2010/11

Annual Report and Accounts

Financial Statements

nationalgrid

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Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the Company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom generally accepted accounting practice, UK GAAP). In preparing the consolidated financial statements, the Directors have also elected to comply with IFRS, issued by the International Accounting Standards Board. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company on a consolidated and individual basis and of the profit or loss of the Company on a consolidated and individual basis for that period.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company on a consolidated and individual basis, and to enable them to ensure that the consolidated financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation and the Company financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names and functions are listed on pages 8 and 9, confirms that, to the best of their knowledge:

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

By order of the Board

Helen Mahy
Company Secretary & General Counsel
18 May 2011

Independent Auditors' report to the Members of National Grid plc

We have audited the consolidated and Company financial statements (the 'financial statements') of National Grid plc for the year ended 31 March 2011, which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated statement of changes in equity, the consolidated cash flow statement, the accounting policies and Company accounting policies, the adoption of new accounting standards, the notes to the consolidated financial statements and the notes to the Company financial statements. The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 110, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the Company's affairs as at 31 March 2011 and of the group's profit and cash flows for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 70, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Nicholas Blackwood (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 May 2011

Accounting policies

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 18 May 2011.

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 2011 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the European Union IAS Regulation. The 2010 and 2009 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.

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 (see accounting policy Y). 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 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, except where the adoption of hedge accounting requires inclusion in other comprehensive income (accounting policy R).

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 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 useful economic lives. Amortisation periods for categories of intangible assets are:

Amortisation periods	Years
Software	3 to 7
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 U.

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 useful economic 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 useful economic lives. In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods	Years
Freehold and leasehold buildings	up to 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.

Accounting policies continued

H. Taxation

Current tax

Current tax assets and liabilities 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. Current tax is charged or credited to the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

Deferred tax 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.

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 nor taxable profit or loss.

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 to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases the tax is also recognised in other comprehensive income or directly in equity, respectively.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred 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 the sale relates to 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 is recognised in the period in which these amounts 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 method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, are recognised in the income statement.

Accounting policies continued

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 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 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. 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.

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.

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).

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.

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 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, gains or losses on disposals of businesses or investments and debt redemption costs as a consequence of transactions such as significant disposals or issues of equity.

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.

Accounting policies continued

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. 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 in revenue.

V. 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.

W. 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 merger reserve 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.

X. Dividends

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

Y. 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 8.
- 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 9.
- 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 23.
- Valuation of financial instruments and derivatives – notes 14 and 31.
- Revenue recognition and assessment of unbilled revenue – accounting policy L.
- Recoverability of deferred tax assets – accounting policy H and note 22.
- Environmental and decommissioning provisions – note 24.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2010/11

During the year ended 31 March 2011, the Company adopted the following International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) or amendments, and interpretations by the IFRS Interpretations Committee. None of the pronouncements had a material impact on the Company's consolidated results or assets and liabilities.

- IFRS 3R on business combinations
- IAS 27R on consolidated and individual financial statements
- Amendment to IAS 39 Financial Instruments: Recognition and measurement on eligible hedged items
- Revised IFRS 1 on first time adoption of IFRS
- IFRIC 17 on distribution of non-cash assets to owners
- Improvements to IFRS 2009
- Amendment to IFRS 2 on group cash-settled share-based payments
- Amendment to IFRS 1 on first time adoption of IFRS
- Amendment to IAS 32 on classification of rights issues

New IFRS accounting standards and interpretations not yet adopted

The standards and interpretations listed below were not effective for the year ended 31 March 2011.

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

IFRS 10, 11, 12 and 13 and the consequent amendments to IAS 27 and IAS 28 were issued on 12 May 2011. The Company is evaluating the impact of these standards on the financial statements.

None of the other standards and interpretations listed below are expected to have a material impact on the Company's consolidated results or assets and liabilities.

- IFRS 9 on financial instruments
- Revised IAS 24 on related party disclosures
- IFRIC 19 on extinguishing financial liabilities with equity instruments
- Amendment to IFRIC 14 on prepayments of a minimum funding requirement
- Amendment to IFRS 1 on comparative IFRS 7 disclosures
- Improvements to IFRS 2010
- Amendment to IFRS 7 on disclosures for transfers of financial assets
- Amendment to IFRS 1 on severe hyperinflation and removal of fixed dates for first-time adoption
- Amendment to IAS 12 on deferred tax on recovery of underlying assets
- IFRS 10 on consolidated financial statements
- IFRS 11 on joint arrangements
- IFRS 12 on disclosures of interests in other entities
- IFRS 13 on fair value measurements
- IAS 27 on separate financial statements
- IAS 28 on investment in associates and joint ventures

Consolidated income statement

for the years ended 31 March

	Notes	2011 £m	2011 £m	2010 £m	2010 £m	2009 £m	2009 £m
Revenue*	1(a)		**14,343**		14,007		15,687
Operating costs	2		**(10,598)**		(10,714)		(13,064)
Operating profit							
Before exceptional items, remeasurements and stranded cost recoveries	1(b)	**3,600**		3,121		2,915	
Exceptional items, remeasurements and stranded cost recoveries	3	**145**		172		(292)	
Total operating profit	1(b)		**3,745**		3,293		2,623
Interest income and similar income							
Before exceptional items	4	**1,281**		1,005		1,315	
Exceptional items	3,4	**43**		–		–	
Total interest income and similar income	4		**1,324**		1,005		1,315
Interest expense and other finance costs							
Before exceptional items and remeasurements	4	**(2,415)**		(2,160)		(2,465)	
Exceptional items and remeasurements	3,4	**(37)**		47		(84)	
Total interest expense and other finance costs	4		**(2,452)**		(2,113)		(2,549)
Share of post-tax results of joint ventures and associates	13		**7**		8		5
Profit before tax							
Before exceptional items, remeasurements and stranded cost recoveries	1(b)	**2,473**		1,974		1,770	
Exceptional items, remeasurements and stranded cost recoveries	3	**151**		219		(376)	
Total profit before tax	1(b)		**2,624**		2,193		1,394
Taxation							
Before exceptional items, remeasurements and stranded cost recoveries	5	**(722)**		(553)		(517)	
Exceptional items, remeasurements and stranded cost recoveries	3,5	**261**		(251)		45	
Total taxation	5		**(461)**		(804)		(472)
Profit from continuing operations after tax							
Before exceptional items, remeasurements and stranded cost recoveries		**1,751**		1,421		1,253	
Exceptional items, remeasurements and stranded cost recoveries	3	**412**		(32)		(331)	
Profit for the year from continuing operations			**2,163**		1,389		922
Profit for the year from discontinued operations	6		**–**		–		25
Profit for the year			**2,163**		1,389		947
Attributable to:							
Equity shareholders of the parent			**2,159**		1,386		944
Non-controlling interests			**4**		3		3
			2,163		1,389		947
Earnings per share from continuing operations**							
Basic	8		**63.9p**		48.4p		31.8p
Diluted	8		**63.6p**		48.2p		31.7p
Earnings per share**							
Basic	8		**63.9p**		48.4p		32.7p
Diluted	8		**63.6p**		48.2p		32.5p

* Items previously reported separately as 'other operating income' have been included within revenue

**Restated to reflect the impact of the bonus element of the rights issue and as a result of the additional shares issued as scrip dividends

The notes on pages 125 to 176 form part of the consolidated financial statements.

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2011 £m	2010 £m	2009 £m
Profit for the year		**2,163**	1,389	947
Other comprehensive income/(loss):				
Exchange adjustments		**(95)**	33	464
Actuarial net gains/(losses)	23	**571**	(731)	(2,018)
Deferred tax on actuarial net gains and losses	5	**(181)**	175	678
Net gains/(losses) in respect of cash flow hedges		**7**	(45)	(1)
Transferred to profit or loss on cash flow hedges		**(7)**	3	(53)
Deferred tax on cash flow hedges	5	**(2)**	9	19
Net gains on available-for-sale investments		**16**	54	9
Transferred to profit or loss on sale of available-for-sale investments		**(3)**	(6)	(18)
Deferred tax on available-for-sale investments	5	**(1)**	(5)	7
Share of post-tax other comprehensive (loss)/income of joint ventures		**(4)**	5	–
Other comprehensive income/(loss) for the year, net of tax		**301**	(508)	(913)
Total comprehensive income for the year		**2,464**	881	34
Total comprehensive income attributable to:				
Equity shareholders of the parent		**2,460**	879	26
Non-controlling interests		**4**	2	8
		2,464	881	34

Consolidated balance sheet

as at 31 March

	Notes	2011 £m	2010 £m
Non-current assets			
Goodwill	9	4,776	5,102
Other intangible assets	10	501	389
Property, plant and equipment	11	31,956	30,855
Other non-current assets	12	135	162
Pension assets	23	556	–
Financial and other investments	13	593	486
Derivative financial assets	14	1,270	1,494
Total non-current assets		39,787	38,488
Current assets			
Inventories and current intangible assets	15	320	407
Trade and other receivables	16	2,212	2,293
Financial and other investments	13	2,939	1,397
Derivative financial assets	14	468	248
Cash and cash equivalents	17	384	720
Total current assets		6,323	5,065
Assets of businesses held for sale	18	290	–
Total assets		46,400	43,553
Current liabilities			
Borrowings	19	(2,952)	(2,806)
Derivative financial liabilities	14	(190)	(212)
Trade and other payables	20	(2,828)	(2,847)
Current tax liabilities		(503)	(391)
Provisions	24	(353)	(303)
Total current liabilities		(6,826)	(6,559)
Non-current liabilities			
Borrowings	19	(20,246)	(22,318)
Derivative financial liabilities	14	(404)	(662)
Other non-current liabilities	21	(1,944)	(1,974)
Deferred tax liabilities	22	(3,766)	(3,324)
Pensions and other post-retirement benefit obligations	23	(2,574)	(3,098)
Provisions	24	(1,461)	(1,407)
Total non-current liabilities		(30,395)	(32,783)
Liabilities of businesses held for sale	18	(110)	–
Total liabilities		(37,331)	(39,342)
Net assets		9,069	4,211
Equity			
Called up share capital	25	416	298
Share premium account		1,361	1,366
Retained earnings		12,153	7,316
Other equity reserves	26	(4,870)	(4,781)
Shareholders' equity		9,060	4,199
Non-controlling interests		9	12
Total equity		9,069	4,211

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 18 May 2011 and were signed on its behalf by:

Sir John Parker Chairman
Andrew Bonfield 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[i] £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
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)
Issue of treasury shares	–	–	8	–	8	–	8
Repurchase of share capital and purchase of treasury shares	–	–	(603)	–	(603)	–	(603)
Other movements in non-controlling interests	–	–	–	–	–	(12)	(12)
Share-based payment	–	–	22	–	22	–	22
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
Issue of treasury shares	–	–	18	–	18	–	18
Purchase of own shares	–	–	(7)	–	(7)	–	(7)
Other movements in non-controlling interests	–	–	–	–	–	(4)	(4)
Share-based payment	–	–	25	–	25	–	25
Tax on share-based payment	–	–	3	–	3	–	3
At 31 March 2010	298	1,366	7,316	(4,781)	4,199	12	4,211
Total comprehensive income for the year	–	–	2,549	(89)	2,460	4	2,464
Rights issue	113	–	–	3,101	3,214	–	3,214
Transfer between reserves	–	–	3,101	(3,101)	–	–	–
Equity dividends	–	–	(1,064)	–	(1,064)	–	(1,064)
Scrip dividend related share issue	5	(5)	206	–	206	–	206
Issue of treasury shares	–	–	18	–	18	–	18
Purchase of own shares	–	–	(3)	–	(3)	–	(3)
Other movements in non-controlling interests	–	–	–	–	–	(7)	(7)
Share-based payment	–	–	25	–	25	–	25
Tax on share-based payment	–	–	5	–	5	–	5
At 31 March 2011	**416**	**1,361**	**12,153**	**(4,870)**	**9,060**	**9**	**9,069**

(i) For further details of other reserves, see note 26.

Consolidated cash flow statement

for the years ended 31 March

	Notes	2011 £m	2010 £m	2009 £m
Cash flows from operating activities				
Total operating profit	1(b)	**3,745**	3,293	2,623
Adjustments for:				
Exceptional items, remeasurements and stranded cost recoveries	3	**(145)**	(172)	292
Depreciation and amortisation		**1,245**	1,188	1,122
Share-based payment charge		**25**	25	22
Changes in working capital		**185**	431	54
Changes in provisions		**(93)**	(98)	(99)
Changes in pensions and other post-retirement benefit obligations		**(304)**	(521)	(678)
Cash flows relating to exceptional items		**(147)**	(135)	(131)
Cash flows relating to stranded cost recoveries		**343**	361	359
Cash flows generated from continuing operations		**4,854**	4,372	3,564
Cash flows relating to discontinued operations (excluding tax)	27(a)	**–**	–	(8)
Cash generated from operations		**4,854**	4,372	3,556
Tax received/(paid)		**4**	144	(143)
Net cash inflow from operating activities		**4,858**	4,516	3,413
Cash flows from investing activities				
Acquisition of investments		**(135)**	(86)	(73)
Net proceeds from sale of investments in subsidiaries		**11**	6	–
Purchases of intangible assets		**(176)**	(104)	(78)
Purchases of property, plant and equipment		**(2,958)**	(3,007)	(3,107)
Disposals of property, plant and equipment		**26**	15	27
Dividends received from joint ventures		**9**	18	–
Interest received		**26**	21	85
Net movement in short-term financial investments		**(1,577)**	805	99
Cash flows used in continuing operations – investing activities		**(4,774)**	(2,332)	(3,047)
Cash flows relating to discontinued operations – investing activities (net of tax)	27(b)	**–**	–	1,049
Net cash flow used in investing activities		**(4,774)**	(2,332)	(1,998)
Cash flows from financing activities				
Proceeds of rights issue		**3,214**	–	–
Proceeds from issue of treasury shares		**18**	18	8
Proceeds from loans received		**767**	1,933	4,892
Repayment of loans		**(2,878)**	(2,257)	(2,618)
Net movements in short-term borrowings and derivatives		**348**	(175)	(633)
Interest paid		**(965)**	(1,003)	(1,061)
Exceptional finance costs on the redemption of debt		**(73)**	(33)	–
Dividends paid to shareholders		**(858)**	(688)	(838)
Repurchase of share capital and purchase of treasury shares		**(3)**	(7)	(627)
Net cash flow used in financing activities		**(430)**	(2,212)	(877)
Net (decrease)/increase in cash and cash equivalents	27(c)	**(346)**	(28)	538
Exchange movements		**(3)**	(1)	18
Net cash and cash equivalents at start of year		**691**	720	164
Net cash and cash equivalents at end of year (i)	17	**342**	691	720

(i) Net of bank overdrafts of £42m (2010: £29m; 2009: £17m).

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 on operating segments). The segmental analysis is based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between segments. The performance of operating segments is assessed principally on the basis of operating profit before exceptional items, 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 networks in New York and New England.
Electricity Distribution & Generation US	Electricity distribution networks in New York and New England and electricity generation facilities 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 which were sold during the years ended 31 March 2009 and 2010. For additional disclosures relating to discontinued operations, see note 6.

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

As a consequence of the introduction of a new operating model, which took effect on 4 April 2011, there will be a corresponding change to our reported segments in future reporting periods. The US Transmission, US Gas Distribution and US Electricity Distribution & Generation segments are expected to be combined and reported as a single US segment.

(a) Revenue

	Total sales 2011 £m	**Sales between segments 2011 £m**	**Sales to third parties 2011 £m**	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
Operating segments – continuing operations									
Transmission UK*	**3,484**	**(7)**	**3,477**	3,475	(6)	3,469	3,517	(2)	3,515
Transmission US	**429**	**(56)**	**373**	405	(74)	331	420	(83)	337
Gas Distribution UK*	**1,524**	**(60)**	**1,464**	1,518	(70)	1,448	1,468	(79)	1,389
Gas Distribution US	**3,811**	**(4)**	**3,807**	3,708	(5)	3,703	4,786	(3)	4,783
Electricity Distribution & Generation US	**4,567**	**(1)**	**4,566**	4,339	(1)	4,338	4,972	(1)	4,971
Other activities*	**678**	**(22)**	**656**	741	(23)	718	750	(58)	692
	14,493	**(150)**	**14,343**	14,186	(179)	14,007	15,913	(226)	15,687
Total excluding stranded cost recoveries			**13,988**			13,631			15,252
Stranded cost recoveries			**355**			376			435
			14,343			14,007			15,687
Geographical areas									
UK			**5,556**			5,543			5,397
US			**8,787**			8,464			10,290
			14,343			14,007			15,687

*Items previously reported separately as 'other operating income' have been included within revenue

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 £34m at 31 March 2011 (2010: £100m; 2009: £52m). In the US, under-recoveries and other regulatory entitlements to future revenue (including stranded cost recoveries) amounted to £1,618m at 31 March 2011 (2010: £2,333m; 2009: £2,289m).

Notes to the consolidated financial statements continued

1. Segmental analysis continued

(b) Operating profit

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.

	Before exceptional items, remeasurements and stranded cost recoveries			After exceptional items, remeasurements and stranded cost recoveries		
	2011 £m	2010 £m	2009 £m	**2011 £m**	2010 £m	2009 £m
Operating segments – continuing operations						
Transmission UK	**1,363**	1,311	1,126	**1,293**	1,252	1,063
Transmission US	**156**	153	175	**154**	151	173
Gas Distribution UK	**711**	723	672	**671**	682	629
Gas Distribution US	**654**	414	612	**640**	448	226
Electricity Distribution & Generation US	**597**	374	265	**910**	701	531
Other activities	**119**	146	65	**77**	59	1
	3,600	3,121	2,915	**3,745**	3,293	2,623
Geographical areas						
UK	**2,226**	2,180	1,875	**2,055**	2,007	1,729
US	**1,374**	941	1,040	**1,690**	1,286	894
	3,600	3,121	2,915	**3,745**	3,293	2,623
Reconciliation to profit before tax:						
Operating profit	**3,600**	3,121	2,915	**3,745**	3,293	2,623
Interest income and similar income	**1,281**	1,005	1,315	**1,324**	1,005	1,315
Interest expense and other finance costs	**(2,415)**	(2,160)	(2,465)	**(2,452)**	(2,113)	(2,549)
Share of post-tax results of joint ventures and associates	**7**	8	5	**7**	8	5
Profit before tax – continuing operations	**2,473**	1,974	1,770	**2,624**	2,193	1,394

(c) Capital expenditure and depreciation

	Capital expenditure			Depreciation and amortisation		
	2011 £m	2010 £m	2009 £m	**2011 £m**	2010 £m	2009 £m
Operating segments – continuing operations						
Transmission UK	**1,432**	1,254	1,259	**(400)**	(373)	(353)
Transmission US	**310**	240	182	**(63)**	(59)	(56)
Gas Distribution UK	**669**	670	598	**(218)**	(201)	(177)
Gas Distribution US	**415**	409	421	**(175)**	(173)	(172)
Electricity Distribution & Generation US	**367**	372	355	**(207)**	(215)	(223)
Other activities	**275**	307	427	**(189)**	(173)	(146)
	3,468	3,252	3,242	**(1,252)**	(1,194)	(1,127)
Geographical areas						
UK	**2,310**	2,187	2,270	**(789)**	(733)	(679)
US	**1,158**	1,065	972	**(463)**	(461)	(448)
	3,468	3,252	3,242	**(1,252)**	(1,194)	(1,127)
By asset type						
Property, plant and equipment	**3,292**	3,148	3,164	**(1,182)**	(1,131)	(1,058)
Other non-current intangible assets	**176**	104	78	**(70)**	(63)	(69)
	3,468	3,252	3,242	**(1,252)**	(1,194)	(1,127)

2. Operating costs

	Before exceptional items, remeasurements and stranded cost recoveries			Exceptional items, remeasurements and stranded cost recoveries			Total		
	2011 £m	2010 £m	2009 £m	**2011 £m**	2010 £m	2009 £m	**2011 £m**	2010 £m	2009 £m
Depreciation and amortisation	**1,245**	1,188	1,122	**7**	6	5	**1,252**	1,194	1,127
Payroll costs	**1,460**	1,354	1,415	**36**	48	34	**1,496**	1,402	1,449
Purchases of electricity	**1,547**	1,592	2,199	**(65)**	(19)	28	**1,482**	1,573	2,227
Purchases of gas	**2,102**	2,294	3,228	**(82)**	(52)	334	**2,020**	2,242	3,562
Rates and property taxes	**945**	907	881	**–**	–	–	**945**	907	881
Balancing Service Incentive Scheme	**581**	691	904	**–**	–	–	**581**	691	904
Payments to Scottish transmission owners	**298**	260	243	**–**	–	–	**298**	260	243
Other	**2,210**	2,224	2,345	**314**	221	326	**2,524**	2,445	2,671
	10,388	10,510	12,337	**210**	204	727	**10,598**	10,714	13,064
Operating costs include:									
Inventory consumed							**451**	475	788
Operating leases							**89**	87	81
Research expenditure							**16**	19	10

(a) Payroll costs

	2011 £m	2010 £m	2009 £m
Wages and salaries	**1,592**	1,596	1,615
Social security costs	**119**	120	118
Other pension costs	**208**	161	160
Share-based payments (note 35)	**25**	25	22
Severance costs (excluding pension costs)	**56**	16	16
	2,000	1,918	1,931
Less: payroll costs capitalised	**(504)**	(516)	(482)
	1,496	1,402	1,449

Payroll costs of discontinued operations for the year ended 31 March 2009 were £11m.

(b) Number of employees

	31 March 2011 Number	**Average 2011 Number**	31 March 2010 Number	Average 2010 Number
UK	**9,807**	**9,953**	10,211	10,269
US	**17,282**	**17,719**	17,895	17,798
	27,089	**27,672**	28,106	28,067

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 2011, there were 2,597 (2010: 3,533) employees in other operations, excluding shared services.

Notes to the consolidated financial statements continued

2. Operating costs continued

(c) Key management compensation

	2011 £m	2010 £m	2009 £m
Salaries and short-term employee benefits	**10**	10	11
Post-retirement benefits	**6**	4	3
Share-based payments	**6**	5	5
	22	19	19

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.

(e) Auditors' remuneration

	2011 £m	2010 £m	2009 £m
Total services pursuant to legislation			
Audit services:			
Audit of parent company and consolidated financial statements	**1.0**	1.1	1.5
Other services pursuant to legislation: (i)			
Audit of subsidiary financial statements	**4.8**	5.4	5.8
Other services supplied	**2.1**	1.9	2.4
	7.9	8.4	9.7
Total other services			
Services relating to tax compliance	**0.5**	0.6	0.6
Services relating to tax advice	**0.4**	0.8	0.3
Services relating to information technology	**0.2**	–	–
Services relating to corporate finance transactions*	**0.4**	0.4	0.1
All other services* (ii)	**1.2**	0.8	0.8
	2.7	2.6	1.8
Total auditors' remuneration	**10.6**	11.0	11.5

*Comparatives have been re-presented on a basis consistent with the current year classification

(i) 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.

(ii) All other services include fees relating to corporate responsibility reporting, treasury related projects and sundry services, all of which have been subject to prior approval by the Audit Committee.

In addition, fees of £0.1m were incurred in 2011 in relation to the audits of the pension schemes of the Company (2010: £0.1m; 2009: £0.1m).

3. Exceptional items, remeasurements and stranded cost recoveries

	2011 £m	2010 £m	2009 £m
Included within operating profit:			
Exceptional items:			
Restructuring costs(1)	**(89)**	(149)	(192)
Environmental charges(2)	**(128)**	(63)	(78)
Net gain on disposal of subsidiaries and associate(3)	**15**	11	–
Impairment charges and related costs(4)	**(133)**	–	–
Other(5)	**(15)**	(67)	(5)
	(350)	(268)	(275)
Remeasurements – commodity contracts(6)	**147**	71	(443)
Stranded cost recoveries(7)	**348**	369	426
	145	172	(292)
Included within interest income and similar income:			
Exceptional items:			
Interest credit on tax settlement(8)	**43**	–	–
Included within finance costs:			
Exceptional items:			
Debt redemption costs(9)	**(73)**	(33)	–
Remeasurements:			
Commodity contracts(6)	**–**	(1)	(2)
Net gains/(losses) on derivative financial instruments(10)	**36**	81	(82)
	(37)	47	(84)
Total included within profit before tax	**151**	219	(376)
Included within taxation:			
Exceptional credits/(charges) arising on items not included in profit before tax:			
Deferred tax credit arising on the reduction in the UK tax rate(11)	**226**	–	–
Deferred tax charge arising from change in UK industrial building allowance regime(12)	**–**	–	(49)
Other(13,14)	**59**	(41)	–
Tax on exceptional items	**79**	72	77
Tax on remeasurements (6,10)	**36**	(134)	187
Tax on stranded cost recoveries	**(139)**	(148)	(170)
	261	(251)	45
Total exceptional items, remeasurements and stranded cost recoveries after tax	**412**	(32)	(331)
Analysis of total exceptional items, remeasurements and stranded cost recoveries after tax:			
Exceptional items after tax	**(16)**	(270)	(247)
Remeasurements after tax	**219**	17	(340)
Stranded cost recoveries after tax	**209**	221	256
Total	**412**	(32)	(331)

(1) Restructuring costs include:

- costs related to the integration of KeySpan of £15m (2010: £30m; 2009: £53m);
- transformation related initiatives of £103m (2010: £78m; 2009: £68m);
- a charge of £10m related to the restructuring of our US operations, which includes a severance provision offset by a pension and other post-retirement benefits curtailment gain; and
- a release of £39m of restructuring provisions recognised in prior years.

Charges in 2010 and 2009 also included an amount for the restructuring of our liquefied natural gas (LNG) storage facilities of £41m and £50m respectively and in 2009 charges related to planned cost reduction programmes in our UK businesses of £21m.

(2) Environmental charges include £70m (2010: £42m; 2009: £37m) and £58m (2010: £21m; 2009: £41m) related to specific exposures in the UK and US respectively. Costs incurred with respect to US environmental provisions are substantially recoverable from customers.

(3) During the year we sold three wholly-owned subsidiaries and an interest in an associate resulting in a gain of £15m. During the year ended 31 March 2010 there was a gain of £5m on the sale of an associate and the release of various unutilised provisions amounting to £6m originally recorded on the sale of a wholly-owned subsidiary in 2008.

Notes to the consolidated financial statements continued

3. Exceptional items, remeasurements and stranded cost recoveries continued

(4) Impairment charges and related costs include:
- a charge of £49m relating to our investment in Blue-NG, a joint venture investing in combined heat and power generation. The charge comprises an impairment of the carrying value of the investment together with committed funding and associated exit costs;
- an impairment charge of £34m against the carrying value of the goodwill relating to our US companies in New Hampshire following our announcement in December 2010 of the proposed sale of these businesses; and
- a charge of £50m relating to our US generation assets for impairment and associated decommissioning.

(5) Other exceptional charges for the year include an amortisation charge of £7m (2010: £6m; 2009: £5m) in relation to acquisition-related intangibles plus an £8m penalty levied by Ofgem on our UK Gas Distribution business. For the year ended 31 March 2010, other exceptional items also included an impairment charge of £11m in relation to acquisition-related intangibles, a charge of £9m relating to US healthcare costs arising from legislative changes, and £41m related to a fine of £15m levied by the Gas and Electricity Markets Authority (GEMA) together with associated costs and provisions against receivables and other balance sheet items. For further details of the fine levied upon us by GEMA refer to note 28.

(6) 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 affecting operating profit which are based on the change in the commodity contract liability and those recorded in finance costs as a result of the time value of money.

(7) 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 £355m (2010: £376m; 2009: £435m) and operating costs of £7m (2010: £7m; 2009: £9m).

(8) During the year we reached agreement with the US tax authorities on the settlement of pre-acquisition tax liabilities which resulted in the repayment of tax and interest accruing.

(9) Debt redemption costs represent costs arising from our debt repurchase programme, undertaken primarily in the first half of the year, to manage our cash resources efficiently following the rights issue. Debt redemption costs in the year ended 31 March 2010 represented costs relating to the early redemption of a significant loan.

(10) 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 other comprehensive income or which are offset by adjustments to the carrying value of debt. The tax credit in the year includes a credit of £104m (2010: £78m charge; 2009: £1m charge) in respect of prior years.

(11) The exceptional tax credit arises from a reduction in the UK corporation tax rate from 28% to 26% included and enacted in the Finance (No. 2) Act 2010 and the Provisional Collection of Taxes Act 1968 and applicable from 1 April 2011. This results in a reduction in deferred tax liabilities.

(12) 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.

(13) The exceptional tax charge of £41m in the year ended 31 March 2010 arose from a change in US tax legislation under the Patient Protection and Affordable Care Act.

(14) The exceptional tax credit for the year ended 31 March 2011 primarily arose from a settlement of pre-acquisition tax liabilities with the US tax authorities.

4. Finance income and costs

	2011 £m	2010 £m	2009 £m
Interest income and similar income			
Expected return on pension and other post-retirement benefit plan assets	**1,256**	981	1,236
Interest income on financial instruments:			
Bank deposits and other financial assets	**22**	18	61
Gains on disposal of available-for-sale investments	**3**	6	18
Interest income and similar income before exceptional items	**1,281**	1,005	1,315
Exceptional items			
Exceptional interest credit on tax settlement	**43**	–	–
Interest income and similar income	**1,324**	1,005	1,315
Interest expense and other finance costs			
Interest on pension and other post-retirement benefit plan obligations	**(1,231)**	(1,193)	(1,250)
Interest expense on financial liabilities held at amortised cost:			
Bank loans and overdrafts	**(85)**	(80)	(136)
Other borrowings	**(1,184)**	(938)	(1,149)
Derivatives	**84**	22	5
Unwinding of discounts on provisions	**(128)**	(70)	(68)
Less: Interest capitalised (i)	**129**	99	133
Interest expense and other finance costs before exceptional items and remeasurements	**(2,415)**	(2,160)	(2,465)
Exceptional items			
Exceptional debt redemption costs	**(73)**	(33)	–
Remeasurements			
Net gains/(losses) on derivative financial instruments included in remeasurements (ii):			
Ineffectiveness on derivatives designated as:			
Fair value hedges (iii)	**40**	67	(34)
Cash flow hedges	**9**	(5)	(18)
Net investment hedges	**7**	(19)	(2)
Net investment hedges – undesignated forward rate risk	**(16)**	51	112
Derivatives not designated as hedges or ineligible for hedge accounting	**(4)**	(13)	(140)
Financial element of remeasurements on commodity contracts	**–**	(1)	(2)
	36	80	(84)
Exceptional items and remeasurements included within interest expense	**(37)**	47	(84)
Interest expense and other finance costs	**(2,452)**	(2,113)	(2,549)
Net finance costs	**(1,128)**	(1,108)	(1,234)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 5.3% (2010: 2.8%; 2009: 5.7%).

(ii) Includes a net foreign exchange gain on financing activities of £173m (2010: £334m gain; 2009: £1,500m loss) offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

(iii) Includes a net gain on instruments designated as fair value hedges of £86m (2010: £90m loss; 2009: £382m gain) offset by a net loss of £46m (2010: £157m gain; 2009: £416m loss) arising from fair value adjustments to the carrying value of debt.

Notes to the consolidated financial statements continued

5. Taxation

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

	2011 £m	2010 £m	2009 £m
Tax before exceptional items, remeasurements and stranded cost recoveries	**722**	553	517
Exceptional tax on items not included in profit before tax (see note 3)	**(285)**	41	49
Tax on other exceptional items, remeasurements and stranded cost recoveries	**24**	210	(94)
Tax on total exceptional items, remeasurements and stranded cost recoveries (see note 3)	**(261)**	251	(45)
Total tax charge	**461**	804	472

Taxation as a percentage of profit before tax

	2011 %	2010 %	2009 %
Before exceptional items, remeasurements and stranded cost recoveries	**29.2**	28.0	29.2
After exceptional items, remeasurements and stranded cost recoveries	**17.6**	36.7	33.9

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

	2011 £m	2010 £m	2009 £m
United Kingdom			
Corporation tax at 28%	**168**	197	37
Corporation tax adjustment in respect of prior years	**(161)**	(31)	(54)
Deferred tax	**53**	259	339
Deferred tax adjustment in respect of prior years	**(43)**	(5)	–
	17	420	322
Overseas			
Corporate tax	**105**	74	105
Corporate tax adjustment in respect of prior years	**(2)**	(364)	38
Deferred tax	**393**	279	37
Deferred tax adjustment in respect of prior years	**(52)**	395	(30)
	444	384	150
Total tax charge	**461**	804	472

Adjustments in respect of prior years include a £207m corporation tax credit (2010: £76m charge; 2009: £2m credit) and a £44m deferred tax charge (2010: £1m; 2009: £1m) that relate to exceptional items, remeasurements and stranded cost recoveries.

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

	2011 £m	2010 £m	2009 £m
Corporation tax			
Share-based payments	**(1)**	(3)	(2)
Deferred tax			
Share of other comprehensive income of joint ventures and associates	**(2)**	4	–
Available-for-sale investments	**1**	5	(7)
Cash flow hedges	**2**	(9)	(19)
Share-based payments	**(4)**	–	3
Actuarial gains/(losses) (i)	**181**	(175)	(678)
	177	(178)	(703)
Total tax recognised in the statement of comprehensive income	**182**	(175)	(704)
Total tax relating to share-based payments recognised directly in equity	**(5)**	(3)	1
	177	(178)	(703)

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

5. Taxation continued

The tax charge for the year after exceptional items, remeasurements and stranded cost recoveries is lower than (2010: higher; 2009: higher) the standard rate of corporation tax in the UK of 28% (2010: 28%; 2009: 28%):

	Before exceptional items, remeasurements and stranded cost recoveries 2011 £m	**After exceptional items, remeasurements and stranded cost recoveries 2011 £m**	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
Profit before tax						
Before exceptional items, remeasurements and stranded cost recoveries	**2,473**	**2,473**	1,974	1,974	1,770	1,770
Exceptional items, remeasurements and stranded cost recoveries	**–**	**151**	–	219	–	(376)
Profit before tax	**2,473**	**2,624**	1,974	2,193	1,770	1,394
Profit before tax multiplied by UK corporation tax rate of 28%	**692**	**735**	553	614	496	390
Effects of:						
Adjustments in respect of prior years	**(95)**	**(258)**	(82)	(5)	(45)	(46)
Expenses not deductible for tax purposes	**42**	**204**	62	237	76	82
Non-taxable income	**5**	**(136)**	(6)	(131)	(35)	(34)
Adjustment in respect of foreign tax rates	**74**	**120**	37	77	38	32
Impact of share-based payments	**1**	**1**	–	–	1	1
Deferred tax impact of change in UK tax rate	**–**	**(226)**	–	–	–	–
Other	**3**	**21**	(11)	12	(14)	47
Total tax	**722**	**461**	553	804	517	472

	%	**%**	%	%	%	%
Effective tax rate	**29.2**	**17.6**	28.0	36.7	29.2	33.9

Factors that may affect future tax charges

A number of changes to the UK corporation tax system were announced in the 2011 UK Budget Report and are expected to be enacted in the Finance Act 2011. However, the reduction in the UK corporation tax rate to 26% from 1 April 2011 has been substantively enacted and deferred tax balances have been calculated at this rate.

Other changes such as the reduction in the UK corporation tax rate to 25% from April 2012, with further 1% reductions to follow in each of the succeeding two years, will result in a UK corporation tax rate of 23% from April 2014. These changes have not been substantively enacted as at the balance sheet date and have therefore not been reflected in these financial statements.

The outcome of the ongoing UK consultation process on the reform of the controlled foreign company legislation, as part of the wider UK corporate tax reform agenda, is expected in the UK Finance Bill 2012. We will monitor the expected changes for their implications on our holdings in foreign operations.

Notes to the consolidated financial statements continued

6. Discontinued operations

For the year ended 31 March 2009, discontinued operations comprised the Ravenswood generation station in New York and the engineering and communications operations in the US acquired as part of the KeySpan acquisition. The Ravenswood generation station, KeySpan Communications and one of the KeySpan engineering companies were sold in the year ended 31 March 2009. The two further KeySpan engineering companies were sold at the beginning of the year ended 31 March 2010 and consequently did not have material operating results in that year.

Results of discontinued operations

	2011 £m	2010 £m	2009 £m
Revenue	**–**	–	97
Operating costs	**–**	–	(84)
Total operating profit	**–**	–	13
Taxation	**–**	–	(4)
Profit after tax	**–**	–	9
Gain on disposal	**–**	–	27
Taxation (i)	**–**	–	(11)
Gain on disposal after tax	**–**	–	16
Total profit for the year from discontinued operations	**–**	–	25

(i) 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.

7. Dividends

The following table shows the actual dividends paid to equity shareholders:

	2011 pence per share	**2011 Total £m**	**2011 settled via scrip £m**	2010 pence per share	2010 Total £m	2010 settled via scrip £m	2009 pence per share	2009 Total £m
Interim – year ended 31 March 2011	**12.90**	**451**	**65**	–	–	–	–	–
Final – year ended 31 March 2010	**24.84**	**613**	**141**	–	–	–	–	–
Interim – year ended 31 March 2010	**–**	**–**	**–**	13.65	336	68	–	–
Final – year ended 31 March 2009	**–**	**–**	**–**	23.00	557	137	–	–
Interim – year ended 31 March 2009	**–**	**–**	**–**	–	–	–	12.64	307
Final – year ended 31 March 2008	**–**	**–**	**–**	–	–	–	21.30	531
	37.74	**1,064**	**206**	36.65	893	205	33.94	838

For comparability purposes the table below presents rebased dividends per share after taking account of the impact of the rights issue:

	2011 pence per share (actual)	**2011 impact of rights issue**	**2011 pence per share (rebased)**	2010 pence per share (actual)	2010 impact of rights issue	2010 pence per share (rebased)	2009 pence per share (actual)	2009 pence per share (rebased)
Interim – year ended 31 March 2011	**12.90**	**–**	**12.90**	–	–	–	–	–
Final – year ended 31 March 2010	**24.84**	**(3.10)**	**21.74**	–	–	–	–	–
Interim – year ended 31 March 2010	**–**	**–**	**–**	13.65	(1.71)	11.94	–	–
Final – year ended 31 March 2009	**–**	**–**	**–**	23.00	(1.87)	20.13	–	–
Interim – year ended 31 March 2009	**–**	**–**	**–**	–	–	–	12.64	11.06
Final – year ended 31 March 2008	**–**	**–**	**–**	–	–	–	21.30	18.64
	37.74	**(3.10)**	**34.64**	36.65	(3.58)	32.07	33.94	29.70

The Directors are proposing a final dividend for 2011 of 23.47p per share that will absorb approximately £824m of shareholders' equity (assuming all amounts are settled in cash). It will be paid on 17 August 2011 to shareholders who are on the register of members at 3 June 2011 and a scrip dividend will be offered as an alternative, subject to shareholders' approval at the Annual General Meeting.

8. Earnings per share

Adjusted earnings per share, excluding exceptional items, remeasurements and stranded cost recoveries, are provided to reflect the business performance subtotals used by the Company. For further details of exceptional items, remeasurements and stranded cost recoveries, see note 3.

(a) Basic earnings per share

	Earnings 2011 £m	Earnings per share 2011 pence	Earnings 2010 £m	Earnings per share 2010* pence	Earnings 2009 £m	Earnings per share 2009* pence
Adjusted earnings – continuing operations	**1,747**	**51.7**	1,418	49.5	1,250	43.3
Exceptional items after tax	**(16)**	**(0.5)**	(270)	(9.4)	(247)	(8.6)
Remeasurements after tax	**219**	**6.5**	17	0.6	(340)	(11.8)
Stranded cost recoveries after tax	**209**	**6.2**	221	7.7	256	8.9
Earnings – continuing operations	**2,159**	**63.9**	1,386	48.4	919	31.8
Earnings – discontinued operations	**–**	**–**	–	–	25	0.9
Earnings	**2,159**	**63.9**	1,386	48.4	944	32.7

	2011 millions	2010 millions	2009 millions
Weighted average number of shares – basic*	**3,378**	2,864	2,886

*Comparative EPS data have been restated to reflect the impact of the bonus element of the rights issue and as a result of the additional shares issued as scrip dividends

(b) Diluted earnings per share

	Earnings 2011 £m	Earnings per share 2011 pence	Earnings 2010 £m	Earnings per share 2010* pence	Earnings 2009 £m	Earnings per share 2009* pence
Adjusted diluted earnings – continuing operations	**1,747**	**51.4**	1,418	49.3	1,250	43.1
Exceptional items after tax	**(16)**	**(0.5)**	(270)	(9.4)	(247)	(8.5)
Remeasurements after tax	**219**	**6.5**	17	0.6	(340)	(11.7)
Stranded cost recoveries after tax	**209**	**6.2**	221	7.7	256	8.8
Diluted earnings – continuing operations	**2,159**	**63.6**	1,386	48.2	919	31.7
Diluted earnings – discontinued operations	**–**	**–**	–	–	25	0.8
Diluted earnings	**2,159**	**63.6**	1,386	48.2	944	32.5

	2011 millions	2010 millions	2009 millions
Weighted average number of shares – diluted*	**3,397**	2,877	2,903

*Comparative EPS data have been restated to reflect the impact of the bonus element of the rights issue and as a result of the additional shares issued as scrip dividends

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

	2011 millions	2010 millions	2009 millions
Weighted average number of ordinary shares – basic	**3,378**	2,864	2,886
Effect of dilutive potential ordinary shares – employee share plans	**19**	13	17
Weighted average number of ordinary shares – diluted	**3,397**	2,877	2,903

Notes to the consolidated financial statements continued

9. Goodwill

	Total £m
Cost at 31 March 2009	5,391
Exchange adjustments	(289)
Cost at 31 March 2010	5,102
Exchange adjustments	(280)
Impairment of goodwill on businesses reclassified as held for sale (notes 3 and 18) (i)	(34)
Reclassified as held for sale	(12)
Cost at 31 March 2011	4,776
Net book value at 31 March 2011	**4,776**
Net book value at 31 March 2010	5,102

(i) Relates to our gas operations (£30m) and our electricity distribution operations (£4m).

The amounts disclosed above as at 31 March 2011 include balances relating to our US gas operations of £2,876m (2010: £3,077m), our New England electricity distribution operations of £819m (2010: £881m), our operations run by our subsidiary Niagara Mohawk Power Corporation of £849m (2010: £898m) and our New England transmission operations of £232m (2010: £246m).

Goodwill is reviewed annually for impairment and the recoverability of goodwill at 31 March 2011 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 four 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. Our plans have proved to be reliable guides in the past and the Directors believe the estimates are appropriate.

The future growth rate used to extrapolate projections beyond four years has been reduced to 2.4%. The growth rate has been determined having regard to data on projected 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% (2010: 10%). The discount rate represents the estimated weighted average cost of capital of these operations.

While it is possible that a key assumption in the calculation could change, the Directors believe that no reasonably foreseeable change would result in an impairment of goodwill, in view of the long-term nature of the key assumptions and the margin by which the estimated fair value exceeds the carrying amount.

10. Other intangible assets

	Software £m	Acquisition-related £m	Other £m	Total £m
Non-current				
Cost at 31 March 2009	525	129	16	670
Exchange adjustments	(8)	(7)	–	(15)
Additions	103	–	1	104
Reclassifications and disposals (i)	4	–	1	5
Cost at 31 March 2010	624	122	18	764
Exchange adjustments	(13)	(7)	–	(20)
Additions	176	–	–	176
Reclassified as held for sale	(4)	–	–	(4)
Other reclassifications and disposals (i)	17	–	(14)	3
Cost at 31 March 2011	800	115	4	919
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 and disposals (i)	1	–	(1)	–
Amortisation at 31 March 2010	(334)	(27)	(14)	(375)
Exchange adjustments	4	3	–	7
Amortisation charge for the year	(62)	(7)	(1)	(70)
Reclassified as held for sale	3	–	–	3
Other reclassifications and disposals (i)	6	–	11	17
Amortisation at 31 March 2011	(383)	(31)	(4)	(418)
Net book value at 31 March 2011	**417**	**84**	**–**	**501**
Net book value at 31 March 2010	290	95	4	389

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

Notes to the consolidated financial statements continued

11. 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 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
Exchange adjustments	(56)	(812)	(30)	(2)	(900)
Additions	123	888	2,194	87	3,292
Disposals	(22)	(305)	–	(25)	(352)
Reclassified as held for sale	(5)	(278)	(3)	(1)	(287)
Reclassifications (i)	146	2,175	(2,285)	(33)	3
Cost at 31 March 2011	1,758	40,898	2,417	1,052	46,125
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)
Exchange adjustments	7	218	–	–	225
Depreciation charge for the year (ii)	(39)	(1,072)	–	(89)	(1,200)
Impairment charge for the year (iv)	–	(20)	–	–	(20)
Disposals	9	228	–	19	256
Reclassified as held for sale	5	78	–	1	84
Reclassifications (i)	(108)	92	–	16	–
Depreciation at 31 March 2011	(409)	(13,100)	(2)	(658)	(14,169)
Net book value at 31 March 2011	**1,349**	**27,798**	**2,415**	**394**	**31,956**
Net book value at 31 March 2010	1,289	26,606	2,539	421	30,855

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

(ii) Includes amounts in respect of capitalised depreciation of £18m (2010: £17m).

(iii) Relates to write-down of the liquefied natural gas (LNG) storage facilities.

(iv) Relates to write-down of certain of our US generation assets.

	2011 £m	2010 £m
Information in relation to property, plant and equipment		
Capitalised interest included within cost	**1,023**	903
Net book value of assets held under finance leases	**199**	202
Additions to assets held under finance leases	**68**	13
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	**40**	39
Non-current liabilities	**1,476**	1,478

12. Other non-current assets

	2011 £m	2010 £m
Commodity contract assets	**94**	84
Other receivables	**37**	71
Prepayments	**4**	7
	135	162

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

13. Financial and other investments

	2011 £m	2010 £m
Non-current		
Available-for-sale investments	**237**	236
Investments in joint ventures and associates (note 13a)	**356**	250
	593	486
Current		
Available-for-sale investments	**2,776**	1,285
Loans and receivables	**163**	112
	2,939	1,397
Total financial and other investments	**3,532**	1,883
Financial and other investments include the following:		
Investments in short-term money funds	**2,498**	1,000
Managed investments in equity and bonds (i)	**388**	385
Investment in joint ventures and associates (note 13a)	**356**	250
Cash surrender value of life insurance policies	**127**	126
Other investments	**2**	7
Restricted cash balances		
Collateral	**96**	58
Other	**65**	57
	3,532	1,883

(i) Includes £282m 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.

(a) Investments in joint ventures and associates

	2011 £m	2010 £m
Share of net assets at 1 April	**250**	168
Exchange adjustments	**5**	(7)
Additions	**135**	86
Share of retained profit for the year	**7**	8
Dividends received	**(9)**	(18)
Share of other comprehensive income	**(7)**	9
Impairment charge (note 3)	**(29)**	–
Other movements	**4**	4
Share of net assets at 31 March	**356**	250

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

Notes to the consolidated financial statements continued

14. 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:

	2011			2010		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Fair value hedges						
Interest rate swaps	**99**	**(9)**	**90**	128	(4)	124
Cross-currency interest rate swaps	**450**	**(4)**	**446**	589	(20)	569
	549	**(13)**	**536**	717	(24)	693
Cash flow hedges						
Interest rate swaps	**6**	**(50)**	**(44)**	2	(112)	(110)
Cross-currency interest rate swaps	**685**	**(28)**	**657**	924	(16)	908
Foreign exchange forward contracts	**2**	**(1)**	**1**	2	–	2
	693	**(79)**	**614**	928	(128)	800
Net investment hedges						
Cross-currency interest rate swaps	**179**	**(329)**	**(150)**	135	(660)	(525)
Foreign exchange forward contracts	**26**	**(4)**	**22**	5	(42)	(37)
	205	**(333)**	**(128)**	140	(702)	(562)
Derivatives not in a formal hedge relationship						
Interest rate swaps	**339**	**(258)**	**81**	200	(233)	(33)
Cross-currency interest rate swaps	**50**	**(4)**	**46**	58	(1)	57
Foreign exchange forward contracts	**19**	**(4)**	**15**	3	(43)	(40)
Forward rate agreements	**–**	**(20)**	**(20)**	–	(47)	(47)
	408	**(286)**	**122**	261	(324)	(63)
	1,855	**(711)**	**1,144**	2,046	(1,178)	868
Hedge positions offset within derivative instruments	**(117)**	**117**	**–**	(304)	304	–
Total	**1,738**	**(594)**	**1,144**	1,742	(874)	868

The maturity of derivative financial instruments is as follows:

	2011			2010		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Less than 1 year	**468**	**(190)**	**278**	248	(212)	36
Current	**468**	**(190)**	**278**	248	(212)	36
In 1 – 2 years	**129**	**(45)**	**84**	278	(174)	104
In 2 – 3 years	**167**	**(37)**	**130**	152	(69)	83
In 3 – 4 years	**96**	**(28)**	**68**	240	(106)	134
In 4 – 5 years	**66**	**(2)**	**64**	57	(14)	43
More than 5 years	**812**	**(292)**	**520**	767	(299)	468
Non-current	**1,270**	**(404)**	**866**	1,494	(662)	832
	1,738	**(594)**	**1,144**	1,742	(874)	868

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

	2011 £m	2010 £m
Interest rate swaps	**(19,217)**	(13,320)
Cross-currency interest rate swaps	**(7,585)**	(9,528)
Foreign exchange forward contracts	**(4,028)**	(1,989)
Forward rate agreements	**(13,752)**	(10,454)
Other	**(314)**	(314)
Total	**(44,896)**	(35,605)

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

15. Inventories and current intangible assets

	2011 £m	2010 £m
Fuel stocks	**114**	198
Raw materials and consumables	**152**	162
Work in progress	**12**	12
Current intangible assets – emission allowances	**42**	35
	320	407

A provision for obsolescence of £22m has been made against raw materials and consumables as at 31 March 2011 (2010: £19m).

16. Trade and other receivables

	2011 £m	2010 £m
Trade receivables	**1,163**	1,296
Prepayments and accrued income	**999**	937
Commodity contract assets	**16**	21
Other receivables	**34**	39
	2,212	2,293

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. All other receivables are recorded at amortised cost.

Provision for impairment of receivables

	2011 £m	2010 £m
At 1 April	**311**	303
Exchange adjustments	**(16)**	(15)
Charge for the year, net of recoveries	**112**	161
Uncollectible amounts written off against receivables	**(124)**	(138)
At 31 March	**283**	311

Trade receivables past due but not impaired

	2011 £m	2010 £m
Up to 3 months past due	**136**	111
3 to 6 months past due	**34**	35
Over 6 months past due	**74**	102
	244	248

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.

Notes to the consolidated financial statements continued

17. Cash and cash equivalents

	2011 £m	2010 £m
Cash at bank	94	136
Short-term deposits	290	584
Cash and cash equivalents excluding bank overdrafts	384	720
Bank overdrafts	(42)	(29)
Net cash and cash equivalents	342	691

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 periods varying 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 2011, £50m (2010: £59m) of cash and cash equivalents were restricted. This primarily relates to cash held in insurance captive companies.

18. Businesses classified as held for sale

During the year, our EnergyNorth gas business and Granite State electricity business in New Hampshire were reclassified as businesses held for sale in the expectation that they will be disposed of during the year ending 31 March 2012. The following table shows the assets and liabilities related to businesses held for sale at 31 March 2011. There were no businesses held for sale at 31 March 2010.

The results of these businesses have not been separately disclosed from those of continuing operations as they do not constitute a separate major line of business or geographical area of National Grid's operations.

	2011 £m
Goodwill	12
Other intangible assets	1
Property, plant and equipment	203
Other receivables	40
Non-current assets	256
Inventories	5
Trade and other receivables	29
Current assets	34
Assets of businesses held for sale	290
Trade and other payables	(17)
Current liabilities	(17)
Borrowings	(9)
Other non-current liabilities	(6)
Deferred tax liabilities	(29)
Pensions and other post-retirement benefit obligations	(9)
Provisions	(40)
Non-current liabilities	(93)
Liabilities of businesses held for sale	(110)

19. Borrowings

	2011 £m	2010 £m
Current		
Bank loans	**831**	890
Bonds	**1,595**	1,730
Commercial paper	**457**	121
Finance leases	**20**	29
Other loans	**7**	7
Bank overdrafts	**42**	29
	2,952	2,806
Non-current		
Bank loans	**2,118**	2,163
Bonds	**17,787**	19,835
Finance leases	**182**	173
Other loans	**159**	147
	20,246	22,318
Total	**23,198**	25,124

Total borrowings are repayable as follows:

	2011 £m	2010 £m
In one year or less	**2,952**	2,806
1-2 years	**1,225**	2,146
2-3 years	**1,610**	1,356
3-4 years	**1,766**	1,890
4-5 years	**424**	1,862
In more than 5 years:		
by instalments	**77**	22
other than by instalments	**15,144**	15,042
	23,198	25,124

The fair value of borrowings at 31 March 2011 was £24,182m (2010: £26,196m). 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 2011 was £23,035m (2010: £25,011m).

Charges over property, plant and other assets were provided as collateral over borrowings totalling £486m at 31 March 2011 (2010: £515m).

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 £551m (2010: £501m) in respect of cash received under collateral agreements.

Finance lease obligations

	2011 £m	2010 £m
Gross finance lease liabilities are repayable as follows:		
Less than 1 year	**20**	30
1-5 years	**123**	107
More than 5 years	**105**	135
	248	272
Less: finance charges allocated to future periods	**(46)**	(70)
	202	202
The present value of finance lease liabilities is as follows:		
Less than 1 year	**20**	29
1-5 years	**104**	86
More than 5 years	**78**	87
	202	202

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

Notes to the consolidated financial statements continued

20. Trade and other payables

	2011 £m	2010 £m
Trade payables	**1,720**	1,702
Deferred income	**261**	244
Commodity contract liabilities	**118**	184
Social security and other taxes	**129**	132
Other payables	**600**	585
	2,828	2,847

Due to their short maturities, the fair value of trade and other payables approximates their book value. Commodity contract liabilities are recorded at fair value. All other trade and other payables are recorded at amortised cost.

21. Other non-current liabilities

	2011 £m	2010 £m
Deferred income	**1,564**	1,566
Commodity contract liabilities	**101**	143
Other payables	**279**	265
	1,944	1,974

Commodity contract liabilities are recorded at fair value. 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.

22. 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 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
At 1 April 2010	5,087	(12)	(1,145)	(91)	(515)	3,324
Exchange adjustments	(122)	–	49	4	29	(40)
Charged/(credited) to income statement	251	(2)	137	32	(67)	351
(Credited)/charged to equity	–	(4)	181	1	–	178
Reclassified as held for sale	(31)	–	5	–	(3)	(29)
Other	(1)	–	2	–	(19)	(18)
At 31 March 2011	**5,184**	**(18)**	**(771)**	**(54)**	**(575)**	**3,766**
Deferred tax assets at 31 March 2011	(2)	(18)	(882)	(60)	(706)	(1,668)
Deferred tax liabilities at 31 March 2011	5,186	–	111	6	131	5,434
	5,184	(18)	(771)	(54)	(575)	3,766

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:

	2011 £m	2010 £m
Deferred tax liabilities	**3,766**	3,324
Deferred tax assets	**–**	–
	3,766	3,324

At the balance sheet date there were no material current deferred tax assets or liabilities (2010: £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:

	2011 £m	2010 £m
Capital losses	**368**	401
Non-trade deficits	**2**	2
Trading losses	**7**	2

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 trading losses arise in the UK and the US and are also available to carry forward indefinitely.

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 £1,837m (2010: £1,495m). 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. In addition, as a result of a change in UK tax legislation which largely exempts overseas dividends received on or after 1 July 2009 from UK tax, the temporary differences are unlikely to lead to additional tax.

Notes to the consolidated financial statements continued

23. 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 plans and 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 are updated annually. For further details of each scheme/plan's terms and the actuarial assumptions used to value the associated assets and obligations, see note 30.

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

	Pensions			US other post-retirement benefits		
	2011 £m	2010 £m	2009 £m	**2011 £m**	2010 £m	2009 £m
Included within payroll costs						
Defined contribution scheme costs	**11**	7	5	**–**	–	–
Defined benefit scheme costs:						
Current service cost	**165**	112	134	**37**	26	32
Past service cost	**28**	19	–	**3**	6	7
Curtailment gain on redundancies	**(4)**	(7)	(4)	**(29)**	–	–
Special termination benefits on redundancies	**6**	26	19	**–**	–	–
Curtailment cost – augmentations	**2**	4	6	**–**	–	–
US healthcare reform cost	**–**	–	–	**–**	9	–
	208	161	160	**11**	41	39
Loss on sale of subsidiary undertaking	**2**	–	–	**–**	–	–
Interest cost	**1,084**	1,050	1,106	**147**	143	144
Expected return on plan assets	**(1,185)**	(931)	(1,163)	**(71)**	(50)	(73)
	(101)	119	(57)	**76**	93	71
Included within other comprehensive income						
Actuarial net gain/(loss) during the year	**483**	(572)	(1,906)	**88**	(159)	(112)
Exchange differences	**38**	64	(141)	**87**	76	(408)
	521	(508)	(2,047)	**175**	(83)	(520)
Cumulative actuarial loss	**(673)**	(1,156)	(584)	**(274)**	(362)	(203)

Amounts recognised in the balance sheet

	Pensions			US other post-retirement benefits		
	2011 £m	2010 £m	2009 £m	**2011 £m**	2010 £m	2009 £m
Present value of funded obligations	**(19,255)**	(19,372)	(15,797)	**(2,458)**	(2,602)	(2,299)
Fair value of plan assets	**18,903**	18,186	14,797	**1,066**	950	722
	(352)	(1,186)	(1,000)	**(1,392)**	(1,652)	(1,577)
Present value of unfunded obligations	**(225)**	(226)	(203)	**–**	–	–
Other post-employment liabilities	**–**	–	–	**(62)**	(62)	(74)
Unrecognised past service cost	**4**	–	–	**9**	28	43
Net liability in the balance sheet	**(573)**	(1,412)	(1,203)	**(1,445)**	(1,686)	(1,608)
Liabilities	**(1,129)**	(1,412)	(1,472)	**(1,445)**	(1,686)	(1,608)
Assets	**556**	–	269	**–**	–	–
Net liability	**(573)**	(1,412)	(1,203)	**(1,445)**	(1,686)	(1,608)

23. Pensions and other post-retirement benefits continued

	Pensions			US other post-retirement benefits		
	2011 £m	2010 £m	2009 £m	**2011 £m**	2010 £m	2009 £m
Changes in the present value of the defined benefit obligations (including unfunded obligations)						
Opening defined benefit obligations	**(19,598)**	(16,000)	(16,391)	**(2,602)**	(2,299)	(1,784)
Current service cost	**(165)**	(112)	(136)	**(37)**	(26)	(32)
Interest cost	**(1,084)**	(1,050)	(1,106)	**(147)**	(143)	(144)
Actuarial gains/(losses)	**185**	(3,563)	1,719	**28**	(360)	215
Curtailment gain on redundancies	**10**	7	4	**29**	–	–
Transfers in/(out)	**1**	(3)	3	**–**	–	–
Special termination benefits	**(17)**	(26)	(19)	**–**	–	–
Curtailment cost – augmentations	**(2)**	(4)	(6)	**–**	–	–
Plan amendments	**(28)**	(19)	–	**14**	9	–
Plan amendments – US healthcare reform	**–**	–	–	**–**	(9)	–
Medicare subsidy received	**–**	–	–	**(5)**	(10)	–
Employee contributions	**(3)**	(10)	(13)	**–**	–	–
Benefits paid	**985**	1,008	1,003	**117**	132	116
Transferred to liabilities of businesses held for sale	**7**	–	–	**2**	–	–
Exchange adjustments	**229**	174	(1,058)	**143**	104	(670)
Closing defined benefit obligations	**(19,480)**	(19,598)	(16,000)	**(2,458)**	(2,602)	(2,299)
Changes in the fair value of plan assets						
Opening fair value of plan assets	**18,186**	14,797	16,536	**950**	722	737
Expected return on plan assets	**1,185**	931	1,163	**71**	50	73
Actuarial gains/(losses)	**298**	2,991	(3,625)	**60**	201	(327)
Transfers (out)/in	**(1)**	3	(3)	**–**	–	–
Employer contributions	**408**	572	799	**158**	137	93
Employee contributions	**3**	10	13	**–**	–	–
Benefits paid	**(985)**	(1,008)	(1,003)	**(117)**	(132)	(116)
Exchange adjustments	**(191)**	(110)	917	**(56)**	(28)	262
Closing fair value of plan assets	**18,903**	18,186	14,797	**1,066**	950	722
Actual return on plan assets	**1,483**	3,922	(2,462)	**131**	251	(254)
Expected contributions to plans in the following year	**353**	353	552	**200**	148	123

Notes to the consolidated financial statements continued

24. Provisions

	Environ-mental £m	Decom-missioning £m	Restructuring £m	Emissions £m	Other £m	Total provisions £m
At 31 March 2009	1,104	108	100	25	362	1,699
Exchange adjustments	(46)	(9)	–	(1)	(12)	(68)
Additions	85	5	36	4	16	146
Reclassifications*	–	–	–	–	70	70
Unused amounts reversed	(4)	(1)	(1)	–	(2)	(8)
Unwinding of discount	54	2	–	–	14	70
Utilised	(117)	(8)	(30)	(6)	(38)	(199)
At 31 March 2010	1,076	97	105	22	410	1,710
Exchange adjustments	(46)	(5)	(1)	(1)	(16)	(69)
Additions	167	43	87	9	30	336
Unused amounts reversed	(12)	(7)	(39)	(6)	(6)	(70)
Reclassified as held for sale	(39)	(1)	–	–	–	(40)
Unwinding of discount	104	2	–	–	22	128
Utilised	(100)	(9)	(24)	–	(48)	(181)
At 31 March 2011	**1,150**	**120**	**128**	**24**	**392**	**1,814**

*Primarily represents reclassifications from other non-current liabilities

	2011 £m	2010 £m
Current	**353**	303
Non-current	**1,461**	1,407
	1,814	1,710

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:

	2011		2010		
	Discounted £m	**Undiscounted £m**	Discounted £m	Undiscounted £m	Real discount rate
UK sites (i)	**339**	**503**	263	377	2.0%
US sites (ii)	**811**	**923**	813	942	3.2%
	1,150	**1,426**	1,076	1,319	

(i) The remediation expenditure in the UK relates to old gas manufacturing sites and also to electricity transmission sites. Cash flows are expected to be incurred between 2011 and 2060. A number of uncertainties affect the calculation of the provision, including the impact of regulation, accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future material changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties.

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

Decommissioning provision

The decommissioning provision primarily represents the net present value of the estimated expenditure (discounted at a nominal rate of 6%) expected to be incurred until 2037 in respect of the decommissioning of certain nuclear generating units that National Grid no longer owns. It also includes £73m (2010: £46m) of expenditure relating to other asset retirement obligations expected to be incurred until 2064.

24. Provisions continued

Restructuring provision

At 31 March 2011, £12m of the total restructuring provision (2010: £24m) 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 and the US, is expected to be paid until 2015.

Emissions provision

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

Other provisions

Included within other provisions at 31 March 2011 are amounts provided in respect of onerous lease commitments of £196m (2010: £214m). Other provisions also included £118m (2010: £127m) 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 £5m (2010: £6m) in respect of the sales of four UK gas distribution networks relating to property transfer costs and £20m (2010: £13m) in respect of obligations associated with investments in joint ventures.

25. Share capital

	Allotted, called up and fully paid	
Ordinary shares	millions	£m
At 31 March 2009	2,582	294
Issued during the year in lieu of dividends (i)	35	4
At 31 March 2010	2,617	298
Rights issue	990	113
Issued during the year in lieu of dividends (i)	41	5
At 31 March 2011	**3,648**	**416**

(i) 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 the 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. The Company holds treasury shares but may not exercise any rights over these shares including the entitlement to vote or receive dividends. There are no restrictions on the transfer or sale of ordinary shares.

In line with the provisions of the Companies Act 2006, National Grid plc has adopted new Articles of Association, deleted the objects provisions of its Memorandum of Association and ceased to have authorised share capital.

Rights issue

On 14 June 2010, the Company raised £3.2bn (net of expenses of £105m) through a rights issue of 990m new ordinary shares at 335 pence each on the basis of two new ordinary shares for every five existing ordinary shares. The issue price represented a discount of 44% to the closing ex-dividend share price on 20 May 2010, the announcement date of the rights issue.

The structure of the rights issue initially gave rise to a merger reserve under section 612 of the Companies Act 2006, representing the net proceeds of the rights issue less the nominal value of the new shares issued. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds over the nominal value of the share capital issued has been transferred from the merger reserve to retained earnings.

The discount element inherent in the rights issue is treated as a bonus issue of 353m shares. Earnings per share data have been restated for all comparative periods presented, by adjusting the weighted average number of shares to include the impact of the bonus shares. For comparability, dividends per share are also presented after taking account of the bonus element of the rights issue, in note 7.

Treasury shares

At 31 March 2011, the Company held 140m (2010: 144m) of its own shares. The market value of these shares as at 31 March 2011 was £833m (2010: £925m).

The maximum number of shares held during the year was 144m ordinary shares (2010: 154m) representing approximately 3.9% (2010: 5.9%) of the ordinary shares in issue as at 31 March 2011 and having a nominal value of £16m (2010: £18m). The shares held in treasury were not entitled to participate in the rights issue.

Notes to the consolidated financial statements continued

26. Other equity reserves

	Translation £m	Cash flow hedge £m	Available-for-sale £m	Capital redemption £m	Merger £m	Total £m
At 31 March 2008	(73)	(42)	9	19	(5,165)	(5,252)
Exchange adjustments	457	5	(3)	–	–	459
Net (losses)/gains taken to equity	–	(1)	9	–	–	8
Transferred to profit or loss	–	(53)	(18)	–	–	(71)
Deferred tax	–	19	7	–	–	26
At 31 March 2009	384	(72)	4	19	(5,165)	(4,830)
Exchange adjustments	30	3	1	–	–	34
Net (losses)/gains taken to equity	–	(45)	54	–	–	9
Transferred to profit or loss	–	3	(6)	–	–	(3)
Deferred tax	–	9	(5)	–	–	4
Share of other comprehensive income of joint ventures	–	5	–	–	–	5
At 31 March 2010	414	(97)	48	19	(5,165)	(4,781)
Exchange adjustments	(95)	–	–	–	–	(95)
Net gains taken to equity	–	7	16	–	–	23
Transferred to profit or loss	–	(7)	(3)	–	–	(10)
Rights issue (i)	–	–	–	–	3,101	3,101
Transfer to retained earnings (i)	–	–	–	–	(3,101)	(3,101)
Deferred tax	–	(2)	(1)	–	–	(3)
Share of other comprehensive loss of joint ventures	–	(4)	–	–	–	(4)
At 31 March 2011	**319**	**(103)**	**60**	**19**	**(5,165)**	**(4,870)**

(i) For details of the rights issue and subsequent transfer to retained earnings see note 25.

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

The cash flow hedge reserve on interest rate swap contracts will be continuously transferred to the income statement until the borrowings are repaid. The amount due to be released from reserves to the income statement next year is £11m and the remainder released with the same maturity profile as borrowings due after more than one year.

27. Consolidated cash flow statement

(a) Cash flow from operating activities – discontinued operations

	2011 £m	2010 £m	2009 £m
Operating profit	–	–	13
Changes in working capital, provisions and pensions	–	–	(21)
Cash flow relating to discontinued operations	–	–	(8)

(b) Cash flow from investing activities – discontinued operations

	2011 £m	2010 £m	2009 £m
Disposal proceeds (i)	–	–	1,617
Tax arising on disposal	–	–	(564)
Other investing activities	–	–	(4)
Cash flow relating to discontinued operations	–	–	1,049

(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

	2011 £m	2010 £m	2009 £m
(Decrease)/increase in cash and cash equivalents	**(346)**	(28)	538
Increase/(decrease) in financial investments	**1,577**	(805)	(99)
Decrease/(increase) in borrowings and related derivatives	**1,763**	499	(1,641)
Net interest paid on the components of net debt	**1,011**	999	956
Change in net debt resulting from cash flows	**4,005**	665	(246)
Changes in fair value of financial assets and liabilities and exchange movements	**690**	865	(3,625)
Net interest charge on the components of net debt	**(1,228)**	(996)	(1,161)
Reclassified as held for sale	**9**	–	–
Other non-cash movements	**(68)**	–	–
Movement in net debt (net of related derivative financial instruments) in the year	**3,408**	534	(5,032)
Net debt (net of related derivative financial instruments) at start of year	**(22,139)**	(22,673)	(17,641)
Net debt (net of related derivative financial instruments) at end of year	**(18,731)**	(22,139)	(22,673)

(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 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)
Cash flow	(333)	(13)	(346)	1,551	2,933	(133)	4,005
Fair value gains and losses and exchange movements	(3)	–	(3)	(34)	402	325	690
Interest charges	–	–	–	25	(1,337)	84	(1,228)
Reclassified as held for sale	–	–	–	–	9	–	9
Other non-cash movements	–	–	–	–	(68)	–	(68)
At 31 March 2011	**384**	**(42)**	**342**	**2,939**	**(23,156)**	**1,144**	**(18,731)**
Balances at 31 March 2011 comprise:							
Non-current assets	–	–	–	–	–	1,270	1,270
Current assets	384	–	384	2,939	–	468	3,791
Current liabilities	–	(42)	(42)	–	(2,910)	(190)	(3,142)
Non-current liabilities	–	–	–	–	(20,246)	(404)	(20,650)
	384	(42)	342	2,939	(23,156)	1,144	(18,731)

(i) Includes accrued interest at 31 March 2011 of £162m (2010: £232m).

Notes to the consolidated financial statements – supplementary information

28. Commitments and contingencies

	2011 £m	2010 £m
Future capital expenditure		
Contracted for but not provided	**1,614**	1,738
Operating lease commitments		
Less than 1 year	**83**	91
In 1-2 years	**79**	84
In 2-3 years	**93**	79
In 3-4 years	**72**	96
In 4-5 years	**70**	76
More than 5 years	**398**	500
	795	926
Energy purchase commitments (i)*		
Less than 1 year	**1,081**	1,195
In 1-2 years	**480**	506
In 2-3 years	**328**	372
In 3-4 years	**272**	304
In 4-5 years	**241**	245
More than 5 years	**1,141**	1,326
	3,543	3,948
Guarantees and letters of credit		
Guarantee of sublease for US property (expires 2040)	**328**	377
Letter of credit and guarantee of certain obligations of BritNed Interconnector (expire 2011)	**36**	374
Guarantees of certain obligations of Grain LNG Import Terminal (expire up to 2028)	**139**	164
Other guarantees and letters of credit (various expiry dates)	**259**	274
	762	1,189

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

(i) 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 (ie 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.

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £20m (2010: £14m).

Litigation and claims

Metering competition investigation

As previously reported, on 25 February 2008 the Gas and Electricity Markets Authority (GEMA) announced it had decided we breached Chapter II of the Competition Act 1998 and Article 82 (now Article 102) of the Treaty of the Functioning of the European Union and fined us £41.6m. Following appeals, the Competition Appeal Tribunal reduced the fine to £30m and the Court of Appeal further reduced the fine to £15m. On 22 March 2010, we applied to the Supreme Court for leave to appeal the Court of Appeal's judgement. On 28 July 2010, the Supreme Court denied our application and this ends the legal process. The £15m fine was paid to GEMA on 1 April 2010.

Gas Distribution mains replacement investigation

As previously reported, in October 2008 we informed Ofgem that mains replacement activity carried out by the UK Gas Distribution business may have been inaccurately reported. Ofgem has now concluded its investigation and, following the reaching of a settlement between Ofgem and National Grid Gas plc, on 6 January 2011 Ofgem announced its proposed decision to impose a penalty of £8m and to find National Grid Gas plc in breach of certain obligations in respect of the reporting of mains replacement data. Ofgem also stated that the penalty would have been higher had it not been for the cooperation and corrective action by National Grid Gas plc. On 10 March 2011, following the end of the period in which representations could be made, Ofgem wrote to National Grid Gas plc to confirm its decision. On 13 May 2011, we received the Final Penalty Notice and must pay the penalty by 27 June 2011.

KeySpan class actions

Two putative class actions were commenced against KeySpan and Morgan Stanley, one in a New York state court and one in the federal court. The claims are based on allegations that the financial swap transaction between KeySpan and Morgan Stanley dated 18 January 2006 caused customers of Consolidated Edison, Inc. to overpay for electricity between May 2006 and February 2008. We believe that both complaints and their allegations are without merit and we have applied to have both actions dismissed. Our application for dismissal in the federal court was granted on 22 March 2011 but the plaintiffs may still appeal.

29. Related party transactions

The following material transactions with related parties were in the normal course of business; amounts receivable from and payable to related parties are due on normal commercial terms:

	2011 £m	2010 £m	2009 £m
Sales: Services and goods supplied to a pension plan and joint ventures	**11**	5	4
Purchases: Services and goods received from joint ventures (i)	**84**	73	44
Interest income: Interest receivable on loans with joint ventures	**2**	1	–
Receivable from a pension plan and joint ventures	**2**	1	–
Loan to joint venture (ii)	**–**	23	–
Payable to joint ventures	**8**	6	6
Dividends received from joint ventures (iii)	**9**	18	–

(i) During the year the Company received services and goods from a number of joint ventures, including Iroquois Gas Transmission System, L.P. of £40m (2010: £38m) and Millennium Pipeline Company, LLC of £28m (2010: £26m) for the transportation of gas in the US.

(ii) Following a decision in August 2010 to cease investing in Blue-NG Limited (a joint venture), an impairment charge was recorded against the carrying value of the investment, together with provision against recovery of loans from National Grid to Blue-NG of £30m (2010: £23m) and associated interest receivable. For further details see note 3.

(iii) Dividends were received from Iroquois Gas Transmission System, L.P. of £9m (2010: £17m).

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 23 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. The 2010 valuations are nearing completion but the formal agreement has not yet been completed with the Trustees. The valuations are on track to be completed by no later than the end of June 2011. The results of the 2007 valuations are shown below:

	NG UK pension scheme	NG section of ESPS
Latest full actuarial valuation	31 March 2007	31 March 2007
Actuary	Towers Watson	Hewitt Associates
Market value of scheme assets at latest valuation	£12,923m	£1,345m
Actuarial value of benefits due to members	£(13,365)m	£(1,750)m
Market value as percentage of benefits	97%	77%
Funding deficit	£442m	£405m
Funding deficit (net of tax)	£327m	£300m

National Grid UK Pension Scheme

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). The employers also pay an allowance for administration expenses at 3.2% of pensionable earnings, giving a total employer contribution rate of 32.6%. The employer contribution rate will be reviewed as part of the current valuation, while the administration rate is reviewed annually. Contributions to the scheme during 2011/12 will be determined as part of the current valuation negotiations with the Trustees. This scheme ceased to allow new hires to join from 1 April 2002. A defined contribution arrangement was offered for employees joining from 1 April 2002 onwards.

Notes to the consolidated financial statements continued

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

Electricity Supply Pension Scheme

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 as part of the current valuation. As part of the initial valuation discussions with the Trustees it was agreed that a deficit payment of £45m (£32m net of tax) would be made in March 2011. Contributions to the scheme during 2011/12 will be determined as part of the current valuation negotiations with the Trustees. 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.

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; namely 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 vested employees who joined before 1 January 2011. Certain categories of new hires from that date are offered a defined contribution plan. In addition, a matched defined contribution plan is offered to all eligible employees. 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 and can 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 under US GAAP; the amount collected in rates; the maximum tax deductible contribution; or zero.

Asset allocations

	UK pensions			US pensions			US other post-retirement benefits		
	2011 %	2010 %	2009 %	**2011 %**	2010 %	2009 %	**2011 %**	2010 %	2009 %
Equities (i)	**34.5**	36.8	35.2	**51.5**	52.8	50.4	**76.5**	68.6	63.7
Corporate bonds (ii)	**30.3**	32.3	32.7	**40.7**	41.5	42.3	**22.6**	24.8	34.2
Gilts	**26.8**	22.4	22.2	**–**	–	–	**–**	–	–
Property	**5.9**	5.9	5.4	**2.0**	–	–	**–**	–	–
Other	**2.5**	2.6	4.5	**5.8**	5.7	7.3	**0.9**	6.6	2.1
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 2011 were ordinary shares of National Grid plc with a value of £12m (2010: £17m; 2009: £17m).

(ii) Included within corporate bonds at 31 March 2011 was an investment in a number of bonds issued by subsidiary undertakings with a value of £39m.

Target asset allocations

	NGUK PS %	ESPS %	US pensions %	US OPEBs %
Equities (i)	32	49	60	70
Bonds, property and other	68	51	40	30
Total	100	100	100	100

(i) Included within equities are hedge fund and active currency investments.

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

Actuarial assumptions

For 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.

For 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.

	UK pensions			US pensions			US other post-retirement benefits		
	2011 %	2010 %	2009 %	**2011 %**	2010 %	2009 %	**2011 %**	2010 %	2009 %
Discount rate (i)	**5.5**	5.6	6.8	**5.9**	6.1	7.3	**5.9**	6.1	7.3
Expected return on plan assets	**6.1**	6.4	6.2	**7.2**	7.5	7.8	**7.1**	7.2	7.4
Rate of increase in salaries (ii)	**4.4**	4.7	3.8	**3.5**	3.5	3.5	**3.5**	3.5	3.5
Rate of increase in pensions in payment	**3.5**	3.8	3.0	**–**	–	–	**n/a**	n/a	n/a
Rate of increase in pensions in deferment	**3.5**	3.8	2.9	**–**	–	–	**n/a**	n/a	n/a
Rate of increase in RPI (or equivalent) (iii)	**3.5**	3.8	2.9	**2.2**	2.4	2.3	**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**	8.5	9.0
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.

(iii) In September 2010, the UK Government changed the basis for statutory pension increases from the Retail Price Index (RPI) to the Consumer Price Index (CPI). The Scheme rules of National Grid's two UK pension schemes specifically reference RPI. As a consequence the impact of the Government's move to CPI was predominantly limited to National Grid's Guaranteed Minimum Pensions. The financial consequence of the change as at 31 March 2011 was an approximate £55m reduction in present value of the defined benefit obligation.

	2011		2010	
	UK years	**US years**	UK years	US years
Assumed life expectations for a retiree at age 65				
Today				
Males	**22.4**	**18.8**	21.0	18.8
Females	**24.9**	**20.8**	23.4	20.8
In 20 years				
Males	**24.7**	**18.8**	23.4	18.8
Females	**27.4**	**20.8**	25.7	20.8

Sensitivities to actuarial assumptions

	Change in pensions and OPEB liability		Change in annual pension and OPEB cost	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Sensitivities (all other assumptions held constant)				
0.1% change in discount rate	**304**	317	**7**	4
0.5% change in long-term rate of increase in salaries	**162**	166	**8**	8
Change of one year to life expectations at age 60	**653**	670	**7**	5

	2011 £m	2010 £m	2009 £m
Sensitivities to a 1% change in assumed healthcare cost trend rates			
Increase			
Effect on the aggregate of the service costs and interest costs	**28**	25	29
Effect on defined benefit obligations	**330**	348	294
Decrease			
Effect on the aggregate of the service costs and interest costs	**(23)**	(21)	(24)
Effect on defined benefit obligations	**(282)**	(298)	(254)

Notes to the consolidated financial statements continued

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

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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of funded and unfunded obligations	**(21,938)**	(22,200)	(18,299)	(18,175)	(17,253)
Fair value of plan assets	**19,969**	19,136	15,519	17,273	15,999
	(1,969)	(3,064)	(2,780)	(902)	(1,254)
Difference between the expected and actual return on plan assets	**358**	3,192	(3,952)	(911)	(81)
Experience gains/(losses) on plan liabilities	**28**	509	(125)	152	9
Actuarial gains/(losses) on plan liabilities	**213**	(3,923)	1,934	1,343	446

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 or 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 Company assets and liabilities.

Hedging policies using derivative financial instruments are further explained in note 32. Derivatives held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, 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.

31. Supplementary information on derivative financial instruments continued

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 and 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, liquidity 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 71 to 74.

(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 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 dollar denominated assets and liabilities held by the US operations, with a further small euro exposure in respect of a joint venture investment.

During 2011 and 2010, derivative financial instruments were used to manage foreign currency risk as follows:

	2011					2010				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Cash and cash equivalents	319	1	64	–	384	428	4	288	–	720
Financial investments	1,046	111	1,696	86	2,939	455	127	736	79	1,397
Borrowings (i)	(10,565)	(4,896)	(7,113)	(624)	(23,198)	(10,651)	(6,361)	(7,394)	(718)	(25,124)
Pre-derivative position	(9,200)	(4,784)	(5,353)	(538)	(19,875)	(9,768)	(6,230)	(6,370)	(639)	(23,007)
Derivative effect	2,921	4,637	(6,962)	548	1,144	438	6,172	(6,388)	646	868
Net debt position	(6,279)	(147)	(12,315)	10	(18,731)	(9,330)	(58)	(12,758)	7	(22,139)

(i) Includes bank overdrafts.

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

Notes to the consolidated financial statements continued

32. Financial risk continued

The currency exposure on other financial instruments is as follows:

	2011					2010				
	Sterling £m	**Euro £m**	**Dollar £m**	**Other £m**	**Total £m**	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Trade and other receivables	**91**	**–**	**1,122**	**–**	**1,213**	128	–	1,228	–	1,356
Trade and other payables	**(1,319)**	**–**	**(1,248)**	**–**	**(2,567)**	(1,221)	–	(1,382)	–	(2,603)
Other non-current liabilities	**(26)**	**–**	**(354)**	**–**	**(380)**	(15)	–	(393)	–	(408)

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 dollars is due to activities in our US subsidiaries. We do not have any other significant exposure to currency risk on these balances.

(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 73 is to minimise the finance costs (being interest costs and changes in the market value of debt) subject to constraints approved by the Finance Committee. 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:

	2011 £m	2010 £m
Fixed interest rate borrowings		
Less than 1 year	**(1,313)**	(1,237)
In 1-2 years	**(808)**	(1,413)
In 2-3 years	**(1,467)**	(956)
In 3-4 years	**(1,189)**	(1,762)
In 4-5 years	**(307)**	(1,265)
More than 5 years	**(8,487)**	(8,791)
	(13,571)	(15,424)
Floating interest rate borrowings (including inflation linked)	**(9,627)**	(9,700)
Total borrowings	**(23,198)**	(25,124)

During 2011 and 2010, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2011					2010				
	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	**315**	**69**	**–**	**–**	**384**	599	121	–	–	720
Financial investments	**759**	**2,053**	**–**	**127**	**2,939**	602	673	–	122	1,397
Borrowings (iii)	**(13,571)**	**(3,933)**	**(5,694)**	**–**	**(23,198)**	(15,424)	(4,604)	(5,096)	–	(25,124)
Pre-derivative position	**(12,497)**	**(1,811)**	**(5,694)**	**127**	**(19,875)**	(14,223)	(3,810)	(5,096)	122	(23,007)
Derivative effect (iv)	**295**	**531**	**318**	**–**	**1,144**	(1,552)	2,292	204	(76)	868
Net debt position	**(12,202)**	**(1,280)**	**(5,376)**	**127**	**(18,731)**	(15,775)	(1,518)	(4,892)	46	(22,139)

(i) The post-derivative impact represents financial instruments linked to UK RPI.
(ii) Represents financial instruments which are not directly affected by interest rate risk, such as investments in equity or other similar financial instruments.
(iii) Includes bank overdrafts.
(iv) The impact of 2011/12 (2010: 2010/11) maturing short-dated interest rate derivatives is included.

32. Financial risk continued

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

	2011				2010			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Available-for-sale investments	**2,834**	**179**	**–**	**3,013**	1,346	175	–	1,521
Derivative financial instruments	**–**	**1,684**	**54**	**1,738**	–	1,706	36	1,742
	2,834	**1,863**	**54**	**4,751**	1,346	1,881	36	3,263
Liabilities								
Derivative financial instruments	**–**	**(594)**	**–**	**(594)**	–	(874)	–	(874)
Total	**2,834**	**1,269**	**54**	**4,157**	1,346	1,007	36	2,389

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 are based on unobservable market data.

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

The financial instruments classified as level 3 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:

	2011 Level 3 valuation £m	2010 Level 3 valuation £m
At 1 April	**36**	10
Net gains for the year (i)	**21**	29
Settlements	**(3)**	(3)
At 31 March	**54**	36

(i) Gains of £21m (2010: £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.

A reasonably possible change in assumptions is unlikely to result in a material change in the fair value of the level 3 instruments.

(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 2011, the following limits were in place for investments held with banks and financial institutions:

Rating	Maximum limit £m	Long-term limit £m
AAA rated G8 sovereign entities	Unlimited	Unlimited
Triple 'A' vehicles	275	233
Triple 'A' range institutions (AAA)	938 to 1,415	472 to 741
Double 'A' range institutions (AA)	560 to 705	285 to 353
Single 'A' range institutions (A)	192 to 275	99 to 140

Notes to the consolidated financial statements continued

32. Financial risk continued

As at 31 March 2010 and 2011, 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 14 was £1,738m (2010: £1,742m); after netting agreements it was £1,389m (2010: £1,229m). This exposure is further reduced by collateral received as shown in note 19. Additional information for commodity contract credit risk is in note 33.

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, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed on a daily basis. Sales to retail customers are usually settled in cash, cheques, electronic bank payments or by 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 16.

(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 2011	Less than 1 year £m	1-2 years £m	2-3 years £m	More than 3 years £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(2,616)	(1,188)	(1,574)	(17,455)	(22,833)
Interest payments on borrowings (i)	(828)	(807)	(741)	(9,328)	(11,704)
Finance lease liabilities	(20)	(38)	(33)	(157)	(248)
Other non interest-bearing liabilities	(2,320)	(279)	–	–	(2,599)
Derivative financial liabilities					
Derivative contracts – receipts	1,596	407	649	1,606	4,258
Derivative contracts – payments	(1,213)	(169)	(345)	(1,345)	(3,072)
Commodity contracts	(290)	(84)	(40)	(43)	(457)
Total at 31 March 2011	**(5,691)**	**(2,158)**	**(2,084)**	**(26,722)**	**(36,655)**

At 31 March 2010	Less than 1 year £m	1-2 years £m	2-3 years £m	More than 3 years £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)

(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 2011 and 2010 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.

	2011		2010	
	Income statement +/- £m	**Other equity reserves +/- £m**	Income statement +/- £m	Other equity reserves +/- £m
UK retail price index +/- 0.50%	**19**	**–**	17	–
UK interest rates +/- 0.50%	**38**	**50**	51	71
US interest rates +/- 0.50%	**39**	**15**	52	14
US dollar exchange rate +/- 10%	**44**	**636**	68	623

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 £800m (2010: £796m) 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 2011 decreased to 3.8 from 3.9 for the year ended 31 March 2010. 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 lower than the previous year, reflecting the return to inflation on our retail price index (RPI) linked debt, impacting our interest expense, partially offset by strong operating cash flows. Additional information is provided on page 56.

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 minimum equity to capital ratio of between 30% to 44%, varying by entity and order or covenant.

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 above requirements are monitored on a regular basis in order to ensure compliance. Additional information is provided on page 71. 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 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 when they arise.

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 £110m (2010: £105m), and after netting agreements it was £73m (2010: £91m).

33. Commodity risk continued

(a) Fair value analysis

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

	2011 Assets £m	2011 Liabilities £m	2011 Total £m	2010 Assets £m	2010 Liabilities £m	2010 Total £m
Commodity purchase contracts accounted for as derivative contracts						
Forward purchases of electricity	–	(101)	(101)	–	(127)	(127)
Forward purchases/sales of gas	42	(83)	(41)	51	(101)	(50)
Derivative financial instruments linked to commodity prices						
Electricity swaps	4	(18)	(14)	–	(47)	(47)
Electricity options	62	–	62	51	–	51
Gas swaps	2	(17)	(15)	3	(52)	(49)
	110	(219)	(109)	105	(327)	(222)

The fair value classification of our commodity contracts is as follows; a definition of each level can be found on page 159:

	2011 Level 1 £m	2011 Level 2 £m	2011 Level 3 £m	2011 Total £m	2010 Level 1 £m	2010 Level 2 £m	2010 Level 3 £m	2010 Total £m
Assets								
Commodity contracts	–	6	104	110	–	2	103	105
Liabilities								
Commodity contracts	–	(36)	(183)	(219)	–	(100)	(227)	(327)
Total	–	(30)	(79)	(109)	–	(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:

	2011 £m	2010 £m
At 1 April 2010	(124)	(115)
Net gains for the year (i)	20	8
Purchases	(42)	(12)
Sales	–	(1)
Settlements	68	–
Reclassification into level 3	–	(3)
Reclassification out of level 3	(1)	(1)
At 31 March 2011	(79)	(124)

(i) Gains of £14m (2010: £67m loss) are attributable to assets or liabilities held at the end of the reporting period.

The transfers into and out of level 3 were driven by changes in the observability of extrapolated forward curves.

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:

	2011 Income statement £m	2010 Income statement £m
10% increase in commodity prices (i)	**39**	46
10% decrease in commodity prices (i)	**(36)**	(39)
10% increase in commodity volumes	**(5)**	(9)
10% decrease in commodity volumes	**3**	9
Forward curve extrapolation	**(1)**	(12)

(i) Level 3 commodity price sensitivity is included within the sensitivity analysis disclosed in (d) below.

The impacts disclosed above were considered on a contract by contract basis with the most significant unobservable inputs identified.

(b) Maturity analysis

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

	2011			2010		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Less than one year	**16**	**(118)**	**(102)**	21	(184)	(163)
Current	**16**	**(118)**	**(102)**	21	(184)	(163)
In 1 – 2 years	**18**	**(26)**	**(8)**	8	(49)	(41)
In 2 – 3 years	**9**	**(20)**	**(11)**	11	(21)	(10)
In 3 – 4 years	**8**	**(20)**	**(12)**	13	(19)	(6)
In 4 – 5 years	**11**	**(18)**	**(7)**	11	(19)	(8)
More than 5 years	**48**	**(17)**	**31**	41	(35)	6
Non-current	**94**	**(101)**	**(7)**	84	(143)	(59)
Total	**110**	**(219)**	**(109)**	105	(327)	(222)

(c) Notional quantities

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

	2011	2010
Forward purchases of electricity (i)	**4,257 GWh**	3,883 GWh
Forward purchases/sales of gas (ii)	**12m Dth**	171m Dth
Electricity swaps	**2,559 GWh**	3,141 GWh
Electricity options	**30,248 GWh**	30,294 GWh
Gas swaps	**27m Dth**	59m Dth
Gas options	**9m Dth**	–
NYMEX gas futures (iii)	**18m Dth**	48m Dth

(i) Forward electricity purchases have terms up to 12 years. The contractual obligations under these contracts are £240m (2010: £269m).

(ii) Forward gas purchases have terms up to 7 years. The contractual obligations under these contracts are £247m (2010: £434m).

(iii) NYMEX gas 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:

	2011		2010	
	Income statement £m	Other equity reserves £m	Income statement £m	Other equity reserves £m
10% increase in commodity prices	**58**	**–**	71	(1)
10% decrease in commodity prices	**(54)**	**–**	(64)	1

The income statement sensitivities would affect commodity remeasurements.

34. Bonds and facilities

The table below shows our significant bonds in issue, being those with approximately £100m equivalent original notional value or greater. Unless otherwise indicated, these instruments were outstanding at both 31 March 2011 and 2010.

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	USD 1,500m	Zero Coupon Bond	2021
Brooklyn Union Gas Company	USD 153m	4.7% GFRB's Series 1996	2021
	USD 400m	5.6% Senior Unsecured Note	2016
KeySpan Corporation	USD 700m	MTN 7.625% (i)	2010
	USD 250m	MTN 8.00%	2030
	USD 307m	5.803% Notes	2035
	USD 150m	4.65% Notes	2013
	USD 150m	5.875% Notes	2033
KeySpan Gas East Corporation (National Grid Energy Delivery Long Island)	USD 500m	5.819% Fixed Rate (ii)	2041
Massachusetts Electric Company	USD 800m	5.90% Fixed Rate	2039
National Grid Electricity Transmission plc	EUR 600m	6.625% Fixed Rate	2014
	GBP 250m	4.75% Fixed Rate (i)	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	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	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 (i)	2010
	EUR 750m	Floating Rate	2012
	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	2019
	USD 500m	3.553% Fixed Rate	2014
The Narragansett Electric Company	USD 250m	4.534% Fixed Rate	2020
	USD 300m	5.638% Fixed Rate	2040
Bank loans and other loans			
National Grid plc	USD 200m	Floating Rate (i)	2010
	USD 250m	Floating Rate (i)	2014
	USD 150m	Floating Rate (i)	2014
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
	GBP 360m	Retail Price Index Linked (ii)	2024
National Grid USA	USD 150m	Floating Rate (i)	2011
	USD 250m	Floating Rate (ii)	2014
	USD 150m	Floating Rate (ii)	2014
National Grid Holdings Limited	GBP 250m	4.13840% Fixed Rate	2011

(i) Matured or repurchased during the year ended 31 March 2011.
(ii) Issued during the year ended 31 March 2011.

No significant bonds have been announced to the market or issued subsequent to 31 March 2011, up to the date of the signing of the accounts.

Borrowing facilities

At 31 March 2011, there were bilateral committed credit facilities of £2,086m (2010: £2,279m), of which £2,086m (2010: £2,189m) were undrawn. In addition, there were committed credit facilities from syndicates of banks of £812m at 31 March 2011 (2010: £833m), of which £812m (2010: £833m) were undrawn. An analysis of the maturity of these undrawn committed facilities is shown below:

	2011 £m	2010 £m
Undrawn committed borrowing facilities expiring:		
Less than 1 year	**330**	1,708
In 1-2 years	**899**	1,314
In 3-4 years	**1,140**	–
In 4-5 years	**529**	–
	2,898	3,022

At 31 March 2011 of the unused facilities £2,568m (2010: £2,673m) was held as back up to commercial paper and similar borrowings, while £330m (2010: £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.

On 14 June 2010, the Company completed a rights issue as explained in note 25. The number of shares allocated to employees under the Company's share plans has been adjusted to reflect the bonus element of the rights issue. The terms of the Company's share plans were adjusted such that participants of the various plans were no better or worse off as a result of the rights issue.

Active share plans

- Sharesave scheme – share options are offered to employees at 80% of the market price at the time of the invitation. The share options are exercisable on completion of a three and/or five year Save As You Earn contract.
- PSP – awards delivered in National Grid shares (ADSs for US participants) are made to Executive Directors and senior employees. The criteria are based on the Company's total shareholder return (50%) when compared to FTSE 100 and annualised growth of the Company's EPS (50%) when compared to the growth in RPI.
- Deferred Share Plan – 50% of any Annual Performance Plan awarded to the Executive Directors and a fixed percentage awarded to senior employees is automatically deferred into National Grid shares (ADSs for US participants) which are held in trust for three years before release.
- Retention Award Plans – awards delivered in National Grid shares (ADSs for US participants) to senior employees and vest in equal tranches over two and four years provided the employee remains employed by the Company.

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

	2011 millions	2010 millions
Awards of ordinary share equivalents at 1 April	**10.2**	11.0
Impact of rights issue	**1.5**	–
Awards made	**5.5**	4.7
Lapses/forfeits	**(1.5)**	(0.9)
Awards vested	**(0.9)**	(4.6)
Awards of ordinary share equivalents at 31 March	**14.8**	10.2
Conditional awards available for release at 31 March	**1.4**	0.1

Non-active share plans

We also have historical plans where awards are still outstanding but no further awards will be granted. These include the Share Matching Plan, for which 156,000 awards are exercisable as at 31 March 2011 and the Executive Share Option Plan, for which details of movements are provided below.

Share options – Sharesave scheme and Executive Share Option Plan

	Sharesave scheme		Executive Share Option Plan		
	Weighted average price £	millions	Weighted average price £	millions	Total options millions
At 1 April 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
Impact of rights issue	–	2.1	–	0.1	2.2
Granted	4.45	3.9	–	–	3.9
Lapsed – expired	4.57	(1.4)	4.61	(0.3)	(1.7)
Exercised	4.31	(3.5)	4.37	(0.2)	(3.7)
At 31 March 2011	**4.43**	**19.5**	**4.03**	**0.5**	**20.0**
Exercisable					
At 31 March 2011	**4.83**	**1.2**	**4.03**	**0.4**	**1.6**
At 31 March 2010	4.98	0.8	4.71	0.5	1.3
Weighted average share price at exercise date					
Year ended 31 March 2011	**5.53**	**3.5**	**5.59**	**0.2**	**3.7**
Year ended 31 March 2010	5.74	4.5	6.03	0.5	5.0

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2011 was two years and two months. These options have exercise prices between £3.80 and £5.73 per ordinary share. The aggregate intrinsic value of all options outstanding and exercisable at 31 March 2011 amounted to £192m and £3m respectively.

Notes to the consolidated financial statements continued

35. Share options and reward plans continued

Awards under share option and reward plans

	2011	2010	2009
Share options			
Average share price at date of grant	**564.5p**	676.0p	684.0p
Average exercise price	**445.0p**	520.0p	488.0p
Average fair value	**137.0p**	161.1p	153.7p
Other share plans			
Average share price at date of grant	**493.3p**	598.2p	670.1p
Average fair value	**327.8p**	355.6p	458.1p

Fair value calculation assumptions

	2011	2010	2009
Dividend yield (%)	**4.4-5.0**	4.4-5.0	4.4-5.0
Volatility (%)	**22.4-26.1**	22.4-26.1	22.4-26.1
Risk free investment rate (%)	**2.5**	2.5	2.5
Average life (years)	**4.0**	4.0	4.2

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

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

(i) implied volatility in traded options over 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.

Additional information in respect of share options

	2011 £m	2010 £m	2009 £m
Share options exercised			
Cash received on exercise of all share options during the year	**18**	18	8
Tax benefits realised from share options exercised during the year	**3**	8	4

36. Subsidiary undertakings, joint ventures and associates

Principal subsidiary undertakings

The principal subsidiary undertakings included in the consolidated financial statements at 31 March 2011 are listed below. These undertakings are wholly-owned and, unless otherwise indicated, are incorporated in England and Wales.

	Principal activity
National Grid Gas plc	Transmission and distribution of gas
National Grid Electricity Transmission plc	Transmission of electricity
New England Power Company (i)	Transmission of electricity
Massachusetts Electric Company (i)	Distribution of electricity
The Narragansett Electric Company (i)	Transmission and distribution of electricity
Niagara Mohawk Power Corporation (i)	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 and storage
Boston Gas Company (i)	Distribution of gas
National Grid Generation LLC (i)	Generation of electricity
KeySpan Gas East Corporation (i)	Distribution of gas
The Brooklyn Union Gas Company (i)	Distribution of gas
NGG Finance plc	Financing
National Grid Property Holdings Limited	Property services
National Grid Holdings One plc	Holding company
Lattice Group plc	Holding company
National Grid USA (i)	Holding company
Niagara Mohawk Holdings, Inc. (i)	Holding company
National Grid Commercial Holdings Limited	Holding company
National Grid Holdings Limited	Holding company
KeySpan Corporation (i)	Holding company

(i) Incorporated in the US.

Principal joint ventures and associates

The principal joint ventures and associated undertakings included in the financial statements at 31 March 2011 are listed below. These undertakings are incorporated in England and Wales (unless otherwise indicated).

	% of ordinary shares held	Principal activity
BritNed Development Limited	50	UK / Netherlands interconnector
Millennium Pipeline Company, LLC (i)	26.25	Transmission of gas
Iroquois Gas Transmission System, L.P. (i)	20.4	Transmission of gas

(i) Incorporated in the US.

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 2010/11 Annual Report and Accounts.

Summary income statements are presented, on a consolidating basis, for the three years ended 31 March 2011. 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 on the basis of equity accounting principles 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 2011 – 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	–	2,606	–	2,739	9,174	(176)	14,343
Operating costs							
Depreciation and amortisation	–	(133)	–	(455)	(664)	–	(1,252)
Payroll costs	–	(288)	–	(236)	(972)	–	(1,496)
Purchases of electricity	–	(628)	–	–	(854)	–	(1,482)
Purchases of gas	–	(244)	–	(141)	(1,635)	–	(2,020)
Rates and property taxes	–	(151)	–	(239)	(555)	–	(945)
Balancing Service Incentive Scheme	–	–	–	–	(581)	–	(581)
Payments to Scottish transmission owners	–	–	–	–	(298)	–	(298)
Other operating costs	–	(375)	–	(489)	(1,836)	176	(2,524)
	–	(1,819)	–	(1,560)	(7,395)	176	(10,598)
Operating profit	–	787	–	1,179	1,779	–	3,745
Net finance costs	(261)	(119)	–	(395)	(353)	–	(1,128)
Dividends receivable	–	–	–	–	400	(400)	–
Interest in equity accounted affiliates	2,360	–	–	7	7	(2,367)	7
Profit before tax	2,099	668	–	791	1,833	(2,767)	2,624
Taxation	64	(236)	–	(97)	(192)	–	(461)
Profit for the year from continuing operations	2,163	432	–	694	1,641	(2,767)	2,163
Profit for the year from discontinued operations	–	–	–	–	–	–	–
Profit for the year	**2,163**	**432**	**–**(i)	**694**	**1,641**	**(2,767)**	**2,163**
Attributable to:							
Equity shareholders	2,159	432	–	694	1,637	(2,763)	2,159
Non-controlling interests	4	–	–	–	4	(4)	4
	2,163	**432**	**–**	**694**	**1,641**	**(2,767)**	**2,163**

(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 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	–	2,787	9,008	(197)	14,007
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)
Balancing Service Incentive Scheme	–	–	–	–	(691)	–	(691)
Payments to Scottish transmission owners	–	–	–	–	(260)	–	(260)
Other operating costs	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 tax	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
Non-controlling interests	3	–	–	–	3	(3)	3
	1,389	**294**	**–**	**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.

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	–	2,632	10,585	(238)	15,687
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)
Balancing Service Incentive Scheme	–	–	–	–	(904)	–	(904)
Payments to Scottish transmission owners	–	–	–	–	(243)	–	(243)
Other operating costs	–	(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 tax	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
Non-controlling interests	3	–	–	–	–	–	3
	947	**325**	**–**	**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.

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 2011 – 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	–	697	–	–	4,079	–	4,776
Other intangible assets	–	4	–	185	312	–	501
Property, plant and equipment	–	3,876	–	11,290	16,790	–	31,956
Deferred tax assets	4	–	–	–	–	(4)	–
Other non-current assets	–	64	–	10	61	–	135
Amounts owed by subsidiary undertakings	311	–	–	5,611	–	(5,922)	–
Pension assets	–	154	–	–	402	–	556
Financial and other investments	9,504	20	–	30	9,841	(18,802)	593
Derivative financial assets	576	–	–	535	159	–	1,270
Total non-current assets	10,395	4,815	–	17,661	31,644	(24,728)	39,787
Current assets							
Inventories and current intangible assets	–	24	–	40	256	–	320
Trade and other receivables	3	498	–	217	1,494	–	2,212
Amounts owed by subsidiary undertakings	9,985	16	190	107	9,552	(19,850)	–
Financial and other investments	1,424	12	–	223	1,280	–	2,939
Derivative financial assets	244	–	–	80	198	(54)	468
Cash and cash equivalents	200	2	–	83	99	–	384
Total current assets	11,856	552	190	750	12,879	(19,904)	6,323
Assets of businesses held for sale	–	–	–	–	290	–	290
Total assets	**22,251**	**5,367**	**190**	**18,411**	**44,813**	**(44,632)**	**46,400**
Current liabilities							
Borrowings	(1,125)	(11)	(4)	(410)	(1,402)	–	(2,952)
Derivative financial liabilities	(194)	–	–	(22)	(28)	54	(190)
Trade and other payables	(34)	(259)	–	(654)	(1,881)	–	(2,828)
Amounts owed to subsidiary undertakings	(7,957)	(422)	–	(1,171)	(10,300)	19,850	–
Current tax liabilities	–	(222)	–	(23)	(258)	–	(503)
Provisions	–	(22)	–	(79)	(252)	–	(353)
Total current liabilities	(9,310)	(936)	(4)	(2,359)	(14,121)	19,904	(6,826)
Non-current liabilities							
Borrowings	(3,628)	(1,293)	(186)	(6,535)	(8,604)	–	(20,246)
Derivative financial liabilities	(253)	–	–	(85)	(66)	–	(404)
Other non-current liabilities	–	(291)	–	(1,097)	(556)	–	(1,944)
Amounts owed to subsidiary undertakings	–	–	–	–	(5,922)	5,922	–
Deferred tax liabilities	–	(286)	–	(1,873)	(1,611)	4	(3,766)
Pensions and other post-retirement benefit obligations	–	(967)	–	–	(1,607)	–	(2,574)
Provisions	–	(243)	–	(121)	(1,097)	–	(1,461)
Total non-current liabilities	(3,881)	(3,080)	(186)	(9,711)	(19,463)	5,926	(30,395)
Liabilities of businesses held for sale	–	–	–	–	(110)	–	(110)
Total liabilities	**(13,191)**	**(4,016)**	**(190)**	**(12,070)**	**(33,694)**	**25,830**	**(37,331)**
Net assets	**9,060**	**1,351**	**–**	**6,341**	**11,119**	**(18,802)**	**9,069**
Equity							
Called up share capital	416	116	–	45	183	(344)	416
Share premium account	1,361	1,825	–	204	7,183	(9,212)	1,361
Retained earnings	12,153	(591)	–	4,796	3,962	(8,167)	12,153
Other equity reserves	(4,870)	1	–	1,296	(218)	(1,079)	(4,870)
Shareholders' equity	**9,060**	**1,351**	**–**	**6,341**	**11,110**	**(18,802)**	**9,060**
Non-controlling interests	–	–	–	–	9	–	9
Total equity	**9,060**	**1,351**	**–**	**6,341**	**11,119**	**(18,802)**	**9,069**

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)	–
Pension assets	–	–	–	–	–	–	–
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
Assets of businesses held for sale	–	–	–	–	–	–	–
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)
Liabilities of businesses held for sale	–	–	–	–	–	–	–
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)
Shareholders' equity	**4,199**	**1,260**	**–**	**6,031**	**8,956**	**(16,247)**	**4,199**
Non-controlling interests	–	–	–	–	12	–	12
Total equity	**4,199**	**1,260**	**–**	**6,031**	**8,968**	**(16,247)**	**4,211**

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 2011							
Net cash provided by operating activities	55	742	–	1,596	2,465	–	4,858
Net cash provided by/(used in) investing activities	2,127	(377)	–	(909)	(1,850)	(3,765)	(4,774)
Net cash (used in)/provided by financing activities	(2,180)	(365)	–	(621)	(1,029)	3,765	(430)
Net increase/(decrease) in cash and cash equivalents in the year	**2**	**–**	**–**	**66**	**(414)**	**–**	**(346)**
Year ended 31 March 2010							
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)
Net (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)
Net increase/(decrease) in cash and cash equivalents in the year	237	(3)	–	(7)	311	–	538

Cash dividends were received by National Grid plc from subsidiary undertakings amounting to £150m during the year ended 31 March 2011 (2010: £504m; 2009: £592m).

Company accounting policies

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

These individual financial statements of the Company have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006. They have been prepared on an historical cost basis, except for the revaluation of financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates.

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006.

In accordance with exemptions under FRS 29 'Financial Instruments: Disclosures', the Company has not presented the financial instruments disclosures required by the standard, as disclosures which comply with the standard are included in the consolidated financial statements.

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

B. Fixed asset investments

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

C. Taxation

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

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

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

D. Foreign currencies

Transactions in currencies other than the functional currency of the Company are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates.

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

E. Financial instruments

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

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

Current asset financial investments are recognised at fair value plus directly related incremental transaction costs and are subsequently carried at fair value on the balance sheet. Changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time, the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period. Investment income on investments classified as available-for-sale is recognised in the profit and loss account as it accrues.

Borrowings, which include interest-bearing loans and overdrafts are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently, these are stated at amortised cost, using the effective interest rate method.

Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the profit and loss account using the effective interest rate method.

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

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

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

Company accounting policies continued

F. Hedge accounting

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

Hedge accounting allows derivatives to be designated as a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility in the profit and loss account. The Company uses two hedge accounting methods.

Firstly, changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ('cash flow hedges') are recognised directly in equity and any ineffective portion is recognised immediately in the profit and loss account. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the profit and loss account in the same period in which the hedged item affects net profit or loss.

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

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

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

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

G. Parent Company guarantees

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

H. Share awards to employees of subsidiary undertakings

The Company issues equity-settled, share-based payments to certain employees of subsidiary undertakings, detailed in the Directors' Report, including the Directors' Remuneration Report and in note 35 to the consolidated financial statements.

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

I. Dividends

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

Company balance sheet

at 31 March

	Notes	2011 £m	2010 £m
Fixed assets			
Investments	1	7,890	7,865
Current assets			
Debtors (amounts falling due within one year)	2	9,988	8,655
Debtors (amounts falling due after more than one year)	2	315	1,702
Derivative financial instruments (amounts falling due within one year)	4	244	218
Derivative financial instruments (amounts falling due after more than one year)	4	576	655
Current asset investments	5	1,624	377
Cash at bank		–	1
		12,747	11,608
Creditors (amounts falling due within one year)	3	(9,310)	(8,088)
Net current assets		3,437	3,520
Total assets less current liabilities		11,327	11,385
Creditors (amounts falling due after more than one year)			
Borrowings	6	(3,628)	(5,307)
Derivative financial instruments	4	(253)	(431)
Amounts owed to subsidiary undertakings		–	(537)
		(3,881)	(6,275)
Net assets		7,446	5,110
Capital and reserves			
Called up share capital	7	416	298
Share premium account	8	1,361	1,366
Cash flow hedge reserve	8	2	14
Other equity reserves	8	196	171
Profit and loss account	8	5,471	3,261
Total shareholders' funds	9	7,446	5,110

Commitments and contingencies are shown in note 10 to the Company financial statements on page 183.

The notes on pages 180 to 183 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 18 May 2011 and were signed on its behalf by:

Sir John Parker Chairman
Andrew Bonfield Finance Director

Notes to the Company financial statements

1. Fixed asset investments

	Shares in subsidiary undertakings £m
At 31 March 2009	7,840
Additions	25
At 31 March 2010	7,865
Additions	25
At 31 March 2011	**7,890**

During the year there was a capital contribution which represents the fair value of equity instruments granted to subsidiaries' employees arising from equity-settled employee share schemes.

The names of the principal subsidiary undertakings, joint ventures and associates are included in note 36 in the consolidated financial statements.

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

2. Debtors

	2011 £m	2010 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**9,985**	8,649
Prepayments and accrued income	**3**	6
	9,988	8,655
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**311**	1,700
Deferred taxation	**4**	2
	315	1,702

	Deferred taxation £m
At 31 March 2009	3
Charged to the profit and loss account	(1)
At 31 March 2010	2
Charged to the profit and loss account	(2)
Credited to equity	4
At 31 March 2011	**4**

3. Creditors (amounts falling due within one year)

	2011 £m	2010 £m
Borrowings (note 6)	**1,125**	1,183
Derivative financial instruments (note 4)	**194**	174
Amounts owed to subsidiary undertakings	**7,957**	6,701
Other creditors	**34**	30
	9,310	8,088

4. Derivative financial instruments

The fair values of derivative financial instruments are:

	2011			2010		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	**244**	**(194)**	**50**	218	(174)	44
Amounts falling due after more than one year	**576**	**(253)**	**323**	655	(431)	224
	820	**(447)**	**373**	873	(605)	268

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

	2011 £m	2010 £m
Interest rate swaps	**(9,328)**	(7,337)
Cross-currency interest rate swaps	**(4,886)**	(6,463)
Foreign exchange forward contracts	**(9,334)**	(7,234)
Forward rate agreements	**(10,670)**	(7,784)
Total	**(34,218)**	(28,818)

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

5. Current asset investments

	2011 £m	2010 £m
Investments in short-term money funds	**1,375**	162
Short-term deposits	**200**	197
Restricted cash balances – collateral	**49**	18
	1,624	377

6. Borrowings

The following table analyses the Company's total borrowings:

	2011 £m	2010 £m
Amounts falling due within one year:		
Bank loans	**172**	299
Commercial paper	**–**	121
Bonds	**953**	763
	1,125	1,183
Amounts falling due after more than one year:		
Bank loans	**133**	398
Bonds	**3,495**	4,909
	3,628	5,307
Total borrowings	**4,753**	6,490

	2011 £m	2010 £m
Total borrowings are repayable as follows:		
Less than 1 year	**1,125**	1,183
In 1-2 years	**714**	1,081
In 2-3 years	**381**	900
In 3-4 years	**851**	435
In 4-5 years	**48**	1,180
More than 5 years, other than by instalments	**1,634**	1,711
	4,753	6,490

The notional amount of borrowings outstanding as at 31 March 2011 was £4,608m (2010: £6,338m). For further information on significant borrowings, refer to note 34 in the consolidated financial statements.

Notes to the Company financial statements continued

7. Called up share capital

Ordinary shares	Allotted, called up and fully paid millions	£m
At 31 March 2009	2,582	294
Issued during the year in lieu of dividends (i)	35	4
At 31 March 2010	2,617	298
Rights issue	990	113
Issued during the year in lieu of dividends (i)	41	5
At 31 March 2011	**3,648**	**416**

(i) 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 the share premium account.

On 14 June 2010, the Company completed a rights issue. The structure of the rights issue initially gave rise to a merger reserve (included within other equity reserves below) under section 612 of the Companies Act 2006. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds over the nominal value of the share capital issued has been transferred from the merger reserve to the profit and loss account.

For further information on share capital and the rights issue, refer to note 25 in the consolidated financial statements.

8. Reserves

	Share premium account £m	Cash flow hedge reserve £m	Other equity reserves £m	Profit and loss account £m
At 31 March 2009	1,371	12	146	3,603
Transferred from equity in respect of cash flow hedges (net of tax)	–	2	–	–
Shares issued in lieu of dividends	(5)	–	–	–
Purchase of own shares	–	–	–	(7)
Issue of treasury shares	–	–	–	18
Share awards to employees of subsidiary undertakings	–	–	25	–
Loss for the year	–	–	–	(353)
At 31 March 2010	1,366	14	171	3,261
Transferred from equity in respect of cash flow hedges (net of tax)	–	(12)	–	–
Merger reserve created on rights issue	–	–	3,101	–
Transfer to distributable reserves	–	–	(3,101)	3,101
Shares issued in lieu of dividends	(5)	–	–	–
Purchase of own shares	–	–	–	(3)
Issue of treasury shares	–	–	–	18
Share awards to employees of subsidiary undertakings	–	–	25	–
Loss for the year	–	–	–	(906)
At 31 March 2011	**1,361**	**2**	**196**	**5,471**

There were no gains and losses, other than losses for the years stated above; therefore no separate statement of total recognised gains and losses has been presented. At 31 March 2011, £623m (2010: £1,023m) of the profit and loss account reserve relating to gains on intra-group transactions was not distributable to shareholders.

9. Reconciliation of movements in shareholders' funds

	2011 £m	2010 £m
(Loss)/profit for the year after taxation	**(48)**	335
Dividends (i)	**(858)**	(688)
Loss for the financial year	**(906)**	(353)
Expenses charged to share premium account	**–**	(1)
Proceeds of issue of treasury shares	**18**	18
Movement on cash flow hedge reserve (net of tax)	**(12)**	2
Share awards to employees of subsidiary undertakings	**25**	25
Purchase of own shares	**(3)**	(7)
Rights issue	**3,214**	–
Net increase/(decrease) in shareholders' funds	**2,336**	(316)
Opening shareholders' funds	**5,110**	5,426
Closing shareholders' funds	**7,446**	5,110

(i) For further details of dividends paid and payable to shareholders, refer to note 7 in the consolidated financial statements.

10. Commitments and contingencies

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due from certain subsidiary undertakings primarily to third parties. At 31 March 2011, the sterling equivalent amounted to £1,874m (2010: £2,141m). The guarantees are for varying terms from less than one year to open-ended.