added for active management of both equity and fixed income. The rates of return for each asset class are then weighted in accordance with the actual asset allocation resulting in a long-term return on asset rate for each plan. The long-term target asset allocation for the National Grid US pension plans is 60% equities, 40% bonds and cash. The long-term target asset allocation for other National Grid US post-retirement benefit plans is 70% equities and 30% bonds.

30. Actuarial information on pensions and other post-retirement benefits continued

The principal actuarial assumptions used were:

	UK pensions			US pensions			US other post-retirement benefits		
	2010 %	2009 %	2008 %	**2010 %**	2009 %	2008 %	**2010 %**	2009 %	2008 %
Discount rate (i)	**5.6**	6.8	6.6	**6.1**	7.3	6.5	**6.1**	7.3	6.5
Expected return on plan assets	**6.4**	6.2	6.4	**7.5**	7.8	7.9	**7.2**	7.4	7.6
Rate of increase in salaries (ii)	**4.7**	3.8	4.6	**3.5**	3.5	4.0	**3.5**	3.5	4.0
Rate of increase in pensions in payment	**3.8**	3.0	3.8	**–**	–	–	**n/a**	n/a	n/a
Rate of increase in pensions in deferment	**3.8**	2.9	3.7	**–**	–	–	**n/a**	n/a	n/a
Rate of increase in retail price index or equivalent	**3.8**	2.9	3.7	**2.4**	2.3	3.0	**n/a**	n/a	n/a
Initial healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**8.5**	9.0	10.0
Ultimate healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**5.0**	5.0	5.0

(i) The discount rates for pension liabilities have been determined by reference to appropriate yields on high quality corporate bonds prevailing in the UK and US debt markets at the balance sheet date.

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

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

	2010		2009	
	UK years	**US years**	UK years	US years
Today				
Males	**21.0**	**18.8**	21.0	18.2
Females	**23.4**	**20.8**	23.3	20.5
In 20 years				
Males	**23.4**	**18.8**	23.3	18.2
Females	**25.7**	**20.8**	25.6	20.5

Sensitivities – all other assumptions held constant:

	Change in pensions and other post-retirement obligation		Change in annual service cost	
	2010 £m	2009 £m	**2010 £m**	2009 £m
0.1% change in discount rate	**317**	233	**4**	4
0.5% change in long-term rate of increase in salaries	**166**	116	**8**	5
Change of one year to life expectations at age 60	**670**	541	**5**	5

Assumed healthcare cost trend rates have a significant impact on the amounts recognised in the income statement. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	2010 £m	2009 £m	2008 £m
Increase			
Effect on the aggregate of the service costs and interest costs	**25**	29	16
Effect on defined benefit obligations	**348**	294	251
Decrease			
Effect on the aggregate of the service costs and interest costs	**(21)**	(24)	(13)
Effect on defined benefit obligations	**(298)**	(254)	(214)

The history of experience adjustments is as follows:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Details of experience gains/(losses) for all plans					
Present value of funded and unfunded obligations	**(22,200)**	(18,299)	(18,175)	(17,253)	(17,839)
Fair value of plan assets	**19,136**	15,519	17,273	15,999	15,909
	(3,064)	(2,780)	(902)	(1,254)	(1,930)
Difference between the expected and actual return on plan assets	**3,192**	(3,952)	(911)	(81)	1,521
Experience gains/(losses) on plan liabilities	**509**	(125)	152	9	192
Actuarial (losses)/gains on plan liabilities	**(3,923)**	1,934	1,343	446	(1,340)

Notes to the consolidated financial statements continued

31. 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, commodities and equity or other indices. Derivatives enable their users to alter exposure to market or credit risks. We use derivatives to manage both our treasury financing and operational market risks. Operational market risks are managed using commodity contracts which are detailed in note 33.

Treasury financial instruments

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

Hedging policies using derivative financial instruments are further explained in note 32. 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, cash flow hedges or net investment hedges. These are described as follows:

Fair value hedges

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

Cash flow hedges

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

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

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

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

Net investment hedges

Borrowings, cross-currency swaps and forward currency contracts are used in the management of the foreign exchange exposure arising from the investment in non-sterling denominated subsidiaries. Where these contracts qualify for hedge accounting they are designated as net investment hedges.

The cross-currency swaps and forward foreign currency contracts are hedge accounted using the spot to spot method. The foreign exchange gain or loss on retranslation of the borrowings and the spot to spot movements on the cross-currency swaps and forward currency contracts are transferred to equity to offset gains or losses on translation of the net investment in the non-sterling denominated subsidiaries.

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.

32. Financial risk

Our activities expose us to a variety of financial risks: market risk (including foreign exchange risk; fair value interest rate risk; cash flow interest rate risk; commodity price 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 Board of Directors. This department identifies, evaluates and hedges financial risks in close cooperation 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 74 to 78.

(a) Market risk

(i) Foreign exchange risk

National Grid operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and investments in foreign operations.

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 future cash flows.

We also manage the foreign exchange exposure to net investments in foreign operations, within a policy range, by maintaining a percentage of net debt and foreign exchange forwards in the relevant currency. The primary managed foreign exchange exposure arises from the US dollar denominated assets and liabilities held by the US operations, with a further small euro exposure in respect of a joint venture investment.

During 2010 and 2009, derivative financial instruments were used to manage foreign currency risk as follows:

	2010					2009				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Cash and cash equivalents	428	4	288	–	720	632	4	101	–	737
Financial investments	455	127	736	79	1,397	1,377	132	617	71	2,197
Borrowings (i)	(10,651)	(6,361)	(7,394)	(718)	(25,124)	(12,424)	(7,214)	(6,435)	(720)	(26,793)
Pre-derivative position	(9,768)	(6,230)	(6,370)	(639)	(23,007)	(10,415)	(7,078)	(5,717)	(649)	(23,859)
Derivative effect	438	6,172	(6,388)	646	868	2,040	7,116	(8,622)	652	1,186
Net debt position	(9,330)	(58)	(12,758)	7	(22,139)	(8,375)	38	(14,339)	3	(22,673)

(i) Includes bank overdrafts.

The overall exposure to US dollars largely relates to our net investment hedge activities as described in note 31.

The currency exposure on other financial instruments is as follows:

	2010					2009				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Trade and other receivables	128	–	1,228	–	1,356	138	–	1,519	–	1,657
Trade and other payables	(1,221)	–	(1,382)	–	(2,603)	(1,196)	–	(1,421)	–	(2,617)
Other non-current liabilities	(15)	–	(393)	–	(408)	1	–	(553)	–	(552)

The carrying amounts of other financial instruments are denominated in the above currencies, which in most instances are the functional currency of the respective subsidiaries. Our exposure to US dollars is due to activities in our US subsidiaries. We do not have any other significant exposure to currency risk on these balances.

Notes to the consolidated financial statements continued

32. Financial risk continued

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from our borrowings. Borrowings issued at variable rates expose National Grid to cash flow interest rate risk. Borrowings issued at fixed rates expose National Grid to fair value interest rate risk. Our interest rate risk management policy as further explained on page 77 is to minimise the finance costs (being interest costs and changes in the market value of debt). Some of our borrowings are inflation linked; that is, their cost is linked to changes in the UK retail price index (RPI). We believe that these borrowings provide a hedge for regulated UK revenues and our UK regulatory asset values that are also RPI linked.

Interest rate risk arising from our financial investments is primarily variable being composed of short-dated money funds.

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

	2010 £m	2009 £m
Fixed interest rate borrowings		
In one year or less	**(1,237)**	(2,103)
In more than one year, but not more than two years	**(1,413)**	(809)
In more than two years, but not more than three years	**(956)**	(1,398)
In more than three years, but not more than four years	**(1,762)**	(981)
In more than four years, but not more than five years	**(1,265)**	(1,821)
In more than five years	**(8,791)**	(8,637)
	(15,424)	(15,749)
Floating interest rate borrowings (including inflation linked)	**(9,700)**	(11,044)
Total borrowings	**(25,124)**	(26,793)

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

	2010					2009				
	Fixed rate £m	Floating rate £m	Inflation linked(i) £m	Other(ii) £m	Total £m	Fixed rate £m	Floating rate £m	Inflation linked(i) £m	Other(ii) £m	Total £m
Cash and cash equivalents	**599**	**121**	**–**	**–**	**720**	–	737	–	–	737
Financial investments	**602**	**673**	**–**	**122**	**1,397**	217	1,922	–	58	2,197
Borrowings (iii)	**(15,424)**	**(4,604)**	**(5,096)**	**–**	**(25,124)**	(15,749)	(6,001)	(5,043)	–	(26,793)
Pre-derivative position	**(14,223)**	**(3,810)**	**(5,096)**	**122**	**(23,007)**	(15,532)	(3,342)	(5,043)	58	(23,859)
Derivative effect (iv)	**(1,552)**	**2,292**	**204**	**(76)**	**868**	148	589	345	104	1,186
Net debt position	**(15,775)**	**(1,518)**	**(4,892)**	**46**	**(22,139)**	(15,384)	(2,753)	(4,698)	162	(22,673)

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

(ii) Represents financial instruments which are not directly affected by interest rate risk, such as investments in equity, foreign exchange forward contracts or other similar financial instruments.

(iii) Includes bank overdrafts.

(iv) The impact of 2010/11 (2009: 2009/10) maturing short-dated interest rate derivatives is included.

(b) Fair value analysis

The following is an analysis of our financial instruments that are measured at fair value. They are reported in a tiered hierarchy based on the valuation methodology described on page 78, and reflecting the significance of market observable inputs.

The classification is as follows:

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

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

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

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

32. Financial risk continued

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

	2010 Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale investments	1,346	175	–	1,521
Derivative financial instruments	–	1,706	36	1,742
	1,346	1,881	36	3,263
Liabilities				
Derivative financial instruments	–	(874)	–	(874)
Total	1,346	1,007	36	2,389

The financial instruments classified as level 3 include cross-currency swaps with an embedded call option and currency swaps where the currency forward curve is illiquid. Third party valuations are obtained from more than one source to support the reported fair value.

The changes in the value of our level 3 derivative financial instruments are as follows:

	2010 £m
At 1 April 2009	10
Net gains for the year (i)	29
Settlements	(3)
At 31 March 2010	36

(i) Gains of £29m are attributable to assets or liabilities held at the end of the reporting period and have been recognised in finance costs in the income statement.

(c) Credit risk

Credit risk is the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in the Company's commercial business activities and is managed on a portfolio basis. 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. As at 31 March 2010, the following limits were in place for investments held with banks and financial institutions:

	Maximum limit £m	Long-term limit £m
Rating		
AAA rated G8 sovereign entities	Unlimited	Unlimited
Triple 'A' vehicles	265	225
Triple 'A' range institutions (AAA)	905 to 1,365	455 to 715
Double 'A' range institutions (AA)	540 to 680	275 to 340
Single 'A' range institutions (A)	185 to 265	95 to 135

As at 31 March 2010 and 2009, we had a number of exposures to individual counterparties. In accordance with our treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. Management does not expect any significant losses from non performance by these counterparties.

The counterparty exposure under derivative financial contracts as shown in note 17 was £1,742m (2009: £2,126m); after netting agreements it was £1,229m (2009: £1,674m). This exposure is further reduced by collateral received as shown in note 21. Additional information for commodity contract credit risk is in note 33.

Notes to the consolidated financial statements continued

32. Financial risk continued

Wholesale and retail credit risk

Our principal commercial exposure in the UK is governed by the credit rules within the regulated codes Uniform Network Code and Connection and Use of System Code. These lay down the level of credit relative to the regulatory asset value (RAV) for each credit rating. In the US, we are required to supply electricity and gas under state regulations. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services. Collection activities are managed on a daily basis. Sales to retail customers are usually settled in cash or using major credit cards. We are committed to measuring, monitoring, minimising and recording counterparty credit risk in our wholesale business. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 19.

(d) Liquidity analysis

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

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

At 31 March 2010	**Due within 1 year £m**	**Due between 1 and 2 years £m**	**Due between 2 and 3 years £m**	**Due 3 years and beyond £m**	**Total £m**
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	**(2,390)**	**(2,100)**	**(1,322)**	**(18,927)**	**(24,739)**
Interest payments on borrowings (i)	**(915)**	**(874)**	**(845)**	**(9,829)**	**(12,463)**
Finance lease liabilities	**(30)**	**(53)**	**(20)**	**(169)**	**(272)**
Other non interest-bearing liabilities	**(2,287)**	**(265)**	**–**	**–**	**(2,552)**
Derivative financial liabilities					
Derivative contracts – receipts	**1,027**	**1,649**	**171**	**2,235**	**5,082**
Derivative contracts – payments	**(859)**	**(1,464)**	**(104)**	**(1,874)**	**(4,301)**
Commodity contracts	**(488)**	**(168)**	**(35)**	**(101)**	**(792)**
Total at 31 March 2010	**(5,942)**	**(3,275)**	**(2,155)**	**(28,665)**	**(40,037)**

At 31 March 2009	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(2,839)	(1,946)	(2,460)	(19,056)	(26,301)
Interest payments on borrowings (i)	(1,031)	(982)	(903)	(9,456)	(12,372)
Finance lease liabilities	(46)	(60)	(50)	(162)	(318)
Other non interest-bearing liabilities	(2,303)	(396)	–	–	(2,699)
Derivative financial liabilities					
Derivative contracts – receipts	1,057	1,109	1,686	1,674	5,526
Derivative contracts – payments	(598)	(889)	(1,588)	(2,154)	(5,229)
Commodity contracts	(601)	(314)	(172)	(214)	(1,301)
Total at 31 March 2009	(6,361)	(3,478)	(3,487)	(29,368)	(42,694)

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

32. Financial risk continued

(e) Sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits, derivative financial instruments and commodity contracts. The following analysis illustrates the sensitivity to changes in market variables, being UK and US interest rates, the UK retail price index and the dollar to sterling exchange rate, on our financial instruments.

The analysis also excludes the impact of movements in market variables on the carrying value of pension and other post-retirement benefit obligations, provisions and on the non-financial assets and liabilities of overseas subsidiaries.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2010 and 31 March 2009 respectively. As a consequence, this sensitivity analysis relates to the positions at those dates and is not representative of the years then ended, as all of these varied.

The following assumptions were made in calculating the sensitivity analysis:

- the balance sheet sensitivity to interest rates relates only to derivative financial instruments and available-for-sale investments, 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 designated as net investment hedges from movements in interest rates are recorded in the income statement as they are designated using the spot rather than the forward translation method. The impact of movements in the dollar to sterling exchange rate are recorded directly in equity;
- changes in the carrying value of derivative financial instruments not in hedging relationships only affect the income statement;
- all other changes in the carrying value of derivative financial instruments designated as hedges are fully effective with no impact on the income statement;
- debt with a maturity below one year is floating rate for the accrued interest part of the calculation;
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations; and
- sensitivity to the retail price index does not take into account any changes to revenue or operating costs that are affected by the retail price index or inflation generally.

Using the above assumptions, the following table shows the illustrative impact on the income statement and items that are recognised directly in equity that would result from reasonably possible movements in the UK retail price index, UK and US interest rates and in the dollar to sterling exchange rate, after the effects of tax.

	2010		2009	
	Income statement +/- £m	**Other equity reserves +/- £m**	Income statement +/- £m	Other equity reserves +/- £m
UK retail price index +/- 0.50%	**17**	**–**	17	–
UK interest rates +/- 0.50%	**51**	**71**	67	77
US interest rates +/- 0.50%	**52**	**14**	63	13
US dollar exchange rate +/- 10%	**68**	**623**	55	880

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

The other equity reserves impact does not reflect the exchange translation in our US subsidiary net assets, which it is estimated would change by £796m (2009: £964m) in the opposite direction if the dollar exchange rate changed by 10%.

Notes to the consolidated financial statements continued

32. Financial risk continued

(f) Capital and risk management

National Grid's objectives when managing capital are to safeguard our ability to continue as a going concern, to remain within regulatory constraints and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and maintain or adjust the capital structure as appropriate in order to achieve these objectives.

The principal measure of our balance sheet efficiency is our interest cover ratio. Interest cover for the year ended 31 March 2010 increased to 3.9 from 3.1 for the year ended 31 March 2009. Our long-term target range for interest cover is between 3.0 and 3.5, which we believe is consistent with single A range long-term senior unsecured debt credit ratings within our main UK operating companies, National Grid Electricity Transmission plc and National Grid Gas plc, based on guidance from the rating agencies. This year's interest cover was above the long-term target range, reflecting the low average retail price index (RPI) during the year, which reduced the interest expense on the accretion of our RPI linked debt. Additional information is provided on page 38.

In addition, we monitor the regulatory asset value (RAV) gearing within each of National Grid Electricity Transmission plc and the regulated transmission and distribution businesses within National Grid Gas plc. This is calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our UK regulated businesses. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for these businesses, at around 60%.

National Grid USA and its public utility subsidiaries, all consolidated subsidiaries of National Grid, are subject to restrictions on the payment of dividends by administrative order and contract. Orders by the Federal Energy Regulatory Commission and applicable state regulatory commissions limit the payment of dividends to cumulative retained earnings, including pre-acquisition retained earnings. Other orders by federal and state commissions require National Grid USA and its public utility subsidiaries to maintain a ratio of at least 30% equity to capital, and debt covenants in effect require that this ratio be maintained at a level of at least 35%.

Some of our regulatory and bank loan agreements additionally impose lower limits for the long-term credit ratings that certain companies within the group must hold. All of the aforementioned requirements are monitored on a regular basis in order to ensure compliance. Additional information is provided on page 74. The Company has complied with all externally imposed capital requirements to which it is subject.

33. Commodity risk

We purchase electricity and gas in order to supply our customers in the US and also to meet our own energy requirements. We also engage in the sale of gas that is produced primarily by our West Virginia gas fields.

Substantially all of our costs of purchasing electricity and gas for supply to customers are recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular financial period.

We enter into forward contracts for the purchase of commodities, some of which do not meet the own use exemption for accounting purposes and hence are accounted for as derivatives. We also enter into derivative financial instruments linked to commodity prices, including index-linked swaps and futures contracts. These derivative financial instruments are used to manage market price volatility and are carried at fair value on the balance sheet. The mark-to-market changes in these contracts are reflected through earnings with the exception of those related to our West Virginia gas fields that are designated as cash flow hedges.

Our energy procurement risk management policy and Delegations of Authority govern our US commodity trading activities for energy transactions. The purpose of this policy is to ensure we transact within pre-defined risk parameters and only in the physical and financial markets where we or our customers have a physical market requirement.

The credit policy for commodity transactions is owned and monitored by the energy procurement risk management committee and establishes controls and procedures to determine, monitor and minimise the credit risk of counterparties. The valuation of our commodity contracts considers the risk of credit by utilising the most current default probabilities and the most current published credit ratings. We also use internal analysis to guide us in setting credit and risk levels and use contractual arrangements including netting agreements as applicable.

The counterparty exposure for our commodity derivatives is £105m (2009: £49m), and after netting agreements it was £91m (2009: £43m).

33. Commodity risk continued

(a) Fair value analysis

The fair value of our commodity contracts by type can be analysed as follows:

	2010 Assets £m	2010 Liabilities £m	2010 Total £m	2009 Assets £m	2009 Liabilities £m	2009 Total £m
Commodity purchase contracts accounted for as derivative contracts						
Forward purchases of electricity	**–**	**(127)**	**(127)**	–	(121)	(121)
Forward purchases/sales of gas	**51**	**(101)**	**(50)**	35	(34)	1
Derivative financial instruments linked to commodity prices						
Electricity swaps	**–**	**(47)**	**(47)**	–	(30)	(30)
Electricity options	**51**	**–**	**51**	–	–	–
Gas swaps	**3**	**(52)**	**(49)**	14	(173)	(159)
Gas options	**–**	**–**	**–**	–	(1)	(1)
	105	**(327)**	**(222)**	49	(359)	(310)

The fair value classification of our commodity contracts is as follows; a definition of each level can be found on page 158:

	2010 Level 1 £m	2010 Level 2 £m	2010 Level 3 £m	2010 Total £m
Assets				
Commodity contracts	**–**	**2**	**103**	**105**
Liabilities				
Commodity contracts	**–**	**(100)**	**(227)**	**(327)**
Total	**–**	**(98)**	**(124)**	**(222)**

Our level 3 commodity contracts primarily consist of our forward purchases of electricity and gas where pricing inputs are unobservable, as well as other complex transactions. Complex transactions can introduce the need for internally developed models based on reasonable assumptions. Industry standard valuation techniques such as the Black-Scholes pricing model and Monte Carlo simulation are used for valuing such instruments. Level 3 is also applied in cases when optionality is present or where an extrapolated forward curve is considered unobservable. All published forward curves are verified to market data; if forward curves differ from market data by 5% or more they are considered unobservable.

The changes in the value of our level 3 commodity contracts are as follows:

	2010 £m
At 1 April 2009	**(115)**
Net gains for the year (i)	**8**
Purchases	**(12)**
Sales	**(1)**
Reclassification into level 3	**(3)**
Reclassification out of level 3	**(1)**
At 31 March 2010	**(124)**

(i) Losses of £67m are attributable to assets or liabilities held at the end of the reporting period.

During the year £3m was transferred out of level 2 and into level 3. These transfers were driven by extrapolated forward curves moving from observable to unobservable.

Notes to the consolidated financial statements continued

33. Commodity risk continued

The impacts on a post-tax basis of reasonably possible changes in significant level 3 assumptions are as follows:

	2010 Income statement £m
10% increase in commodity prices (i)	46
10% decrease in commodity prices (i)	(39)
10% increase in commodity volumes	(9)
10% decrease in commodity volumes	9
Forward curve extrapolation (ii)	(12)

(i) Level 3 commodity price sensitivity is included within the sensitivity analysis disclosed in (d) below.
(ii) Alternative regression assumption applied to the forward curve extrapolation.

The impacts disclosed above were considered on a contract by contract basis with the most significant unobservable inputs identified. The sensitivity is hypothetical only and should be used with caution as the relationship between complex valuation inputs varies over time.

(b) Maturity analysis

The maturity of commodity contracts measured at fair value can be analysed as follows:

	2010			2009		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
In one year or less	21	(184)	(163)	41	(203)	(162)
Current	21	(184)	(163)	41	(203)	(162)
In more than one year, but not more than two years	8	(49)	(41)	6	(41)	(35)
In more than two years, but not more than three years	11	(21)	(10)	2	(27)	(25)
In more than three years, but not more than four years	13	(19)	(6)	–	(17)	(17)
In more than four years, but not more than five years	11	(19)	(8)	–	(16)	(16)
In more than five years	41	(35)	6	–	(55)	(55)
Non-current	84	(143)	(59)	8	(156)	(148)
Total	105	(327)	(222)	49	(359)	(310)

(c) Notional quantities

For each class of commodity contract, our exposure based on the notional quantities is as follows:

	2010	2009*
Forward purchases of electricity (i)	3,883 GWh	4,524 GWh
Forward purchases/sales of gas (ii)	171m Dth	298m Dth
Electricity swaps	3,141 GWh	4,090 GWh
Electricity options	30,294 GWh	30,294 GWh
Gas swaps	59m Dth	88m Dth
Gas options	–	1m Dth
NYMEX electricity futures (iii)	–	18 GWh
NYMEX gas futures (iii)	48m Dth	30m Dth

*Prior year comparatives have been restated on a basis consistent with current year
(i) Forward electricity purchases have terms up to 12 years. The contractual obligations under these contracts are £269m (2009: £348m).
(ii) Forward gas purchases have terms up to 7 years. The contractual obligations under these contracts are £434m (2009: £700m).
(iii) NYMEX futures have been offset with related margin accounts.

(d) Sensitivity analysis

A sensitivity analysis has been prepared on the basis that all commodity contracts are constant from the balance sheet date. Based on this, an illustrative 10% movement in commodity prices would have the following impacts after the effects of tax:

	2010		2009*	
	Income statement £m	Other equity reserves £m	Income statement £m	Other equity reserves £m
10% increase in commodity prices	71	(1)	33	(1)
10% reduction in commodity prices	(64)	1	(43)	1

*Prior year comparatives have been restated to be consistent on a post-tax basis

The income statement sensitivities would affect commodity remeasurements.

34. Bonds and facilities

The table below shows our significant bonds in issue, being those with £100m equivalent notional value or greater. Unless otherwise indicated, these instruments were outstanding at both 31 March 2010 and 31 March 2009.

Issuer	Original Notional Value	Description of instrument	Due
Bonds			
British Transco Finance Inc.	USD 300m	6.625% Fixed Rate	2018
British Transco International Finance BV	FRF 2,000m	5.125% Fixed Rate (i)	2009
	USD 1,500m	Zero Coupon Bond	2021
Brooklyn Union Gas Company	USD 153m	NYSERDA 4.7% GFRB's Series 1996	2021
	USD 400m	KEDNY 5.6% Senior Unsecured Note	2016
KeySpan Corporation	USD 700m	KeySpan MTN 7.625%	2010
	USD 250m	KeySpan MTN 8.00%	2030
	USD 307m	KeySpan 5.803% Notes	2035
	USD 150m	KeySpan 4.65% Notes	2013
	USD 150m	KeySpan 5.875% Notes	2033
KeySpan Gas East Corporation (National Grid Energy Delivery Long Island)	USD 400m	KeySpan 7.875% Gas East MTN Program (i)	2010
Massachusetts Electric Company	USD 800m	5.90% Fixed Rate (ii)	2039
National Grid Electricity Transmission plc	EUR 600m	6.625% Fixed Rate	2014
	GBP 250m	4.75% Fixed Rate	2010
	GBP 300m	2.983% Guaranteed Retail Price Index Linked	2018
	GBP 220m	3.806% Retail Price Index Linked	2020
	GBP 450m	5.875% Fixed Rate	2024
	GBP 360m	6.5% Fixed Rate	2028
	GBP 200m	1.6449% Retail Price Index Linked	2036
	GBP 150m	1.823% Retail Price Index Linked	2056
	GBP 150m	1.8575% Index Linked	2039
	GBP 379m	7.375% Fixed Rate	2031
National Grid Gas plc	GBP 300m	5.375% Fixed Rate (i)	2009
	GBP 300m	6.0% Fixed Rate	2017
	GBP 275m	8.75% Fixed Rate	2025
	GBP 100m	1.6747% Retail Price Index Linked	2036
	GBP 115m	1.7298% Retail Price Index Linked	2046
	GBP 100m	1.6298% Retail Price Index Linked	2048
	GBP 100m	1.5522% Retail Price Index Linked	2048
	GBP 300m	1.754% Retail Price Index Linked	2036
	GBP 140m	1.7864% Index Linked	2037
	GBP 100m	1.9158% Index Linked	2037
	GBP 100m	1.7762% Index Linked	2037
	GBP 100m	1.7744% Index Linked	2039
	GBP 100m	1.8625% Index Linked	2039
	GBP 484m	6.375% Fixed Rate	2020
	GBP 503m	Floating Rate (i)	2009
	GBP 503m	4.1875% Index Linked	2022
	GBP 503m	7.0% Fixed Rate	2024
	EUR 800m	5.125% Fixed Rate	2013
	EUR 163m	4.36% EUR-HICP Linked	2018
	GBP 457m	6.0% Fixed Rate	2038

Notes to the consolidated financial statements continued

34. Bonds and facilities continued

Issuer	Original Notional Value	Description of instrument	Due
Bonds continued			
National Grid plc	CAD 200m	4.98% Fixed Rate	2011
	EUR 1,000m	4.125% Fixed Rate	2013
	EUR 600m	5.0% Fixed Rate	2018
	EUR 500m	4.375% Fixed Rate	2020
	EUR 600m	Floating Rate	2010
	EUR 750m	Floating Rate	2012
	EUR 300m	Floating Rate (i)	2009
	GBP 300m	5.25% Fixed Rate	2011
	GBP 310m	5.5% Fixed Rate	2013
	USD 1,000m	6.3% Fixed Rate	2016
	EUR 578m	6.5% Fixed Rate	2014
	GBP 414m	6.125% Fixed Rate	2014
NGG Finance plc	EUR 750m	6.125% Fixed Rate	2011
Niagara Mohawk Power Corporation	USD 750m	4.881% Fixed Rate (ii)	2019
	USD 500m	3.553% Fixed Rate (ii)	2014
The Narragansett Electric Company	USD 250m	4.534% Fixed Rate (ii)	2020
	USD 300m	5.638% Fixed Rate (ii)	2040
Bank loans and other loans			
National Grid plc	USD 250m	Floating Rate	2014
	USD 150m	Floating Rate	2014
	USD 150m	Floating Rate (i)	2011
	USD 200m	Floating Rate	2010
National Grid Grain LNG Limited	GBP 120m	Floating Rate	2014
	GBP 140m	Floating Rate	2023
National Grid Electricity Transmission plc	GBP 200m	Floating Rate	2012
	GBP 200m	Floating Rate	2017
National Grid Gas plc	GBP 200m	Floating Rate	2012
	GBP 180m	1.88% Retail Price Index Linked	2022
	GBP 190m	2.14% Retail Price Index Linked	2022
National Grid USA	USD 150m	Floating Rate	2011
National Grid Holdings Limited	GBP 250m	4.13794% Fixed Rate	2011
NGT Five Limited	GBP 500m	5.917% Index Linked (i)	2013

(i) Matured or repurchased during the year ended 31 March 2010.
(ii) Issued during the year ended 31 March 2010.

The following bonds and loans have been issued since 31 March 2010:

Issuer	Original Notional Value	Description of instrument	Due
Bonds and loans issued after 31 March 2010			
National Grid Gas plc	GBP 180m	Index Linked (i)	2024

(i) Of this loan agreement a further £120m is expected to be drawn by 30 June 2010.

Borrowing facilities

At 31 March 2010, there were bilateral committed credit facilities of £2,279m (2009: £1,273m), of which £2,189m (2009: £1,180m) were undrawn. In addition, there were committed credit facilities from syndicates of banks of £833m at 31 March 2010 (2009: £1,796m), of which £833m (2009: £1,796m) were undrawn. An analysis of the maturity of these undrawn committed facilities is shown below:

	2010 £m	2009 £m
Undrawn committed borrowing facilities expiring:		
In one year or less	**1,708**	1,155
In more than one year, but not more than two years	**1,314**	1,820
	3,022	2,975

At 31 March 2010, of the unused facilities £2,673m (2009: £2,816m) was held as back up to commercial paper and similar borrowings, while £349m is available as back up to specific US borrowings.

35. Share options and reward plans

We operate four principal forms of share option and share reward plans. These plans include an employee Sharesave scheme, a Performance Share Plan (PSP), the Deferred Share Plan and the Retention Award Plans. In any ten year period, the maximum number of shares that may be issued or issuable pursuant to these share plans may not exceed 10% of the issued ordinary share capital.

Active share plans

The Sharesave scheme is savings related where, under normal circumstances, share options are exercisable on completion of a three and/or 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 Executive Directors and approximately 400 senior employees. Awards made from 2005 have criteria of 50% based on the Company's total shareholder return (TSR) performance when compared to the FTSE 100 and 50% based on the annualised growth of the Company'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 (ADSs for US participants).

Under the Deferred Share Plan, one half of any Annual Performance Plan awarded to the Executive Directors and a predetermined part of any Annual Performance award earned by senior employees is automatically deferred into National Grid shares (ADSs for US participants). The shares/ADSs are held in trust for three years before release.

Retention Awards have been made to a small number of senior employees across the Company. Awards were made predominately to senior US employees following the acquisition of KeySpan. Awards vest in equal tranches over two and four years, provided the employee remains employed by the Company. The Retention Awards are conditional awards with no performance conditions attached.

Additional information in respect of active share plans

	2010 millions	2009 millions	2008 millions
Performance Share Plan			
Awards of ordinary share equivalents at 1 April	**9.5**	7.5	8.0
Awards made	**4.1**	3.5	3.1
Lapses/forfeits	**(0.8)**	(0.7)	(3.4)
Awards vested	**(3.8)**	(0.8)	(0.2)
Awards of ordinary share equivalents at 31 March	**9.0**	9.5	7.5
Conditional awards available for release at 31 March	**0.1**	1.8	–
Deferred Share Plan			
Awards of ordinary share equivalents at 1 April	**1.0**	0.5	0.4
Awards made	**0.5**	0.6	0.2
Awards vested	**(0.6)**	(0.1)	(0.1)
Awards of ordinary share equivalents at 31 March	**0.9**	1.0	0.5
Conditional awards available for release at 31 March	**–**	–	–
Retention Award Plans			
Awards of ordinary share equivalents at 1 April	**0.5**	0.8	–
Awards made	**0.1**	–	0.8
Lapses/forfeits	**(0.1)**	–	–
Awards vested	**(0.2)**	(0.3)	–
Awards of ordinary share equivalents at 31 March	**0.3**	0.5	0.8
Conditional awards available for release at 31 March	**–**	–	–

Notes to the consolidated financial statements continued

35. Share options and reward plans continued

Non-active share plans

We also have a number of historical plans where 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. Options granted were subject to the achievement of performance targets related to TSR over a three year period and those for 2000 were subject to a final retest on 31 March 2010 and the performance condition was not met. This award has therefore lapsed. 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 and other 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 Company or its subsidiary undertakings.

Additional information in respect of non-active share plans

	2010 000s	2009 000s	2008 000s
Share Matching Plan			
Awards at 1 April	**89**	201	384
Awards exercised	**(18)**	(112)	(183)
Awards at 31 March	**71**	89	201
Options exercisable at 31 March	**71**	89	109
Transitional Share Awards/Special Share Awards			
Awards of ordinary share equivalents at 1 April	**–**	3	77
Lapses/forfeits	**–**	–	(1)
Awards vested	**–**	(3)	(73)
Awards of ordinary share equivalents at 31 March	**–**	–	3
Conditional awards available for release at 31 March	**–**	–	3

Share options

Movement in options to subscribe for ordinary shares under the Company's various options schemes for the three years ended 31 March 2010 is shown below and includes those options related to shares issued by employee benefit trusts:

	Sharesave scheme options		Executive Plan options		
	Weighted average price £	millions	Weighted average price £	millions	Total options millions
At 31 March 2007	4.07	21.3	4.74	3.2	24.5
Granted	6.55	2.9	–	–	2.9
Lapsed – expired	4.43	(1.0)	5.31	(0.1)	(1.1)
Exercised	3.37	(6.3)	4.45	(1.1)	(7.4)
At 31 March 2008	4.74	16.9	4.87	2.0	18.9
Granted	4.88	7.4	–	–	7.4
Lapsed – expired	6.07	(2.2)	4.16	(0.1)	(2.3)
Exercised	3.81	(2.0)	4.81	(0.4)	(2.4)
At 31 March 2009	4.74	20.1	4.95	1.5	21.6
Granted	5.20	3.7	–	–	3.7
Lapsed – expired	5.38	(0.9)	5.24	(0.1)	(1.0)
Exercised	3.77	(4.5)	4.93	(0.5)	(5.0)
At 31 March 2010	**5.05**	**18.4**	**4.92**	**0.9**	**19.3**

Included within options outstanding were the following options that were exercisable:

At 31 March 2010	**4.98**	**0.8**	**4.71**	**0.5**	**1.3**
At 31 March 2009	4.57	0.1	4.81	1.0	1.1
At 31 March 2008	3.74	0.5	4.78	1.3	1.8

35. Share options and reward plans continued

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2010 was 2 years and 6 months. These options have exercise prices between £3.17 and £6.55 per ordinary share.

The weighted average share price at the exercise dates was as follows:

	2010 £	2009 £	2008 £
Sharesave scheme options	**5.74**	6.99	7.79
Executive Plan options	**6.03**	6.81	7.68

Additional information in respect of share options

	2010 £m	2009 £m	2008 £m
Share options exercised			
Cash received on exercise of all share options during the year	**18**	8	23
Tax benefits realised from share options exercised during the year	**8**	4	10

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

	Weighted average exercise price of exercisable options £	Number exercisable millions	Weighted average exercise price of outstanding options £	Number outstanding millions	Exercise price per share pence	Normal dates of exercise years
Executive Plan options	5.27	0.1	5.28	0.4	526.0-531.5	2004-2011
	4.62	0.4	4.62	0.5	434.5-481.5	2006-2013
	4.71	**0.5**	**4.92**	**0.9**		

The aggregate intrinsic value of all options outstanding and exercisable at 31 March 2010 amounted to £30m and £2m respectively.

Share-based payment charges

The charge to the income statement for the year ended 31 March 2010 was £25m (2009: £22m; 2008: £18m). The related tax charge recognised in the income statement was £1m (2009: £1m credit; 2008: £1m charge).

Awards under share option plans

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

	2010	2009	2008
Average share price	**676.0p**	684.0p	846.0p
Average exercise price	**520.0p**	488.0p	655.0p
Average fair value	**161.1p**	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.

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

	2010	2009	2008
Dividend yield (%)	**5.0**	5.0	4.5
Volatility (%)	**22.4-26.1**	22.4-26.1	15.6-18.9
Risk-free investment rate (%)	**2.5**	2.5	4.2
Average life (years)	**4.0**	4.2	4.1

Notes to the consolidated financial statements continued

35. Share options and reward plans continued

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. A Black-Scholes European model calculation is carried out every three years. In the intervening years fair values are calculated by reference to the previous full calculation. Consequently, the fair value of awards made in 2010 have been calculated by reference to the 2009 Black-Scholes European model calculation and the fair values of awards made in 2008 have been calculated by reference to the 2006 Black-Scholes European model calculation.

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

(i) implied volatility in traded options over the Company's shares;

(ii) historical volatility of the Company'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 plans

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

	2010	2009	2008
Average share price	**598.2p**	670.1p	766.9p
Average fair value	**355.6p**	458.1p	522.8p

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

	2010	2009	2008
Dividend yield (%)	**4.4**	4.4	4.4
Risk-free investment rate (%)	**2.5**	2.5	4.1

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

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

36. Subsidiary undertakings, joint ventures and associates

Principal subsidiary undertakings

The principal subsidiary undertakings included in the consolidated financial statements at 31 March 2010 are listed below. These undertakings are wholly-owned and, unless otherwise indicated, are incorporated in England and Wales.

The issued share capital is held by subsidiary undertakings in each case, except for NGG Finance plc, National Grid Holdings One plc and National Grid (US) Holdings Limited where the issued share capital is held directly by National Grid plc.

	Principal activity
National Grid Gas plc	Transmission and distribution of gas
National Grid Electricity Transmission plc	Transmission of electricity
New England Power Company (incorporated in the US)	Transmission of electricity
Massachusetts Electric Company (incorporated in the US)	Distribution of electricity
The Narragansett Electric Company (incorporated in the US)	Transmission and distribution of electricity
Niagara Mohawk Power Corporation (incorporated in the US)	Transmission of electricity and distribution of electricity and gas
National Grid Metering Limited	Metering services
Utility Metering Services Limited	Metering services
National Grid Grain LNG Limited	LNG importation terminal
Boston Gas Company (incorporated in the US)	Distribution of gas
National Grid Electric Services LLC (incorporated in the US)	Transmission and distribution of electricity
National Grid Generation LLC (incorporated in the US)	Generation of electricity
New England Electric Transmission Corporation (incorporated in the US)	Transmission of electricity
Nantucket Electric Company (incorporated in the US)	Distribution of electricity
KeySpan Gas East Corporation (incorporated in the US)	Distribution of gas
The Brooklyn Union Gas Company (incorporated in the US)	Distribution of gas
NGG Finance plc	Financing
British Transco Finance Inc. (incorporated in the US)	Financing
British Transco International Finance BV (incorporated in The Netherlands)	Financing
National Grid Property Limited	Property services
National Grid Holdings One plc	Holding company
Lattice Group plc	Holding company
National Grid USA (incorporated in the US)	Holding company
Niagara Mohawk Holdings, Inc. (incorporated in the US)	Holding company
National Grid Commercial Holdings Limited	Holding company
National Grid Gas Holdings Limited	Holding company
National Grid (US) Holdings Limited	Holding company
National Grid Holdings Limited	Holding company
KeySpan Corporation (incorporated in the US)	Holding company

Principal joint ventures and associates

The principal joint ventures and associated undertakings included in the financial statements at 31 March 2010 are listed below. These undertakings are incorporated in England and Wales (unless otherwise indicated).

	% of ordinary shares held	Principal activity
Blue-NG (Holdings) Limited	50	Holding company
BritNed Development Limited	50	Interconnector between the UK and The Netherlands
Millennium Pipeline Company, LLC (incorporated in the US)	26.25	Transmission of gas
Iroquois Gas Transmission System, L.P. (incorporated in the US)	20.4	Transmission of gas

A full list of all subsidiary and associated undertakings is available from the Company Secretary & General Counsel of the Company.

Notes to the consolidated financial statements continued

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures

The following condensed consolidating financial information, comprising income statements, balance sheets and cash flow statements, is given in respect of National Grid Gas plc (Subsidiary guarantor), which became joint full and unconditional guarantor on 11 May 2004 with National Grid plc (Parent guarantor) of the 6.625% Guaranteed Notes due 2018 issued in June 1998 by British Transco Finance Inc., then known as British Gas Finance Inc. (issuer of notes). Condensed consolidating financial information is also provided in respect of Niagara Mohawk Power Corporation as a result of National Grid plc's guarantee, dated 29 October 2007, of Niagara Mohawk's 3.6% and 3.9% issued preferred shares. National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation are wholly-owned subsidiaries of National Grid plc.

The following financial information for National Grid plc, National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation on a condensed consolidating basis is intended to provide investors with meaningful and comparable financial information and is provided pursuant to Rule 3-10 of Regulation S-X in lieu of the separate financial statements of each subsidiary issuer of public debt securities.

This financial information should be read in conjunction with the Company's financial statements and footnotes presented in our 2009/10 Annual Report and Accounts.

Summary income statements are presented, on a consolidating basis, for the three years ended 31 March 2010. Summary income statements of National Grid plc and National Grid Gas plc are presented under IFRS measurement principles, as modified by the inclusion of the results of subsidiary undertakings on the basis of equity accounting principles.

The summary balance sheets of National Grid plc and National Grid Gas plc include the investments in subsidiaries recorded under the equity method for the purposes of presenting condensed consolidating financial information under IFRS. The summary balance sheets present these investments within non-current financial and other investments.

The consolidation adjustments column includes the necessary amounts to eliminate the intercompany balances and transactions between National Grid plc, National Grid Gas plc, British Transco Finance Inc., Niagara Mohawk Power Corporation and other subsidiaries.

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Summary income statements for the year ended 31 March 2010 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	–	2,409	–	2,773	9,003	(197)	13,988
Other operating income	–	–	–	14	5	–	19
Operating costs							
Depreciation and amortisation	–	(131)	–	(430)	(633)	–	(1,194)
Payroll costs	–	(274)	–	(224)	(904)	–	(1,402)
Purchases of electricity	–	(575)	–	–	(998)	–	(1,573)
Purchases of gas	–	(253)	–	(155)	(1,834)	–	(2,242)
Rates and property taxes	–	(126)	–	(248)	(533)	–	(907)
Electricity transmission services scheme direct costs	–	–	–	–	(691)	–	(691)
Payments to Scottish electricity transmission network owners	–	–	–	–	(260)	–	(260)
Other operating charges	4	(435)	–	(633)	(1,578)	197	(2,445)
	4	(1,794)	–	(1,690)	(7,431)	197	(10,714)
Operating profit	4	615	–	1,097	1,577	–	3,293
Net finance costs	(227)	(96)	–	(224)	(561)	–	(1,108)
Dividends receivable	–	–	–	–	300	(300)	–
Interest in equity accounted affiliates	1,558	–	–	12	8	(1,570)	8
Profit before taxation	1,335	519	–	885	1,324	(1,870)	2,193
Taxation	54	(225)	–	(285)	(348)	–	(804)
Profit for the year from continuing operations	1,389	294	–	600	976	(1,870)	1,389
Profit for the year from discontinued operations	–	–	–	–	–	–	–
Profit for the year	**1,389**	**294**	**–**(i)	**600**	**976**	**(1,870)**	**1,389**
Attributable to:							
Equity shareholders	1,386	294	–	600	973	(1,867)	1,386
Minority interests	3	–	–	–	3	(3)	3
	1,389	**294**	**–**(i)	**600**	**976**	**(1,870)**	**1,389**

(i) Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

Notes to the consolidated financial statements continued

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Summary income statements for the year ended 31 March 2009 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	–	2,708	–	2,605	10,549	(238)	15,624
Other operating income	–	–	–	27	36	–	63
Operating costs							
Depreciation and amortisation	–	(135)	–	(413)	(579)	–	(1,127)
Payroll costs	–	(269)	–	(239)	(941)	–	(1,449)
Purchases of electricity	–	(735)	–	–	(1,492)	–	(2,227)
Purchases of gas	–	(374)	–	(168)	(3,020)	–	(3,562)
Rates and property taxes	–	(132)	–	(236)	(513)	–	(881)
Electricity transmission services scheme direct costs	–	–	–	–	(904)	–	(904)
Payments to Scottish electricity transmission network owners	–	–	–	–	(243)	–	(243)
Other operating charges	–	(438)	–	(818)	(1,653)	238	(2,671)
	–	(2,083)	–	(1,874)	(9,345)	238	(13,064)
Operating profit	–	625	–	758	1,240	–	2,623
Net finance costs	(213)	(115)	–	(400)	(506)	–	(1,234)
Dividends receivable	592	–	–	–	300	(892)	–
Interest in equity accounted affiliates	551	–	–	(3)	5	(548)	5
Profit before taxation	930	510	–	355	1,039	(1,440)	1,394
Taxation	(8)	(185)	–	(307)	28	–	(472)
Profit for the year from continuing operations	922	325	–	48	1,067	(1,440)	922
Profit for the year from discontinued operations	25	–	–	–	25	(25)	25
Profit for the year	**947**	**325**	**–**(i)	**48**	**1,092**	**(1,465)**	**947**
Attributable to:							
Equity shareholders	944	325	–	48	1,092	(1,465)	944
Minority interests	3	–	–	–	–	–	3
	947	**325**	**–**(i)	**48**	**1,092**	**(1,465)**	**947**

(i) Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Summary income statements for the year ended 31 March 2008 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	–	2,108	–	2,459	7,104	(248)	11,423
Other operating income	–	–	–	8	67	–	75
Operating costs							
Depreciation and amortisation	–	(101)	–	(432)	(461)	–	(994)
Payroll costs	–	(201)	–	(226)	(752)	–	(1,179)
Purchases of electricity	–	(609)	–	–	(885)	–	(1,494)
Purchases of gas	–	(297)	–	(110)	(1,463)	–	(1,870)
Rates and property taxes	–	(93)	–	(227)	(288)	–	(608)
Electricity transmission services scheme direct costs	–	–	–	–	(574)	–	(574)
Payments to Scottish electricity transmission network owners	–	–	–	–	(226)	–	(226)
Other operating charges	–	(248)	–	(514)	(1,075)	248	(1,589)
	–	(1,549)	–	(1,509)	(5,724)	248	(8,534)
Operating profit	–	559	–	958	1,447	–	2,964
Net finance costs	(116)	(116)	–	(298)	(256)	–	(786)
Dividends receivable	–	–	–	–	500	(500)	–
Interest in equity accounted affiliates	1,705	–	–	(27)	(7)	(1,667)	4
Profit before taxation	1,589	443	–	633	1,684	(2,167)	2,182
Taxation	(14)	(194)	–	(141)	(258)	–	(607)
Profit for the year from continuing operations	1,575	249	–	492	1,426	(2,167)	1,575
Profit for the year from discontinued operations	1,618	–	–	3	1,615	(1,618)	1,618
Profit for the year	**3,193**	**249**	**–(i)**	**495**	**3,041**	**(3,785)**	**3,193**
Attributable to:							
Equity shareholders	3,190	249	–	495	3,038	(3,782)	3,190
Minority interests	3	–	–	–	3	(3)	3
	3,193	**249**	**–(i)**	**495**	**3,041**	**(3,785)**	**3,193**

(i) Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

Notes to the consolidated financial statements continued

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Balance sheets as at 31 March 2010 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	738	–	–	4,364	–	5,102
Other intangible assets	–	3	–	126	260	–	389
Property, plant and equipment	–	3,920	–	10,817	16,118	–	30,855
Deferred tax assets	2	–	–	–	–	(2)	–
Other non-current assets	–	–	–	7	155	–	162
Amounts owed by subsidiary undertakings	1,700	–	–	5,611	1,127	(8,438)	–
Financial and other investments	6,954	23	–	25	9,731	(16,247)	486
Derivative financial assets	655	51	–	564	224	–	1,494
Total non-current assets	9,311	4,735	–	17,150	31,979	(24,687)	38,488
Current assets							
Inventories and current intangible assets	–	30	–	44	333	–	407
Trade and other receivables	6	503	–	270	1,524	(10)	2,293
Amounts owed by subsidiary undertakings	8,649	–	202	114	7,862	(16,827)	–
Financial and other investments	180	17	–	307	893	–	1,397
Derivative financial assets	218	1	–	72	43	(86)	248
Cash and cash equivalents	198	2	–	–	520	–	720
Total current assets	9,251	553	202	807	11,175	(16,923)	5,065
Total assets	**18,562**	**5,288**	**202**	**17,957**	**43,154**	**(41,610)**	**43,553**
Current liabilities							
Borrowings	(1,183)	(27)	(5)	(371)	(1,220)	–	(2,806)
Derivative financial liabilities	(174)	–	–	(30)	(94)	86	(212)
Trade and other payables	(30)	(310)	–	(665)	(1,842)	–	(2,847)
Amounts owed to subsidiary undertakings	(6,701)	(220)	–	(942)	(8,964)	16,827	–
Current tax liabilities	–	(32)	–	–	(369)	10	(391)
Provisions	–	(36)	–	(62)	(205)	–	(303)
Total current liabilities	(8,088)	(625)	(5)	(2,070)	(12,694)	16,923	(6,559)
Non-current liabilities							
Borrowings	(5,307)	(1,358)	(197)	(6,387)	(9,069)	–	(22,318)
Derivative financial liabilities	(431)	–	–	(121)	(110)	–	(662)
Other non-current liabilities	–	(256)	–	(1,100)	(618)	–	(1,974)
Amounts owed to subsidiary undertakings	(537)	(341)	–	(250)	(7,310)	8,438	–
Deferred tax liabilities	–	(131)	–	(1,890)	(1,305)	2	(3,324)
Pensions and other post-retirement benefit obligations	–	(1,102)	–	–	(1,996)	–	(3,098)
Provisions	–	(215)	–	(108)	(1,084)	–	(1,407)
Total non-current liabilities	(6,275)	(3,403)	(197)	(9,856)	(21,492)	8,440	(32,783)
Total liabilities	**(14,363)**	**(4,028)**	**(202)**	**(11,926)**	**(34,186)**	**25,363**	**(39,342)**
Net assets	**4,199**	**1,260**	**–**	**6,031**	**8,968**	**(16,247)**	**4,211**
Equity							
Called up share capital	298	123	–	45	183	(351)	298
Share premium account	1,366	1,942	–	204	7,183	(9,329)	1,366
Retained earnings	7,316	(808)	–	4,493	1,821	(5,506)	7,316
Other equity reserves	(4,781)	3	–	1,289	(231)	(1,061)	(4,781)
Total shareholders' equity	**4,199**	**1,260**	**–**	**6,031**	**8,956**	**(16,247)**	**4,199**
Minority interests	–	–	–	–	12	–	12
Total equity	**4,199**	**1,260**	**–**	**6,031**	**8,968**	**(16,247)**	**4,211**

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Balance sheets as at 31 March 2009 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	779	–	–	4,612	–	5,391
Other intangible assets	–	12	–	73	285	–	370
Property, plant and equipment	–	3,941	–	10,370	15,234	–	29,545
Deferred tax assets	3	145	–	–	–	(11)	137
Other non-current assets	–	4	–	6	365	–	375
Amounts owed by subsidiary undertakings	1,796	–	–	5,611	1,911	(9,318)	–
Financial and other investments	6,384	23	–	14	9,621	(15,681)	361
Derivative financial assets	558	–	–	688	287	–	1,533
Total non-current assets	8,741	4,904	–	16,762	32,315	(25,010)	37,712
Current assets							
Inventories and current intangible assets	–	52	–	34	470	–	556
Trade and other receivables	4	511	–	264	1,893	–	2,672
Amounts owed by subsidiary undertakings	11,153	–	213	225	9,099	(20,690)	–
Financial and other investments	275	17	–	989	916	–	2,197
Derivative financial assets	329	–	–	122	142	–	593
Cash and cash equivalents	235	4	–	–	498	–	737
Total current assets	11,996	584	213	1,634	13,018	(20,690)	6,755
Total assets	**20,737**	**5,488**	**213**	**18,396**	**45,333**	**(45,700)**	**44,467**
Current liabilities							
Borrowings	(1,422)	(64)	(5)	(913)	(849)	–	(3,253)
Derivative financial liabilities	(209)	–	–	(67)	(31)	–	(307)
Trade and other payables	(28)	(263)	–	(580)	(1,964)	–	(2,835)
Amounts owed to subsidiary undertakings	(7,064)	(491)	–	(1,551)	(11,584)	20,690	–
Current tax liabilities	–	(122)	–	(31)	(230)	–	(383)
Provisions	–	(21)	–	(52)	(175)	–	(248)
Total current liabilities	(8,723)	(961)	(5)	(3,194)	(14,833)	20,690	(7,026)
Non-current liabilities							
Borrowings	(6,471)	(573)	(208)	(6,413)	(9,875)	–	(23,540)
Derivative financial liabilities	(511)	–	–	(41)	(81)	–	(633)
Other non-current liabilities	–	(273)	–	(1,103)	(716)	–	(2,092)
Amounts owed to subsidiary undertakings	(1,062)	(849)	–	–	(7,407)	9,318	–
Deferred tax liabilities	–	–	–	(1,778)	(894)	11	(2,661)
Pensions and other post-retirement benefit obligations	–	(1,217)	–	–	(1,863)	–	(3,080)
Provisions	–	(238)	–	(98)	(1,115)	–	(1,451)
Total non-current liabilities	(8,044)	(3,150)	(208)	(9,433)	(21,951)	9,329	(33,457)
Total liabilities	**(16,767)**	**(4,111)**	**(213)**	**(12,627)**	**(36,784)**	**30,019**	**(40,483)**
Net assets	**3,970**	**1,377**	**–**	**5,769**	**8,549**	**(15,681)**	**3,984**
Equity							
Called up share capital	294	130	–	45	182	(357)	294
Share premium account	1,371	2,053	–	204	7,183	(9,440)	1,371
Retained earnings	7,135	(805)	–	4,184	7,471	(10,850)	7,135
Other equity reserves	(4,830)	(1)	–	1,336	(6,301)	4,966	(4,830)
Total shareholders' equity	**3,970**	**1,377**	**–**	**5,769**	**8,535**	**(15,681)**	**3,970**
Minority interests	–	–	–	–	14	–	14
Total equity	**3,970**	**1,377**	**–**	**5,769**	**8,549**	**(15,681)**	**3,984**

Notes to the consolidated financial statements continued

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Cash flow statements

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Year ended 31 March 2010 (i)							
Net cash provided by operating activities	–	527	–	1,449	2,540	–	4,516
Net cash provided by/(used in) investing activities	600	(307)	–	(367)	(1,451)	(807)	(2,332)
Net cash (used in)/provided by financing activities	(637)	(222)	–	(1,088)	(1,072)	807	(2,212)
(Decrease)/increase in cash and cash equivalents in the year	**(37)**	**(2)**	**–**	**(6)**	**17**	**–**	**(28)**
Year ended 31 March 2009							
Net cash provided by operating activities – continuing operations	–	419	–	1,277	1,725	–	3,421
Net cash used in operating activities – discontinued operations	–	–	–	–	(8)	–	(8)
Net cash provided by operating activities	–	419	–	1,277	1,717	–	3,413
Net cash (used in)/provided by investing activities – continuing operations	(2,426)	(265)	–	(1,569)	(4,974)	6,187	(3,047)
Net cash (used in)/provided by investing activities – discontinued operations	–	–	–	(6)	1,055	–	1,049
Net cash (used in)/provided by investing activities	(2,426)	(265)	–	(1,575)	(3,919)	6,187	(1,998)
Net cash provided by/(used in) financing activities	2,663	(157)	–	291	2,513	(6,187)	(877)
Increase/(decrease) in cash and cash equivalents in the year	237	(3)	–	(7)	311	–	538
Year ended 31 March 2008							
Net cash provided by operating activities – continuing operations	4	316	–	1,552	1,283	–	3,155
Net cash provided by operating activities – discontinued operations	–	–	–	–	10	–	10
Net cash provided by operating activities	4	316	–	1,552	1,293	–	3,165
Net cash provided by/(used in) investing activities – continuing operations	1,547	(209)	–	(1,630)	(3,658)	(2,123)	(6,073)
Net cash (used in)/provided by investing activities – discontinued operations	–	–	–	(4)	3,054	–	3,050
Net cash provided by/(used in) investing activities	1,547	(209)	–	(1,634)	(604)	(2,123)	(3,023)
Net cash (used in)/provided by financing activities	(2,302)	(105)	–	(87)	(1,221)	2,123	(1,592)
(Decrease)/increase in cash and cash equivalents in the year	(751)	2	–	(169)	(532)	–	(1,450)

(i) For the year ended 31 March 2010 all cash flows relate to continuing operations.

Cash dividends were received by National Grid plc from subsidiary undertakings amounting to £504m during the year ended 31 March 2010 (2009: £592m; 2008: £2,500m).