Annual Report and Accounts 2010/11
National Grid Electricity Transmission plc

Company Number 2366977

nationalgrid

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Operating and Financial Review

Operating and Financial Review contents

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This Operating and Financial Review describes the main trends and factors underlying the development, performance and position of National Grid Electricity Transmission plc during the year ended 31 March 2011 as well as those likely to affect the Company in the future. It has been prepared in line with the guidance provided in the Reporting Statement on the Operating and Financial Review issued by the UK Accounting Standards Board and the Practice Statement on Management Commentary issued by the International Accounting Standards Board.

Principal operations

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

Electricity Transmission
Our Electricity Transmission business comprises the following principal activities:

Electricity transmission owner
We own the electricity transmission system in England and Wales.

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

How the UK electricity industry works

Within the UK electricity industry there are 4 areas; generation (carried out by other companies), transmission (carried out by National Grid Electricity Transmission), distribution (carried out by other companies) and supply (also carried out by other companies).

Generation
Electricity is generated from coal, gas, oil and nuclear power plants, and renewable resources including hydroelectric plants and wind farms. Generation voltage is typically 22 kV, and generators normally have their own transformers to increase the voltage to transmission voltages.

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

We do not own or operate electricity generation assets.

Electricity generators sell the electricity they produce in the wholesale market. The majority of the electricity sold in the wholesale market is to electricity suppliers in bilateral contracts. Electricity produced by the generators is transported by transmission and distribution networks to the end user.

National Grid Electricity Transmission is not an electricity supply company; we do not buy or sell the electricity we transport.

Transmission
We transmit electricity in England and Wales at 400 kV and 275 kV. In Scotland, 132 kV is also considered to be transmission voltage. The national electricity transmission system (NETS) typically comprises the assets from the connection to the generator's transformer as far as the substation at which the voltage is stepped down to 132 kV or lower for distribution.

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

Generators, distribution network operators and suppliers pay us for the right to connect their assets to the NETS and to use the system to transport electricity on their behalf. These connection and use of system charges reflect the costs of providing, maintaining and operating connection assets and are reviewed annually.

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

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

Distribution
Electricity is carried at 132 kV and lower voltages in 14 electricity distribution networks, owned and operated by seven distribution network operators.

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

We do not own or operate electricity distribution networks.

Suppliers pay distribution network operators for the right to connect to and use their distribution networks. Those costs are passed on by the suppliers to their end user customers.

Each of the 14 distribution networks are regional monopolies and Ofgem regulates their revenues through price controls.

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

We do not sell electricity to end users.

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

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

Of the average residential electricity bill, transmission charges represent approximately 4% and distribution charges approximately 17%. The majority of the bill is the cost of the electricity itself.

Management structure

Management Structure
National Grid Electricity Transmission plc is a subsidiary of National Grid plc (National Grid).

The performance of our principal businesses is reported by segment, reflecting the management responsibilities and economic characteristics of each activity. Throughout the year ended 31 March 2011, the management structure of National Grid was via global lines of business. The Electricity Transmission segment of National Grid Electricity Transmission plc formed part of the global Transmission business of National Grid.

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

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

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

New management structure from 4 April 2011
Four years ago National Grid introduced the common operating model, consisting of global lines of business, in order to promote common standards and ways of working. Following a strategic review this year, and in response to feedback received from customers, regulators and other stakeholders, National Grid announced on 31 January 2011 substantial changes to the way in which it is organised. With effect from 4 April 2011, National Grid moved to a management structure more closely aligned with local responsibilities.

Certain functions will continue to have global responsibilities; these include finance, human resources, information systems and security, and procurement. There will also be regional functions, including regulation, safety and construction. There will be two UK businesses, UK Gas Distribution and UK Transmission. Our Electricity Transmission business forms part of the UK Transmission business of National Grid.

More information on the management structure of National Grid can be found in the National Grid Annual Report and Accounts 2010/11 and on National Grid's website at www.nationalgrid.com.

Review of the year

On 16 November 2010, we signed our largest ever connection contract, with East Anglia Offshore Wind Ltd, for the full 7.2 GW of its capacity. The project will commission wind turbines in 10 stages between 2015 and 2021, delivering 6.6 GW before 2020, and connects to existing substations at Bramford and Norwich along with a new site to be developed in the area.

By November 2010, the number of contracted generation agreements had met a significant milestone. Enough transmission-connected renewable generation had been contracted to meet our plans for achieving the government's 2020 renewable energy targets (32 GW contracted against a target of approximately 29 GW).

We have funded an independent report on the costs of undergrounding electric cables compared with the use of overhead lines. The work is being conducted by Kema, and will be endorsed and published by the Institution of Engineering and Technology. We have also launched a public consultation on our approach to undergrounding new electricity transmission lines.

Operating environment

National Grid Electricity Transmission, in common with all UK companies, operates in a complex environment with a number of external factors affecting our operations.

UK and European energy policy
This is a crucial time for energy policy decisions, with the focus of debate being on the electricity market and the network regulatory reviews. The government is determined to drive the low carbon agenda. In December 2010, the Department of Energy and Climate Change launched its consultation on electricity market reform, which is designed to enable the UK to meet its climate goals by encouraging low carbon generation, and also to ensure the UK has a secure, affordable supply of electricity in the long term. It is vital that the electricity market frameworks provide the right incentives for investors.

In the UK, there is now a strong political focus on delivering a low carbon economy. The Climate Change Act requires the UK to cut greenhouse gas emissions by 80% from the 1990 levels by 2050 and by 34% by 2020. Dramatic changes in the way we produce and use our energy will be required. We must become less dependent on fossil fuels, use our energy more efficiently and integrate greater use of electric vehicles and electric heating in homes. If we are to meet our 2020 renewable energy target, 15% of our energy for electricity, heat and transport will need to come from renewable sources by 2020. It is estimated that 30% of electricity would need to be from renewables to meet this target. If developed, a North Sea grid could deliver significant benefits by connecting wind generation to the grid and providing greater interconnection with the rest of Europe.

Creating the appropriate, joined up policies to deliver an affordable and secure, low carbon energy system presents an enormous challenge for the UK government. However, the move to a low carbon economy also represents a great opportunity for the UK in terms of new jobs and economic growth. We have a privileged perspective. We operate the grid to which the different energy sources are connected. So we sit at the heart of the energy transformation and we are working closely with government and other stakeholders to ensure the UK can seize the opportunities it presents.

Economic environment
Since the financial crisis in 2008/09, there has been a significant recovery. The UK, Europe and the US have emerged from recession and stock markets have risen during 2010/11.

In the UK, inflation has returned after a period of deflation, the retail price index having risen by 5.3% during 2010/11. Our UK regulated revenues are linked to inflation (see pages 3 and 4 for an explanation of the UK regulatory regime), so higher inflation leads to higher revenue. We also have a significant quantity of index-linked debt, so our financing costs increase as inflation rises, providing an economic offset. However, revenues and financing costs are both based on lagged measures of inflation, and the time lags are not the same, so the economic offset is not perfect.

Corporate responsibility
Our reputation depends on our stakeholders being able to trust us and be confident in us. We can only retain our right to operate by working to the highest standards, by trusting our employees to do the right thing and by running our Company responsibly and sustainably.

National Grid's Framework for Responsible Business, revised and relaunched in June 2010, provides a clear line of sight from our vision to how we manage our business and our day-to-day dealings with our stakeholders. National Grid's Company wide policies and position statements, available on its website, underpin the Framework.

More information on the corporate responsibility of National Grid can be found in the National Grid Annual Report and Accounts 2010/11 and on National Grid's website at www.nationalgrid.com.

Business conduct
This year, National Grid amended and reissued 'Doing the Right Thing – Our Standards of Ethical Business Conduct'. Doing the Right Thing provides a common set of practical guidelines to help ensure our behaviours are lawful, comply with our policies and licences, and follow the values set out in the Framework and National Grid's core values. We undertake face to face training of new starters and are making available online training for employees annually to ensure they understand the Standards.

We have taken steps to prepare for the implementation of the Bribery Act 2010 which comes into force in the UK in July 2011. This has included undertaking a risk assessment, review of Company policies (including Doing the Right Thing mentioned above) and an extensive training and awareness programme that will include eLearning for all employees.

More information on the business conduct of National Grid can be found in the National Grid Annual Report and Accounts 2010/11 and on National Grid's website at www.nationalgrid.com.

Regulatory environment – UK regulation

Regulatory framework
In the UK, energy networks are regulated by the Office of Gas and Electricity Markets (Ofgem). Ofgem operates under the direction of governance of the Gas and Electricity Markets Authority (GEMA) and has established price control mechanisms that restrict the amount of revenue that can be earned by regulated businesses.

Ofgem's main priority is to protect the interests of consumers. It does this by regulating monopoly activities such as the companies that run the electricity networks and by promoting competitive electricity markets.

The Electricity Act 1989, as amended (the Act), provides the fundamental legal framework for electricity companies. The Act establishes the licences for electricity transmission.

Regulatory licences
We hold an electricity transmission licence.

Our licence established under the Act requires the business activity to develop, maintain and operate an economic and efficient network and to facilitate competition in the supply of electricity in Great Britain. The Act also provides the licensed business statutory powers such as the right to bury our pipes or cables under public highways and the ability to purchase land compulsorily in order to facilitate the conduct of our business.

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

Price control mechanism
Because price control mechanisms restrict revenues, not profits, they encourage efficiencies within our regulated business. Savings that are made can be retained for the remainder of the price control period, but the higher level of efficiency that led to these savings is then used to inform a new baseline level for the next price control period.

Price control regulation is designed to ensure that, as a monopoly, we charge reasonable prices, and to provide us with a future level of revenue sufficient to enable us to meet our statutory duties and licence obligations. It also provides financial incentives to manage and operate our networks in an economic, efficient and coordinated manner in accordance with our legal and licence obligations, offer good quality of service to network users and invest in our networks in a timely and efficient manner to help ensure long-term security of supply is maintained.

During each price control review period, the amount of money that can be earned by our regulated business is restricted by what is referred to as an RPI-X price control, which is normally reviewed every five years by Ofgem. The RPI-X allowance is based upon Ofgem's estimates of efficient operating expenditure (opex) and capital expenditure (capex), together with an allowance for depreciation and an allowed rate of return on capital invested in our businesses. These are used, together with the regulatory asset base value (RAV) to calculate the allowed revenue. The RAV, which represents the value ascribed by Ofgem to the capital employed in our regulated businesses, is adjusted to reflect asset additions, removals, depreciation and the rate of inflation.

The RPI-X price control takes the retail price index as its benchmark and subtracts X, an efficiency factor, from it. For example, at a time when annual inflation was 3%, a value for X of 2% would allow our regulatory businesses to raise prices by no more than 1%. Price controls also include incentive mechanisms to encourage us to improve our performance in particular areas.

The price control provides our regulated business with a level of revenue that is sufficient to finance the business if they are efficiently run. The revenue allowance is based on an estimate of the costs an efficient company would face in running its regulated businesses and includes operating expenditure, capital expenditure, financing costs including both debt and equity, and taxation.

Current price controls
The key elements of the current price controls for electricity transmission are that we are allowed to earn a 4.4% post-tax real return on our RAV, equivalent to a 5.05% vanilla return, with a £3.5 billion baseline five year capex allowance and a £0.9 billion five year controllable opex allowance.

In addition, we are subject to a number of incentives that can adjust our transmission network revenue. These include incentives for network reliability, sulphur hexafluoride losses, efficiency and balancing services.

Our RAV currently stands at £8,388m, our actual vanilla return is 6.4% and return on equity is 13.6%.

Ofgem's review of price controls: RPI-X@20
Since privatisation, the RPI-X mechanism has provided the industry with strong incentives to be more efficient. The level of opex costs has decreased over the years, transforming previously inefficient nationalised industries. However, over the past few years, new challenges, such as Great Britain's transition to lower carbon emissions and the requirement to renew ageing networks, have caused Ofgem to review the continuing appropriateness of the RPI-X approach.

In March 2008, Ofgem announced the RPI-X@20 review, which was a two year project to review the workings of the current approach to regulating Great Britain's energy networks and develop future policy recommendations.

Ofgem's RPI-X@20 review aims were to: drive improvements in quality of service and efficiency; ensure that the regulatory framework is flexible to adapt to structural changes in the energy industry; and enable efficient network companies to finance themselves efficiently.

To allow the lessons of the review to be accommodated in full, Ofgem extended the current transmission price control from its scheduled end in March 2012 by one year to March 2013.

Following the RPI-X@20 review, Ofgem has identified a modified price control approach, designated as RIIO, to deliver and meet the changing future needs of the energy market.

The RIIO model

Ofgem's revised RIIO regulatory framework will be implemented in the next round of electricity transmission price controls, which will start in April 2013.

RIIO refers to the formula:

Revenue = Incentives + Innovation + Outputs

To attract the efficient investment needed for the industry, Ofgem's RIIO model is intended to incentivise network companies to deliver the outputs demanded by consumers and network users in an efficient and innovative way.

The key features of the RIIO model are:

- a longer price control, lasting eight years, to provide stronger incentives for networks to manage costs;
- encouraging network companies to work more closely with stakeholders to identify what they want from energy network companies. This should help networks to identify, and so better meet, the developing needs of the energy market;
- rewarding network companies with higher returns where they meet the needs of the network users and consumers in innovative and efficient ways. However, network companies that perform poorly can expect to receive lower returns;
- encouraging network companies to become actively involved in delivering a sustainable energy sector;
- supporting the development and delivery of a network service that provides long-term value for money to existing and future consumers; and
- providing clarity to future investors to ensure that network companies can raise the finance needed in a timely manner and at a reasonable cost to consumers.

Impact on National Grid Electricity Transmission

The RIIO model will not only reward us for increased efficiency, but also encourage us to engage more openly and effectively with our stakeholders. This will allow us to develop more robust commercial relationships with current and future network users to help us fulfil our vital role in the delivery of a sustainable future energy sector. It will also help us to respond and adapt our delivery plans to provide long-term value for money to network users.

Output measures in future price controls will give stakeholders a clear understanding of what we will deliver in return for the revenue that we receive from our customers. The proposed output categories are: customer satisfaction; reliability and availability; safe network services; connection terms; environmental impact; and social obligations. These outputs will cover both primary and secondary deliverables. We will be required to demonstrate in price controls that the primary outputs are material, controllable, measurable, comparable and legally compliant. The secondary deliverables will be evidenced through our business plans to demonstrate the costs required to deliver the primary outputs. Four years into the eight year price control, there will be an interim review of the outputs that we were required to deliver, to ensure that they remain relevant.

As the energy landscape evolves, Ofgem's RIIO model should encourage us to play a full part in the delivery of a sustainable energy sector and to deliver network services offering long-term value for money to existing and future consumers.

Business drivers, principal risks and opportunities

Business drivers

There are many factors that influence the success of our business and the financial returns we obtain. We consider the factors described here to be our principal business drivers.

Price controls

The prices we charge for the use of our electricity transmission network are determined in accordance with regulatory approved price controls. These arrangements include incentive and/or penalty arrangements. The terms of these arrangements have a significant impact on our revenues.

People

The skills and talents of our employees, along with succession planning and the development of future leaders, are critical to our success. We believe that business success will be delivered through the performance of all current and future employees, and enhanced by having a workforce that is diverse in its cultural, religious and community influences.

Capital investment

Capital investment is a significant driver for organic growth. In our regulated electricity transmission networks, the prices we charge include an allowed return for capital investment determined in accordance with our price controls.

Safety, reliability and efficiency

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

Relationships and responsibility
Our reputation is vitally important to us. We only earn the trust and confidence of our stakeholders by conducting business in a responsible manner. Our reputation depends on our behaviours being lawful and ethical, on complying with our policies and licences, and on living up to our core values.

Principal risks and opportunities

There are a number of risks that might cause us to fail to achieve National Grid's vision or to deliver growth in its shareholder value. We can mitigate many of these risks by acting appropriately in response to the factors driving our business.

Regulatory settlements and long-term contracts
Our ability to obtain appropriate recovery of costs and rates of return on investment is of vital importance to the sustainability of our business. We have an opportunity to help shape the future of the regulatory environment. If we fail to take these opportunities, we risk failing to achieve satisfactory returns.

Financial performance
Financial performance and operating cash flows are the basis for funding our future capital investment programmes, for servicing our borrowings and paying dividends. Failure to achieve satisfactory performance could affect our ability to deliver the returns we and our stakeholders expect.

Talent and skills
Harnessing and developing the skills and talent of our existing employees, and recruiting, retaining and developing the best new talent, will enable us to improve our capabilities. Failure to engage and develop our existing employees or to attract and retain talented employees could hamper our ability to deliver in the future.

Investment in our networks
Our future organic growth is dependent on the delivery of our capital investment plans. In order to deliver sustainable growth with superior financial performance we will need to finance our investment plans. Instability in the financial markets, loss of confidence by investors, or inadequate returns on our investment may restrict our ability to raise finance.

Safety, reliability and customer service
The returns we generate are dependent on operating safely and reliably, and providing a quality service to customers. If we fail to meet our regulatory targets or the high standards we set ourselves, we risk loss of reputation as well as financial penalties imposed by regulators.

Efficiency
Simplifying and standardising our systems and processes will drive efficiency and reduce costs. Transforming our operating model should enable us to deliver increased value to shareholders. If we do not achieve the expected benefits in efficiency, then shareholder value will not grow as we hope or will diminish.

Sustainability and climate change
Safeguarding our global environment for future generations is dependent on integrating sustainability and climate change considerations into our business decisions, influencing legislators and regulators, employees, customers and suppliers to address climate issues and become more environmentally responsible.

Vision, strategy and objectives

As a subsidiary company of National Grid, National Grid Electricity Transmission participates in the National Grid vision and strategy, as described below.

Vision

The vision is the long term aspiration for National Grid – what we want to be in the future. The vision statement has remained unchanged since it was first published in 2007:

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

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

Strategy

Our strategy is a medium term step in the journey to achieve the vision – what we will be doing over the next few years. It is also the over arching principle that provides commercial context to each of the objectives and actions.

Our strategy is designed to ensure that the objectives remain aligned with the factors that drive our business. For the last three years, our strategy has been expressed in these terms:

We will build on our core regulated business base and financial discipline to deliver sustainable growth and superior financial performance.

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

- Delivering excellent levels of safety, reliability, security, customer service and environmental performance
- Using consistent and cost effective ways of working, putting into practice shared processes and systems
- Driving an inclusive, high performance culture by engaging and developing our employees
- Helping to shape UK energy policies through working with our external stakeholders and customers

Objectives

To guide leaders, managers and individuals in our business and help deliver the strategy, we set out seven Company objectives:

- Driving improvements in our safety, customer and operational performance
- Delivering strong, sustainable regulatory and long-term contracts with good returns
- Modernising and extending our transmission networks
- Becoming more efficient through transforming our operating model and increasingly aligning our processes
- Building trust, transparency and an inclusive and engaged workforce
- Developing our talent, leadership skills and capabilities
- Positively shaping the energy and climate change agenda with our external stakeholders

These are the objectives against which our performance has been measured this year. A detailed discussion of our performance against each of the objectives can be found on pages 9 to 12.

Line of sight

In a number of places in this report, we refer to the principle of line of sight. What we mean by this principle is that the individual objectives of every employee should be set by reference to the Company objectives, strategy and vision, ensuring that every individual is encouraged and incentivised to contribute to the same collective goals. Consequently, the actions required to deliver the strategy are allocated and aligned with employee responsibilities.

Performance for growth

Our performance, talent and reward management process for managers is known as performance for growth (P4G). Formal annual P4G performance appraisals are carried out for every manager against their individual objectives and against the National Grid leadership qualities. The appraisal assesses both what the individual has achieved during the year and how those outcomes have been achieved. Our staff performance and reward framework for non-managerial grades, delivering performance, applies the same principles in aligning individual objectives with those of the Company.

Strategy for 2011/12

National Grid has updated the line of sight framework and this refreshed framework reflects the new organisational arrangement, namely moving from a line of business structure to a regional structure, as explained on page 2. In addition, we have increased the level of transparency of our strategic actions. This change will improve the connection between individual actions and the achievements the organisation needs to make in the year.

National Grid's 2011/12 strategic actions which are relevant to us are:

- Improve our customer experience
- Deliver key employee and performance programmes that underpin 2011/12 objectives
- Deliver cost reductions by further leveraging support activity efficiencies, improve the buying experience and increase transparency of procurement savings
- Deliver common key processes and execute on best practice initiatives
- Work with Ofgem and other stakeholders to implement a successful rollover for TPCR4 (1 year extension of the current price control for transmission to March 2013) and submit final proposals for RIIOT1 plans (to start in April 2013).
- Ensure successful delivery of the core investment programme.

We have worked hard to ensure that future UK price controls reflect the need for substantial and timely investments to ensure climate change targets and security of supply requirements are met, while delivering acceptable and timely returns.

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Key performance indicators (KPIs)

Our performance and the progress we have made against our strategic aims and against the objectives we have set ourselves are described below and on the following pages.

We measure the achievement of our objectives both through the use of qualitative assessments and through the monitoring of quantitative indicators. To provide a full and rounded view of our business, we use non-financial as well as financial measures.

Although all these measures are important, some are considered to be of more significance than others, and these more significant measures are designated as KPIs. Our financial and non-financial KPIs are highlighted here. KPIs are used as our primary measures of whether we are achieving our principal strategic aims of sustainable growth and superior financial performance. We also use KPIs to measure our performance against our objectives; the relationships between the objectives and the KPIs are shown below.

Financial KPI

Company Strategy and objectives	Financial KPI	Definition and performance	Target
Delivering strong sustainable regulatory and long-term contracts with good returns	Operational return	Electricity Transmission operational return against the target set by the regulator for the 5 year price control period (see page 13) **2010/11: 6.4%** 2009/10: 6.6%	Achieve or exceed regulatory vanilla return over 5 year price control period of 5.05%

Non-financial KPIs

Company Strategy and objectives	Non-financial KPIs	Definition and performance	Target
Modernising and extending our transmission networks	Network reliability	Reliability of Electricity Transmission network as a percentage against the target set by our regulator (see page 10) **2010/11: 99.9999%** 2009/10: 99.9999%	99.9999%
Driving improvements in our safety, customer and operational performance	Employee lost time injury frequency rate	Injuries resulting in employees taking time off work per 100,000 hours worked on a 12 month basis (see page 9) **2010/11: 0.13** 2009/10: 0.18	Zero
Building trust, transparency, and an inclusive and engaged workforce	Employee engagement index	Employee engagement index calculated using responses to National Grid's annual employee survey (see page 11) Transmission business **2010/11: not measured** 2009/10: 77%	Year-on-year increase
Positively shaping the energy and climate change agenda	Greenhouse gas emissions (scope 1 and 2)	Percentage reduction in greenhouse gas emissions against 1990 baseline (see page 12) Year-on-year % **2010/11: 16% increase** 2009/10: 3% reduction	Year-on-year reduction

Performance against objectives

We use a number of detailed performance measures in addition to the key performance indicators shown on the previous page, reflecting the scale and complexity of our operations. We use qualitative assessments to judge progress against our objectives in areas where numerical measures are less relevant.

Alignment of performance measures and strategy

Our strategy is stated on page 6. Our performance in implementing the key elements of the strategy is measured in the following ways.

We will build on our core regulated business base...
We invest in our existing business in order to improve efficiency and reliability.

Our KPI in this area is network reliability, as shown on the previous page, and other performance measures include capital investment (see page 10 and 11).

...and financial discipline...
We seek to control operating costs and to invest capital only where we expect to be able to obtain an acceptable return. We are committed to maintaining a single A range credit rating.

Our KPI in this area is operational return as shown on the previous page.

...to deliver sustainable growth...
There are a number of factors that determine the extent to which growth is sustainable. We believe that operational excellence will help us to build and maintain good relationships with our customers and regulators. Managing the skills and talents of our employees helps us to recruit, retain and develop the best possible talent, creating a diverse and motivated workforce and positioning ourselves to take advantage of present and future opportunities.

Our KPIs in this area, as shown on the previous page, are employee lost time injury frequency rate, employee engagement and greenhouse gas emissions. Other performance measures include measures of gender and ethnic mix.

Financial performance
...and superior financial performance
We aim to deliver superior returns to National Grid.

Our performance measures include adjusted operating profit for the year (see pages 13 and 14) and operating cash flows (see page 15). A full disclosure of our financial performance can be found on pages 12 to 15.

Future changes to performance measures

Following the adoption of the new Company objectives noted on page 7, we will be reviewing our KPIs and other performance measures and will report any changes in the 2011/12 Annual Report and Accounts.

Driving improvements in safety, customer and operational performance

Safety
Safety is critical both to business performance and to helping to define the culture of the Company for our employees. We recognise that our operations potentially give rise to risk and that some of our assets could have catastrophic consequences to surrounding communities if not properly controlled. We believe we can eliminate or minimise those risks to achieve zero injuries or harm and to safeguard members of the public. We further believe that everyone in the Company, collectively and individually, has a part to play in achieving this.

Process safety
Process safety has been in the headlines in recent years as a result of incidents affecting other companies, such as the Deepwater Horizon incident in the Gulf of Mexico, the Buncefield explosion in the UK and the San Bruno pipeline explosion in California. While we have not had any significant incidents, managing process safety risks is always at the front of our thoughts in the way we run our business. As well as ensuring we have effective management systems in place, we look to incidents at other companies to learn any lessons.

National Grid has continued to report process safety KPIs up to Executive level throughout the year and we have focused on the effectiveness of the action plans to address any issues. This has been reinforced by getting our leadership team out into the field to discuss process safety. We see this as a critical element to demonstrating both leadership commitment and that we listen to the views of our employees.

In 2010/11, National Grid continued to converge its approach to process safety management across the Group with the development of a Group level major accident hazard framework. We have an effective safety management system in place which is the product of UK legislation and specific asset management policies. While this has delivered compliance, the implementation of a Group framework will ensure greater consistency and support the drive for continual improvement. With elements covering risk assessment, control standards and overarching management requirements, implementation throughout 2011/12 will require us to demonstrate that we have adequate controls in place. This will be supported by a cross group peer review process to provide assurance and facilitate the sharing of good practice.

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

During 2010/11 there were 6 lost time injuries compared with 8 in 2009/10. The lost time injury frequency rate was 0.13 in 2010/11 compared with 0.18 in 2009/10. Definitions for lost time

injury and lost time injury frequency rate are included in the glossary on page 74.

At the same time, we have seen significant improvement in the lost time injury performance of our contract partners' workforce. In 2010/11, there were 17 contractor lost time injuries compared with 30 in 2009/10. When developing safety improvement programmes, we ensure our contract partners are actively involved and we believe there is a mutual benefit in sharing good practice and learning.

The principal causes of lost time injuries were road traffic collisions, musculoskeletal injuries and slips, trips and falls. This year has seen a range of programmes implemented to improve performance in these areas.

However, lost time injury frequency rate only shows part of the picture and we measure a range of other KPIs internally to ensure we control our safety risks. This year has seen particular emphasis on high potential incidents. These are typically the near misses that do not result in harm, but have the potential for serious injuries. Examples include: dropped loads, vehicles overturning, contact with overhead electrical conductors and damaging underground cables. Distinguishing these incidents in terms of potential severity has allowed us to use novel ways to communicate learning to our workforce, such as publishing a 'red top' style newspaper featuring the stories of people involved in the incidents. It also provides the focus on developing campaigns to improve performance before people get hurt.

Public safety

The safety of the public in the communities we serve is of prime importance to us. In 2010/11 and 2009/10, no members of the public were injured as a result of our activities.

Customer service

Electricity Transmission is facing a period of unprecedented change within the energy sector. To deliver our part in meeting the government targets we will need to be a flexible organisation that is in tune with the market environment and with our customers.

Our growing list of customers includes new developers, (from nuclear to wind, both on and offshore, wave and tidal power), and our more conventional electricity customer connections. These new entrants will need our help in understanding our business and its complexity. We should not forget that we have a significant existing customer group who rightly expect us to deliver great customer service too. As customers ourselves, this is something we can and do expect.

Using information we have gathered from our customers and our employees, we are on our way to making the cultural shift in the way we behave and the way in which we do things. We are reviewing our internal interactions to assess their impact on our service provision, we are looking to ensure our website is a valued information resource, we will communicate the service level our customers can expect and are supporting our employees in developing their customer service skills.

We will continue to listen and respond to our customers and act upon their feedback. It is important to us that our customers recognise us as a company that is good to do business with and one that listens.

Reliability

We continue to maintain a world class standard of transmission network reliability, with a reliability score of 99.9999%. Network availability, which is affected by asset replacement activity, was 93.6% on average (2009/10: 94.76%), increasing to 96.95% (2009/10: 97.55%) for the winter peak demand.

Delivering strong, sustainable regulatory contracts with good regulatory returns

Regulation

For a full description of regulation including the key elements of current price control and developments in the year see pages 4 and 5.

Modernising and extending the transmission network

The principal measure we use to monitor organic investment is capital expenditure, including investment in property, plant and equipment, and software.

Ageing equipment and carbon reduction targets are leading to the retirement of existing generating capacity and demands to connect low carbon and renewable generation. Our role is to ensure that these new sources of energy can be delivered to areas of demand: a critical role in meeting the UK government's climate change agenda and achieving the associated CO_2 reduction targets by 2020. We continue to expect this to drive further growth in capital investment in coming years.

Over the past year we saw further increases in demand for connections of renewable generation to the UK electricity transmission system. In 2010/11, the level of renewable generation already connected or with firm connection requests reached the level required to meet the UK renewable energy target of more than 30% of electricity being generated from renewable sources by 2020.

In October 2010, we awarded an eight year contract to Costain for the construction of two deep cable tunnels in London. The tunnel will house new 400 kV electricity cables that will help meet rising demand for electricity. These two tunnels will connect existing substations at Hackney, St Johns Wood, Willesden and Wimbledon. A major milestone in the Thames Estuary strategy was achieved in October, with the establishment of a new double circuit connection between Tilbury and Littlebrook in the southeast of England – delivered ahead of schedule. The interdependent schemes, with a total investment of £450m, include connection assets for a combined cycle gas turbine (CCGT) power station at Grain and a new 400 kV substation with gas insulated switchgear.

We ensure, before any investment is undertaken, that we are clear how and when it will be remunerated and we only look to invest capital where we expect to be able to earn an acceptable

return consistently with our licence and statutory obligations. Combined with procurement efficiencies this disciplined approach to capital investment has restricted the level of increase in our capital expenditure to £104 million compared with last year.

Capital investment of £1,126 million in 2010/11 (2009/10: £1,022 million) included investment to facilitate connection of renewable generation, the Thames Estuary reinforcement and our London cable tunnels project. It also included £17 million with respect to intangible assets, principally software applications (2009/10: £8 million).

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

Information services (IS) transformation

The IS transformation programme establishes a global IS function for National Grid delivering services and new solutions to all parts of National Grid.

The transformation programme is underpinned by establishing a number of contracts for services that National Grid can leverage from the broader IT marketplace where such commodities (eg email and virtualisation services) can deliver excellence with economy of scale pricing. Some of the key contracts have been put in place this year with the remainder planned for next year. Sourcing decisions are taken with full consultation with the appropriate bodies and sympathetic consideration of the impact on employees.

An essential component of the transformation programme is to ensure that the structure of the IS department and its commercial arrangements are consistent with the overall National Grid strategy and specific line of business objectives, including our Electricity Transmission business. The IS strategy and associated architecture plans are well developed to deliver efficiencies in the existing IT services through consolidation and rationalisation but also to invest in the new capabilities necessary to meet the challenges ahead.

The IS leadership team is well established and the overall organisational structure is evolving as the commercial contracts are put in place. Key functions that are critical to IS delivery are being developed to ensure we have the right internal capabilities in areas such as business relationships, security, architecture and strategy.

The next stages for the transformation are the completion of the contract placements, the transitioning activities necessary to establish the new arrangements and ensuring the delivery of the benefits.

Business process outsourcing

The outsourcing to an external service provider in India, of some of National Grid's UK shared services activities which we utilise, was undertaken during the year. This should deliver both financial and process benefits over the next five years.

Building trust, transparency and an inclusive and engaged workforce

Employees

We employ over 2,700 people. Communication is a key theme both at a corporate and business level. Multiple communication channels are used, including the use of intranets, which we continue to develop to ensure the timely passing of information to employees.

Employee engagement continues to be a key focus. 2010 saw an unprecedented employee survey response rate of 97% across National Grid. This response rate generated an extremely large amount of data and feedback to review.

As always, we have worked to engage teams throughout the business in creating action plans to address survey feedback. We also regularly seek feedback about the survey process, and teams have consistently expressed a desire to have more time to ensure their actions translate into meaningful results. Therefore, National Grid decided to postpone the 2011 survey to enable us to work more deeply on action planning and other key engagement activities.

We are working to ensure we create visible links between performance and engagement, as we feel the two are interconnected and vital to our success. Throughout 2011, we will be working on reinforcing the link between performance and engagement, and supporting our survey champions as we prepare to launch the 2012 employee survey.

Inclusion and diversity

Measures such as the percentages of female and ethnic minority employees continue to be reviewed regularly at National Grid Executive Committee level. At 31 March 2011, 13.6% of our employees were female and 11.0% were from ethnic minority groups, compared with 13.7% and 10.1% respectively at 31 March 2010.

We aim to ensure equal opportunity in recruitment, career development, promotion, training and reward for all employees, including those with disabilities. Where existing employees become disabled, our policy is to provide continuing employment and training wherever practical.

Following the decision not to undertake a full employee survey in 2011, we are using an external partner to conduct a number of focus groups with a cross section of employees. These focus groups, in conjunction with interviews with senior management, will provide us with valuable insight into how inclusion and diversity are perceived within the Company.

Our employee resource groups, which cover areas including gender, ethnicity, disability, faith, sexual orientation and new employees, continue to deliver results in three areas: providing professional development opportunities for members through workshops and programmes; supporting the Company's community relations activities through fundraising, volunteering, and providing support to organisations; and working to increase broader understanding of inclusion through workshops, presentations and other educational events.

Developing talent, leadership skills and capabilities

Talent development continues to be a critical lever for successful business performance. During the past year, we completed the development of our leadership transitions strategy. In 2008, developing future leaders was created by National Grid for senior leaders; in 2009, Foundations of Leadership was created for front line or first time leaders and in 2010, we launched two programmes targeted at middle level leaders focused on their leadership style and business acumen.

To support the development needs of the broader management population, a comprehensive portfolio of classroom based and eLearning solutions was introduced covering the areas of communication, performance management, business acumen and general management. More will be added as further business needs are identified.

Our apprenticeship training programmes enjoy Ofsted outstanding ratings on all criteria and were awarded the East Midlands National Training Award for our advanced apprenticeship model.

To accommodate year on year growth in technical training needs, significant investments have been made in expanding the Eakring and Nottinghamshire learning centres.

Positively shaping the energy and climate change agenda with external stakeholders

We aim to take the lead on the energy and climate change issues facing society. We will not simply react to the initiatives of other relevant bodies. Instead, we will be proactive in leading the agenda to make sure we help to safeguard the environment.

Climate change

We have continued with our climate change strategy and energy efficiency programmes, focusing on initiatives that are cost effective and regulated. We remain committed to National Grid's 45% by 2020 and 80% by 2050 greenhouse gas emissions reduction targets for our Scope 1 and 2 emissions.

During 2010/11, we worked to deliver our targets under year one of National Grid's first five year plan for greenhouse gas reduction. The plan established a trajectory to 2015 as the half way point to the 2020 target. Performance against the plan is linked to the executive compensation scheme. A more detailed breakdown of emissions and performance against the plan can be found on National Grid's website.

A significant part of our investment in infrastructure is associated with modernising our networks and building connections to low carbon sources of energy. As a consequence, we expect our Scope 3 emissions due to this to increase in the short term as we play our part in decarbonising the economy. We then anticipate a reduction in our reported transmission losses as the grid average carbon intensity decreases.

We believe that a strong carbon price signal in the economy is essential to driving the right behaviours and to the delivery of a low carbon society. During 2010/11, we introduced a carbon price of £52 per tonne into our investment appraisals in order to challenge our designs and better understand where our opportunities for decarbonisation exist. As a regulated utility, we recognise that we will not always be funded to invest on this basis under existing price control agreements and, in such circumstances, the information that we gather will be used to inform future discussions.

It is equally important we understand the impact of past global emissions on future climate change. We have been working with the UK Met Office to understand how these changes might affect our UK infrastructure and future energy demand.

During 2010, we were asked by Defra to represent the energy sector on a project to develop climate adaptation risk assessments for our regulated UK electricity business. Our assessment process used the government's latest available climate change scenarios to test the resilience of our networks to a range of future conditions. The feedback from the process showed that we have a good understanding of the risks posed by potential future climate change and a high degree of resilience already built into its networks. The ongoing monitoring and appropriate mitigation of the risks from a changing climate will be through our day-to-day business risk management processes. The full reports can be found on National Grid's website. In 2011/12, we will continue to work with our respective governmental and local agencies as this field of study and research evolves.

Financial performance

Measurement of financial performance

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

Use of adjusted profit measures

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

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

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

The items comprising the second component are excluded from the adjusted profit measures used by management to monitor financial performance as they are considered to distort the comparability of our reported financial performance from year to year.

Accounting policy (Q) on page 29 explains in detail the items which are excluded from our adjusted profit measures.

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

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

Continuing and discontinued operations

The financial results of our business and segments and of our other activities (as described on pages 12 to 15) are presented within continuing operations. There were no discontinued operations in 2010/11 or in 2009/10.

Timing

Our profit for the year includes a number of timing differences, including an over-recovery of revenues compared to regulatory allowed revenues, of £56 million. These timing differences are, by their nature, unpredictable, but our current expectation is that they will not recur in 2011/12. The closing balance of over-recovery at 31 March 2011 was £9 million. All other things being equal, that balance should be returned to customers in 2011/12, which would lead to a variance of £65 million when comparing 2011/12 operating profit with 2010/11.

Key performance indicators (KPIs)

Operational return

We measure our performance in generating value from the investments we make by dividing the annual return of our Electricity Transmission business by our regulatory asset base. Annual return consists of adjusted earnings, amended for a number of items including regulatory timing differences and depreciation, net financing costs and a pension deficit adjustment. Our regulatory asset base consists of invested capital, which is the opening RAV inflated to mid-year using RPI inflation. This is equivalent to the vanilla return set out in our price controls.

For 2010/11, our operational return was 6.4% compared with 6.6% in 2009/10 and a regulatory allowed return (vanilla return) of 5.05%.

Profit for the year

Adjusted profit and adjusted earnings

Adjusted earnings and adjusted profit for year from continuing operations were £525 million in 2010/11 (2009/10: £468 million).

Profit and earnings

Earnings and profit for year from continuing operations were £505 million in 2010/11 (2009/10: £465 million).

The increase in profit and adjusted profit, and earnings and adjusted earnings were a consequence of the changes in operating profit, net finance costs, exceptional finance costs and remeasurements, and taxation described in the following sections.

Reconciliation of adjusted earnings to earnings

Years ended 31 March	2011 £m	2010 £m
Adjusted earnings	**525**	468
Exceptional items	**(26)**	(10)
Remeasurements	**6**	7
Earnings	**505**	465

Revenue by operating segment

Years ended 31 March	2011 £m	2010 £m
Electricity Transmission	**2,548**	2,483
Other activities	**1**	1
Revenue	**2,549**	2,484

Operating profit by segment

Years ended 31 March	2011 £m	2010 £m
Electricity Transmission	**828**	800
Other activities	**(8)**	(9)
Total operating profit	**820**	791

Adjusted operating profit by segment

Years ended 31 March	2011 £m	2010 £m
Electricity Transmission	**912**	814
Other activities	**(8)**	(9)
Adjusted operating profit	**904**	805

Analysis of operating profit and adjusted operating profit

2010/11 compared with 2009/10

Changes in revenue and other operating income, operating costs and operating profit for 2010/11 compared with 2009/10 are analysed by operating segment as follows:

	Revenue and other operating income	Operating costs	Operating profit
	£m	£m	£m
2009/10 operating profit	**2,484**	**(1,693)**	**791**
Add back 2009/10 exceptional items	**-**	**14**	**14**
2009/10 adjusted operating profit	**2,484**	**(1,679)**	**805**
Electricity Transmission	66	31	**97**
Other	-	2	**2**
2010/11 adjusted operating profit	**2,550**	**(1,646)**	**904**
2010/11 exceptional items	**-**	**(84)**	**(84)**
2010/11 operating profit	**2,550**	**(1,730)**	**820**

The results for the Electricity Transmission segment for the years ended 31 March 2011 and 2010 were as follows:

	Years ended 31 March	
	2011	2010
	£m	£m
Revenue and other operating income	2,548	2,483
Operating costs excluding exceptional items	(1,636)	(1,669)
Adjusted operating profit	912	814
Exceptional items	(84)	(14)
Operating profit	828	800

2010/11 compared with 2009/10:

	Operating profit
	£m
2009/10 adjusted operating profit	**814**
Allowed revenues (1)	**37**
Timing of recoveries (2)	**91**
Depreciation and amortisation (3)	**(24)**
Other	**(6)**
2010/11 adjusted operating profit	**912**

1 - Increase in regulated revenues collectable under our price controls.
2 - Collection of allowed revenues not collected in the previous year.
3 - Increase reflects the charges arising from our ongoing capital investment programme.

Reconciliation of adjusted operating profit to adjusted profit and adjusted earnings

	Years ended 31 March	
	2011	2010
	£m	£m
Adjusted operating profit	**904**	805
Net finance costs excluding exceptional items and remeasurements	**(173)**	(153)
Adjusted profit before taxation	**731**	652
Taxation excluding tax on exceptional items and remeasurements	**(206)**	(184)
Adjusted profit and adjusted earnings	**525**	468

Reconciliation of operating profit to profit and earnings

	Years ended 31 March	
	2011	2010
	£m	£m
Operating profit	**820**	791
Net finance costs	**(176)**	(143)
Total profit before taxation	**644**	648
Taxation	**(139)**	(183)
Profit and earnings	**505**	465

Reconciliation of adjusted operating profit to total operating profit

	Years ended 31 March	
	2011	2010
	£m	£m
Adjusted operating profit	**904**	805
Exceptional items	**(84)**	(14)
Total operating profit	**820**	791

Reconciliation of adjusted profit before taxation to total profit before taxation

	Years ended 31 March	
	2011	2010
	£m	£m
Adjusted profit before taxation	**731**	652
Exceptional items	**(95)**	(14)
Remeasurements	**8**	10
Total profit before taxation	**644**	648

Net finance costs

Net finance costs excluding exceptional items and remeasurements were £173 million in 2010/11, compared with £153 million in 2009/10. The increase in 2010/11 compared with 2009/10 primarily reflected higher accretions in index-linked debt following the return of inflation, partially offset by higher capitalised interest.

Exceptional items and remeasurements

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

Exceptional charges of £14 million in 2009/10 consisted of restructuring charges.

There were £11 million of exceptional finance costs during 2010/11 (2009/10: £nil) relating to the early redemption of debt following the rights issue by National Grid in June 2010.

Financial remeasurements relate to net gains on derivative financial instruments of £8 million (2009/10: £10 million net gains).

Taxation

The net tax charge of £139 million in 2010/11 comprised a £206 million charge on adjusted profit before tax and a £67 million credit on exceptional items and remeasurements, £62 million of which is due to the reduction in the UK corporation tax rate to 26% from 1 April 2011. This compares with a net charge of £183 million in 2009/10, comprising a £184 million charge on adjusted profit before tax and a £1 million credit on exceptional items and remeasurements.

The effective tax rate before and after exceptional items and remeasurements was 28% and 22% respectively (2009/10: 28% for both cases), compared with a standard UK corporation tax rate of 28% in both years.

Cash flows

Cash flows from operating activities

Cash generated from continuing operations was £1,065 million in 2010/11 compared with £986 million in 2009/10. This included cash outflows relating to exceptional items of £5 million in 2010/11 and £2 million in 2009/10.

The net cash inflow from operating activities after taxation was £953 million in 2010/11, compared with £896 million in 2009/10. This included a net corporate tax payment in 2010/11 of £112 million compared with a payment of £90 million in 2009/10.

Cash flows from investing activities

Cash outflows from investing activities were £839 million in 2010/11 compared with £641 million in 2009/10. Cash outflows to purchase property, plant and equipment and intangible fixed assets, net of disposal proceeds, were £904 million in 2010/11 compared with £939 million in 2009/10. Interest received was £2 million in 2010/11 compared with £5 million in 2009/10. Net cash inflows from sale of financial investments were £63 million in 2010/11 compared with net inflows of £293 million in 2009/10.

Cash flows from financing activities

The net cash outflow from financing activities was £435 million in 2010/11 compared with £325 million in 2009/10. This reflected net repayment of loans of £104 million (2009/10: £14 million net inflow) and net payments to providers of finance, in the form of interest and dividends, of £331 million (2009/10: £339 million).

Interest payments decreased from £189 million in 2009/10 to £181 million in 2010/11.

Dividends paid to shareholders were £150 million in both years.

Financial position and financial management

Going concern

Having made enquiries, the Directors consider that the Company and its subsidiary undertakings have adequate resources to continue in business for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the consolidated and individual financial statements of the Company. More details of our liquidity position are provided under the heading Funding and liquidity management below and in note 27 to the consolidated financial statements.

Financial position

Balance sheet

Our balance sheet at 31 March 2011 can be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment and non-current intangible assets	7,666	-	7,666
Current assets and liabilities	232	(742)	(510)
Other non-current liabilities	-	(334)	(334)
Pension obligations	-	(467)	(467)
Deferred tax	-	(761)	(761)
Total before net debt	7,898	(2,304)	5,594
Net debt	182	(4,752)	(4,570)
Total as at 31 March 2011	**8,080**	**(7,056)**	**1,024**
Total as at 31 March 2010	7,550	(6,885)	665

The £359 million increase in net assets from £665 million at 31 March 2010 to £1,024 million at 31 March 2011 resulted from the profit for the year of £505 million and other items totalling £4 million, offset by equity dividends paid of £150 million.

Net debt

Net debt increased by £348 million from £4,222 million at 31 March 2010 to £4,570 million at 31 March 2011. Cash flows from operations of £953 million were offset by capital expenditure of £904 million, dividends paid of £150 million and net interest paid £179 million, together with fair value and other adjustments of £68 million.

At 31 March 2011, net debt comprised borrowings of £4,666 million including bank overdrafts of £8 million, less financial investments of £4 million and derivative financial instruments with a net carrying value of £92 million. At 31 March 2010, net debt comprised borrowings of £4,666 million, including bank overdrafts of £13 million, less financial investments of £67 million, derivative financial instruments with a net carrying value of £51 million and cash and equivalents of £326 million.

Capital structure

We monitor the regulatory asset value (RAV) gearing of the Electricity Transmission business. This is calculated as net debt expressed as a percentage of RAV, and indicates the level of

debt employed to fund the regulated business. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for regulated businesses, at around 60%.

RAV gearing as at 31 March 2011 was 54%, compared with 56% as at 31 March 2010.

Liquidity and treasury management

Treasury policy

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

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

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

Current condition of the financial markets

The financial markets have essentially returned to normal for National Grid following the turmoil in the capital markets in 2008 and 2009. Following National Grid's rights issue, which completed in June 2010, our funding requirements were modest. We issued no new long-term debt, but repurchased £85 million (external) and did not refinance £216 million (external) of debt maturities. We remain confident of our ability to access the public debt markets in the future.

Cash flow and cash flow forecasting

Cash flows from operations are largely stable annually and over a period of years. Our transmission operations are subject to multi-year price control agreements with our regulator, Ofgem.

Both short and long-term cash flow forecasts are produced regularly to assist the treasury function in identifying short-term liquidity and long-term funding requirements, and we seek to enhance our cash flow forecasting processes on an ongoing basis. Cash flow forecasts, supplemented by a financial headroom analysis, are monitored regularly to assess funding adequacy for at least a 12 month period.

As part of our regulatory arrangements, our operations are subject to a number of restrictions on the way we can operate. These include regulatory 'ring-fences' that requires us to maintain adequate financial resources and restricts our ability to undertake transactions with other National Grid subsidiary companies including paying dividends, lending cash or levying charges.

Funding and liquidity management

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

At 31 March 2011, we had a $1 billion US commercial paper programme (unutilised) and a €1 billion Euro commercial paper programme (unutilised). We also have a joint €15 billion Euro medium term note programme with National Grid plc (€2.9 billion issued by National Grid Electricity Transmission plc, €7.8 billion issued in total).

In addition, we have both committed and uncommitted bank borrowing facilities that are available for general corporate purposes to support our liquidity requirements. At 31 March 2011, the Company had £715 million of long term committed facilities (undrawn), expiring in April 2014.

To facilitate debt issuance into the capital and money markets, we maintain a credit rating. Details of our long-term senior unsecured debt and short-term debt credit ratings are given below under 'credit ratings'.

We invest surplus funds on the money markets, usually in the form of short-term fixed deposits and placements with money market funds that are invested in highly liquid instruments of high credit quality. Investment of surplus funds is subject to our counterparty risk management policy, and we continue to believe that our cash management and counterparty risk management policies provide appropriate liquidity and credit risk management. Details relating to cash, short-term investments and other financial assets at 31 March 2011 are shown in notes 13 and 14 to the consolidated financial statements.

We believe that maturing amounts in respect of our contractual obligations can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

In line with our normal treasury practice we expect to continue to access the markets in order to manage actively our debt portfolio, optimise our finance costs and manage our refinancing risk.

Credit ratings
It is a condition of the regulatory ring-fence around the Company that it uses reasonable endeavours to maintain an investment grade credit rating. As of 31 March 2011, the long-term senior unsecured debt and short-term debt credit ratings respectively provided by Moody's Investor Services, Standard & Poor's and Fitch were as follows (all with outlooks of stable):

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

Use of derivative financial instruments
As part of our business operations, including our treasury activities, we are exposed to risks arising from fluctuations in interest rates and exchange rates. We use financial instruments, including financial derivatives, to manage exposures of this type. Our policy is not to use financial derivatives for trading purposes. More details on derivative financial instruments are provided in note 10 to the consolidated financial statements.

Refinancing risk management
Refinancing risk is controlled mainly by limiting the amount of debt maturities arising on borrowings in any financial year.

Note 15 to the consolidated financial statements sets out the contractual maturities of our borrowings over the next five years, with total contracted borrowings maturing over 48 years. We expect to be able to refinance this debt through the capital and money markets as we have done during the year to 31 March 2011.

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

Some of our bonds in issue are inflation-linked, that is their cost is linked to changes in the UK Retail Prices Index (RPI). We believe that these bonds provide an appropriate hedge for revenues and our regulatory asset values that are also RPI linked under our price control formulas. The performance of the treasury function in interest rate risk management is measured by comparing the actual total financing costs of the National Grid debt portfolio with those of a passively managed benchmark portfolio with set ratios of fixed rate to floating rate debt, to identify the impact of actively managing National Grid's interest rate risk. This is monitored regularly by the Finance Committee of National Grid.

Within the constraints of our interest rate risk management policy, and as approved by the Finance Committee, we actively manage our interest rate exposure and therefore the interest rate profile will change over time.

In 2011/12, we expect our financing costs to continue to benefit from low short-term interest rates, some of which have already been locked in using short-term interest rate derivatives.

More information on the interest rate profile of our debt is included in note 27 to the consolidated financial statements.

Foreign exchange risk management
We have a policy of managing our foreign exchange transaction risk by hedging contractually committed foreign exchange transactions over a prescribed minimum size. This covers a minimum of 75% of such transactions occurring in the next six months and a minimum of 50% of transactions occurring six to twelve months in the future. Cover generally takes the form of forward sale or purchase of foreign currencies and must always relate to forecast underlying operational cash flows.

The result of this hedging activity is that our cash flow has limited exposure to foreign currencies.

Our capital expenditure programme over the next few years will result in material foreign currency exposures as we purchase raw materials and components from overseas suppliers. The treasury function will seek to manage these exposures through a range of hedging strategies and instruments.

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

More details can be found in note 27(a) to the consolidated financial statements.

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

Where multiple transactions are entered into with a single counterparty, a netting arrangement is usually put in place to reduce our exposure to credit risk of that counterparty. When transacting interest rate and exchange rate derivatives, we use market standard documentation, which provides for netting in

respect of all transactions governed by a specific ISDA agreement with a counterparty.

Further information on the management of counterparty risk is provided in note 27(c) to the consolidated financial statements.

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

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

As described in note 27(e) to the consolidated financial statements, movements in financial indices would have the following estimated impact on the financial statements as a consequence of changes in the value of financial instruments.

Years ended 31 March	2011		2010	
	Income statement £m	Other compre-hensive income £m	Income statement £m	Other compre-hensive income £m
UK Retail Prices Index ± 0.50%	**7**	**-**	7	-
UK interest rates ± 0.50%	**5**	**14**	3	19

Commodity contracts

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

Commitments and contingencies

Commitments and contingencies outstanding at 31 March 2011 and 2010 are summarised in the table below:

	2011 £m	2010 £m
Future capital expenditure contracted but not provided for	**968**	921
Total operating lease commitments	**58**	63
Other guarantees	**11**	12

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

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

Details of material litigation as at 31 March 2011
We were not party to litigation that we considered to be material as at 31 March 2011.

Related party transactions

We provide services to and receive services from related parties, principally fellow subsidiaries of National Grid. In the year ended 31 March 2011, we charged £32 million and received charges of £11 million from related parties (other than Directors and key managers), compared with £24 million and £43 million respectively in 2009/10.

Further information relating to related party transactions is contained within note 24 to the consolidated financial statements. Details of key management compensation and amounts paid to Directors are included within note 3(c) and note 3(d) to the consolidated financial statements respectively.

Retirement arrangements

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

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 our pension scheme specifically reference RPI. As a consequence, the impact of the Government's move to CPI was predominantly limited to our guaranteed minimum pensions and the financial consequence was an approximate £5 million reduction in plan liabilities.

Net pension obligations

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

	£m
As at 1 April 2010	(493)
Pension service cost	(27)
Interest less expected return	(9)
Actuarial gains and losses	
– on plan assets	(17)
– on plan liabilities	9
Employer contributions:	
– ordinary contributions	25
– additional contributions	45
As at 31 March 2011	**(467)**

	£m
Plan assets	1,598
Plan liabilities	(2,065)
Net plan liability	(467)

The amounts recorded in the balance sheet are based on International Accounting Standard 19, which requires pension obligations to be calculated on a different basis from that used by the actuaries to determine the funding we need to make.

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

The principal movements in net obligations during the year arose as a consequence of additional employer contributions.

UK funding valuation

A triennial valuation is carried out for the independent trustees of our UK defined benefit plan by professionally qualified actuaries, using the projected unit method. The purpose of the valuation is to design a funding plan to ensure that present and future contributions should be sufficient to meet future liabilities.

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

Following the 2010 actuarial valuation, National Grid and the Trustees agreed a recovery plan which will see the deficit paid off by March 2027. Under the Schedule of Contributions a payment of £45m was made in 2010/11, a further payment of £45m will be made in 2011/12 and another of £38m in 2012/13. Thereafter, an annual payment of £38m will be made, rising in line with Retail Price Inflation.

Plan assets

Plan assets are invested in equities, corporate bonds, gilts, property and short-term investments. The National Grid Electricity Group of the Electricity Supply Pension Scheme plan is trustee administered and the trustees are responsible for setting the investment strategy and monitoring investment performance, consulting with us where appropriate.

Pension plan assets	2011 %
Equities	41.9
Gilts	28.6
Corporate bonds	11.7
Hedge funds	7.3
Property	4.0
Cash (awaiting investment)	2.8
Other	3.7
Total	100.0

Accounting policies

Basis of accounting

The consolidated financial statements present the results of National Grid Electricity Transmission plc for the years ended 31 March 2011 and 2010 and financial position as at 31 March 2011 and 2010. They have been prepared using the accounting policies shown, in accordance with International Financial Reporting Standards (IFRS).

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

Choices permitted under IFRS

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

Presentation formats

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

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

Financial instruments

We normally opt to apply hedge accounting in most circumstances where this is permitted.

Critical accounting policies

The application of accounting principles requires us to make estimates, judgments and assumptions that may affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in the accounts. On an ongoing basis, we evaluate our estimates using historical experience, consultation with experts and other methods that we consider reasonable in the particular circumstances to ensure compliance with IFRS. Actual results may differ significantly from our estimates, the effect of which will be recognised in the period in which the facts that give rise to the revision become known.

Certain accounting policies, described below, have been identified as critical accounting policies, as these policies involve particularly complex or subjective decisions or assessments. The discussion of critical accounting policies below should be read in conjunction with the description of our accounting policies set out in our consolidated financial statements.

Revenue

Revenue includes an assessment of transmission services supplied to customers between the date of the last invoice and the year end. Changes to the estimate of the transmission services supplied during this period would have an impact on the reported results.

Estimates of unbilled revenues amounted to £98 million at 31 March 2011 compared with £113 million at 31 March 2010.

Estimated economic lives of property, plant and equipment

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

Hedge accounting

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

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

Exceptional items and remeasurements

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

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

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

Tax estimates

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

Carrying value of assets and potential for impairments

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

in-use of an asset or group of assets and comparing with the carrying value in the balance sheet.

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

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

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

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

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

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

Sensitivities

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

Revenue accruals
A 10% change in our estimate of unbilled revenues at 31 March 2011 would result in an increase or decrease in our recorded net assets and profit for the year by approximately £10 million net of tax.

Asset useful lives
An increase in the useful economic lives of assets of one year on average would reduce our annual depreciation charge on property, plant and equipment by £7 million (pre-tax) and our annual amortisation charge on intangible assets by £1 million (pre-tax).

Hedge accounting
If using our derivative financial instruments, hedge accounting had not been achieved during the year ended 31 March 2011 then the profit for the year would have been £18 million higher than that reported net of tax, and net assets would have been £8 million higher.

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

Provisions
A 10% change in the estimates of future cash flows estimated in respect of provisions for liabilities would result in an increase or decrease in our provisions of approximately £10 million.

Pension obligations
The Company's pension and post-retirement obligations are sensitive to the actuarial assumptions used. A 0.1% increase in the discount rate, a 0.5% increase in the rate of salary increases or an increase of one year in life expectancy would result in a change in the net obligation of £31 million, £30 million and £55 million and a change in the annual pension cost of £1 million, £1 million and £1 million respectively.

Accounting developments

Accounting standards, amendments to standards and interpretations adopted in 2010/11
In preparing our consolidated financial statements we have complied with International Financial Reporting Standards, International Accounting Standards and interpretations applicable for 2010/11. The standards, amendments to standards and interpretations adopted during 2010/11 are discussed in the financial statements on page 30. None of these resulted in a material change to our consolidated results, assets or liabilities in 2010/11 or in those of previous periods.

Accounting standards, amendments to standards and interpretations not yet adopted
New accounting standards, amendments to standards and interpretations which have been issued but not yet adopted by National Grid are discussed in the financial statements on page 30.

Directors' Report

for the year ended 31 March 2011

In accordance with the requirements of the Companies Act 2006 and UK Listing Authority's Listing, Disclosure and Transparency Rules, the following sections describe the matters that are required for inclusion in the Directors' Report and were approved by the Board. Further details of matters required to be included in the Directors' Report are incorporated by reference into this report, as detailed below.

Directors

The Directors serving during the year or subsequently were:

Malcolm Cooper	Appointed July 2007
Mark Fairbairn	Resigned March 2011
Stuart Humphreys	Appointed July 2008
Paul Whittaker	Appointed July 2007
Nick Winser	Appointed April 2003

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

Principal activities and business review

A full description of the Company's principal activities, business and principal risks and uncertainties is contained in the Operating and Financial Review on pages 1 to 21, which are incorporated by reference into this report.

Material interests in shares

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

Dividends

An interim dividend of £150 million was paid during the year (2009/10: £150 million interim dividend). The Directors have not proposed a final dividend.

Donations

During 2010/11, some £1.6 million (2009/10: £1.6 million) was invested in support of community initiatives and relationships in the UK. There were no direct charitable donations for 2010/11 (2009/10: £nil million).

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

Research and development

Expenditure on research and development was £6 million during the year (2009/10: £6 million).

Financial instruments

Details on the use of financial instruments and financial risk management are included on pages 16 to 18 in the Operating and Financial Review.

Future developments

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

Employee involvement

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

Policy and practice on payment of creditors

It is our policy to include in contracts or other agreements, terms of payment with suppliers. Once agreed, we aim to abide by these terms of payment. The average creditor payment period at 31 March 2011 was 18 days (9 days at 31 March 2010).

Audit information

Having made the requisite enquiries, so far as the Directors in office at the date of the signing of this report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Annual General Meeting

Notice of the Company's Annual General Meeting for 2011 will be issued separately to shareholders.

On behalf of the Board

Jonathan Munsey
Company Secretary
20 July 2011

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts, including the consolidated financial statements and the Company financial statements and the Directors' 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 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 (IASB). 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 consolidated profit of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the consolidated financial statements comply with IFRS as adopted by the European Union, and with regard to the Company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated financial statements and Company financial statements on a going concern basis unless it is inappropriate to presume that the Company, 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 financial statements 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 are listed in the Directors report on page 22, 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.

On behalf of the Board

Jonathan Munsey
Company Secretary
20 July 2011

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

We have audited the consolidated and Company financial statements (the ''financial statements'') of National Grid Electricity Transmission plc for the year ended 31 March 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 parent 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 23, 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 (UK GAAP); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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 of 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 parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements 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.

Phil Harrold (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
20 July 2011

Accounting policies

for the year ended 31 March 2011

A. Basis of preparation of consolidated financial statements under IFRS

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

These consolidated financial statements were approved for issue by the Board of Directors on 20 July 2011.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and as adopted by the European Union. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ending 31 March 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 comparative financial information has also been prepared on this basis.

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

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

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

B. Basis of consolidation

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

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

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

C. Foreign currencies

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

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

D. Intangible assets

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

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

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

Amortisation periods	Years
Software	3 to 5

E. Property, plant and equipment

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

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

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

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

Contributions received prior to 1 July 2009 towards the cost of property, plant and equipment are included in trade and other payables as deferred income and credited on a straight-line

basis to the income statement over the estimated economic useful lives of the assets to which they relate.

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

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

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

F. Impairment of assets

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

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

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

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

G. Taxation

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current tax is charged or credited to the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases the tax is also recognised in other comprehensive income or directly in equity, respectively. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

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

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

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

H. Inventories

Inventories, which comprise raw materials and consumables, are stated at cost less provision for damage and obsolescence. Cost comprises direct materials and those costs that have been incurred in bringing the inventories to their present location and condition.

I. Environmental costs

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

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

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

J. Revenue

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

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

Income arising from the sale of properties as a result of our property management activities is reported as other operating income.

K. Segmental information

Segmental information is based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between operating segments. The Board of Directors is deemed to be the chief operating decision-maker and assesses the performance of operations principally on the basis of operating profit or loss before exceptionals and remeasurements.

L. Pensions

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

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

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

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

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

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

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

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

M. Leases

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

N. Financial instruments

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

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

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

Other financial investments are recognised at fair value plus, in the case of available-for-sale financial investments, directly related incremental transaction costs and are subsequently carried at fair value on the balance sheet. Changes in the fair value of investments classified as fair value through the 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. Investment income on

investments classified as available-for-sale is recognised using the effective interest rate method and taken through interest income in the income statement.

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

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

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

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

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

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

O. Hedge accounting

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

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

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

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

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

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

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

P. Share-based payments

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

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

Q. Business performance and exceptional items and remeasurements

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

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

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

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

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

R. Cash and cash equivalents

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

S. Dividends

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

T. Areas of judgement and key sources of estimation uncertainty

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

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

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

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

- Review of residual lives, carrying values and impairment charges for intangible assets and property, plant and equipment – accounting policies D, E and F.
- Estimation of liabilities for pension schemes – note 19.
- Valuation of financial instruments and derivatives – notes 10, 13 and 26.
- Revenue recognition and assessment of unbilled revenue – accounting policy J.
- Recoverability of deferred tax assets – accounting policy G and note 18.
- Environmental provisions – note 20.

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
Revenue	1(a)		**2,549**		2,484
Other operating income	2		**1**		-
Operating costs	3		**(1,730)**		(1,693)
Operating profit					
Before exceptional items	1(b)	**904**		805	
Exceptional items	4	**(84)**		(14)	
Total operating profit	1(b)		**820**		791
Interest income and similar income	5		**105**		78
Interest expense and other finance costs					
Before exceptional items and remeasurements	5	**(278)**		(231)	
Exceptional items and remeasurements	4, 5	**(3)**		10	
	5		**(281)**		(221)
Profit before taxation					
Before exceptional items and remeasurements		**731**		652	
Exceptional items and remeasurements	4	**(87)**		(4)	
Total profit before taxation			**644**		648
Taxation					
Before exceptional items and remeasurements	6	**(206)**		(184)	
Exceptional items and remeasurements	4, 6	**67**		1	
Total taxation	6		**(139)**		(183)
Profit after taxation					
Before exceptional items and remeasurements		**525**		468	
Exceptional items and remeasurements	4	**(20)**		(3)	
Profit for the year			**505**		465

The notes on pages 36 to 63 form part of the consolidated financial statements.
The results reported above relate to continuing operations.

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	**2011** **£m**	2010 £m
Profit for the year		**505**	465
Other comprehensive (loss)/income:			
Actuarial net losses	19	**(8)**	(153)
Deferred tax on actuarial net gains and losses	6	**(1)**	43
Gain in respect of cash flow hedges		**9**	14
Transferred to profit or loss on cash flow hedges		**4**	-
Deferred tax on cashflow hedges	6	**(4)**	(4)
Other comprehensive loss for the year		**-**	(100)
Total comprehensive income for the year		**505**	365

Consolidated balance sheet

at 31 March

	Notes	2011 £m	2010 £m
Non-current assets			
Intangible assets	8	**50**	43
Property, plant and equipment	9	**7,616**	6,769
Derivative financial assets	10	**158**	134
Total non-current assets		**7,824**	6,946
Current assets			
Inventories	11	**28**	33
Trade and other receivables	12	**204**	161
Financial investments	13	**4**	67
Derivative financial assets	10	**20**	17
Cash and cash equivalents	14	**-**	326
Total current assets		**256**	604
Total assets		**8,080**	7,550
Current liabilities			
Borrowings	15	**(263)**	(334)
Derivative financial liabilities	10	**(10)**	(11)
Trade and other payables	16	**(729)**	(604)
Provisions	20	**(13)**	(10)
Total current liabilities		**(1,015)**	(959)
Non-current liabilities			
Borrowings	15	**(4,403)**	(4,332)
Derivative financial liabilities	10	**(76)**	(89)
Other non-current liabilities	17	**(251)**	(246)
Deferred tax liabilities	18	**(761)**	(756)
Pension obligations	19	**(467)**	(493)
Provisions	20	**(83)**	(10)
Total non-current liabilities		**(6,041)**	(5,926)
Total liabilities		**(7,056)**	(6,885)
Net assets		**1,024**	665
Equity			
Called up share capital	21	**44**	44
Retained earnings		**1,006**	656
Cash flow hedge reserve		**(26)**	(35)
Total shareholders' equity		**1,024**	665

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 notes to the consolidated financial statements 1 to 30 were approved by the Board of Directors on 20 July 2011 and were signed on its behalf by:

Paul Whittaker **Director**

Stuart Humphreys **Director**

Consolidated statement of changes in equity

for the years ended 31 March

	Called-up share capital £m	Retained earnings £m	Cash flow hedge reserve £m	Total equity £m
At 1 April 2009	44	446	(45)	445
Total recognised income and expense for the year	-	355	10	365
Equity dividends	-	(150)	-	(150)
Share-based payments	-	4	-	4
Tax on share-based payments	-	1	-	1
At 31 March 2010	44	656	(35)	665
Total recognised income and expense for the year	-	496	9	505
Equity dividends	-	(150)	-	(150)
Share-based payments	-	3	-	3
Tax on share-based payments	-	1	-	1
At 31 March 2011	**44**	**1,006**	**(26)**	**1,024**

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

Gains and losses recognised in the cash flow hedge reserve on interest rate swap contracts as of 31 March 2011 will be continuously transferred to the income statement until the borrowings are repaid (note 15).

The amount of the cash flow hedge reserve due to be released from reserves to the income statement within the next year is £4m, with the remaining amount of £22m due to be released with the same maturity profile as borrowings in note 15.

Consolidated cash flow statement

for the years ended 31 March

	Notes	**2011** **£m**	2010 £m
Cash flows from operating activities			
Total operating profit	1(b)	**820**	791
Adjustments for:			
Exceptional items	4	**84**	14
Depreciation and amortisation		**264**	240
Profit on sale of tangible and intangible assets		**3**	3
Share based payment charge		**3**	3
Changes in working capital		**(58)**	43
Changes in pension obligations		**(43)**	(98)
Changes in provisions		**(3)**	(8)
Cash flows relating to exceptional items		**(5)**	(2)
Cash flows generated from operations		**1,065**	986
Tax paid		**(112)**	(90)
Net cash inflow from operating activities		**953**	896
Cash flows from investing activities			
Purchases of intangible assets		**(17)**	(8)
Purchases of property, plant and equipment		**(892)**	(932)
Disposal of property, plant and equipment		**5**	1
Interest received		**2**	5
Purchases of financial investments		**-**	(64)
Disposal of financial investments		**63**	357
Net cash flow used in investing activities		**(839)**	(641)
Cash flows from financing activities			
Proceeds from loans received		**182**	34
Repayment of loans		**(311)**	(18)
Net movements in short-term borrowings and derivatives		**25**	(2)
Interest paid		**(181)**	(189)
Dividends paid to shareholders		**(150)**	(150)
Net cash flow used in financing activities		**(435)**	(325)
Net decrease in cash and cash equivalents	22(a)	**(321)**	(70)
Cash and cash equivalents at the start of the year (i)		**313**	383
Net cash and cash equivalents at the end of the year (i)	14	**(8)**	313

(i) Net of bank overdrafts of £8m (2010: £13m).

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

1. Segmental analysis

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

Electricity Transmission	High-voltage electricity transmission networks in the UK

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

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

(a) Revenue

	Total sales 2011 £m	Total sales 2010 £m
Operating segment		
Electricity Transmission	**2,548**	2,483
Other activities	**1**	1
	2,549	2,484

All sales are to third parties

Where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect the over-recovery, no liability is recognised. Similarly, no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. In the UK, there was an over-recovery of £9m as at 31 March 2011 (2010: £47m under-recovery balance).

(b) Operating profit/(loss)

	Before exceptional items		After exceptional items	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Operating segment - continuing operations				
Electricity Transmission	**912**	814	**828**	800
Other activities	**(8)**	(9)	**(8)**	(9)
	904	805	**820**	791

(c) Capital expenditure and depreciation

	Capital expenditure		Depreciation and amortisation	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Operating segment - continuing operations				
Electricity Transmission	**1,126**	1,022	**264**	240
By asset type				
Property, plant and equipment	**1,109**	1,014	**254**	225
Other non-current intangible assets	**17**	8	**10**	15
	1,126	1,022	**264**	240

2. Other operating income

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

3. Operating costs

	Before exceptional items		Exceptional items		Total	
	2011	2010	**2011**	2010	**2011**	2010
	£m	£m	**£m**	£m	**£m**	£m
Depreciation and amortisation	**264**	240	**-**	-	**264**	240
Payroll costs	**112**	97	**5**	5	**117**	102
Other operating charges:						
Rates	**100**	108	**-**	-	**100**	108
Balancing Service Incentive Scheme (BSIS)	**581**	691	**-**	-	**581**	691
Payments to Scottish transmission network owners	**347**	309	**-**	-	**347**	309
Other	**242**	234	**79**	9	**321**	243
	1,646	1,679	**84**	14	**1,730**	1,693
Operating costs include:						
Consumption of inventories					**4**	5
Research expenditure					**6**	6
Operating lease rentals					**7**	7

(a) Payroll costs

	2011	2010
	£m	£m
Wages and salaries	**133**	108
Social security costs	**12**	12
Other pension costs	**31**	16
Share-based payments (note 28)	**3**	3
Severance costs (excluding pension costs)	**2**	3
	181	142
Less: payroll costs capitalised	**(64)**	(40)
	117	102

3. Operating costs continued

(b) Number of employees, including Directors

	31 March 2011 Number	**Average 2011 Number**	Average 2010 Number
UK			
Continuing operations	**2,784**	**2,709**	2,515

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

(c) Key management compensation

	2011 £m	2010 £m
Salaries and short-term employee benefits	**2**	3
Post-employment benefits	**1**	1
Share-based payments	**2**	1
	5	5

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

(d) Directors' emoluments

The aggregate amount of emoluments paid to Directors in respect of qualifying services for 2011 was £1,107,792 (2010: £1,124,670).

None of the directors exercised share options during 2011 (2010: highest paid director and four other Directors all exercised share options).

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

As at 31 March, retirement benefits were accruing to five Directors under a defined benefit scheme (2010: five directors, under a defined benefit scheme).

The aggregate emoluments for the highest paid Director were £460,173 for 2011 (2010: £474,102); and total accrued annual pension at 31 March 2011 for the highest paid Director was £92,266 (2010: £82,522).

The aggregate amount of loss of office payments to Directors for 2011 was £1,224 (2010: £nil).

(e) Auditors' remuneration

	2011 £m	2010 £m
Audit services		
Audit fee of parent company and consolidated financial statements	**0.2**	0.2
Other services supplied pursuant to legislation		
Other services supplied	**0.1**	0.2

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

4. Exceptional items and remeasurements

	2011 £m	2010 £m
Included within operating profit:		
Exceptional items - restructuring costs (i)	**(15)**	(14)
Exceptional items - environmental charges (ii)	**(69)**	-
Total exceptional items included within operating profit	**(84)**	(14)
Included within finance costs:		
Exceptional items - debt redemption costs (iii)	**(11)**	-
Remeasurements - net gains on derivative financial instruments (iv)	**8**	10
Total exceptional items and remeasurements included within finance costs	**(3)**	10
Total exceptional items and remeasurements before taxation	**(87)**	(4)
Included within taxation:		
Exceptional credits arising on items not included in profit before tax:		
Deferred tax credit arising on the reduction in UK tax rate	**62**	-
Tax on exceptional items (i), (ii) and (iii)	**8**	4
Tax on remeasurements (iv)	**(3)**	(3)
Tax on exceptional items and remeasurements	**67**	1
Total exceptional items and remeasurements after taxation	**(20)**	(3)
Total exceptional items after taxation	**(25)**	(10)
Total remeasurements after taxation	**5**	7
Total exceptional items and remeasurements after taxation	**(20)**	(3)

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

(ii) Environmental charges relate to specific exposures.

(iii) 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 by National Grid.

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

(v) The exceptional deferred tax credit arises as a result of the reduction in the main rate of corporation tax from 28% to 26% and enacted under the Provisional Collection of Taxes Act 1968 and applicable from 1 April 2011. This results in a reduction in deferred tax liabilities.

5. Finance income and costs

	2011 £m	2010 £m
Interest income and similar income		
Expected return on pension plan assets	**103**	74
Interest income on financial instruments:		
Bank deposits and other financial assets	**2**	4
Interest income and similar income	**105**	78
Interest expense and other finance costs		
Interest on pension plan obligations	**(112)**	(103)
Interest expense on finance liabilities held at amortised cost:		
Bank loans and overdrafts	**(4)**	(21)
Other borrowings	**(278)**	(161)
Derivatives	**22**	1
Less: interest capitalised (i)	**94**	53
Interest expense and other finance costs before exceptional items and remeasurements	**(278)**	(231)
Exceptional items:		
Exceptional debt redemption costs	**(11)**	-
Remeasurements:		
Net gains/(losses) on derivative financial instruments included in remeasurements (ii):		
Ineffectiveness on derivatives designated as fair value hedges (iii)	**11**	27
Ineffectiveness on derivatives designated as cash flow hedges	**(2)**	(11)
On derivatives not designated as hedges or ineligible for hedge accounting	**(1)**	(6)
	8	10
Exceptional items and remeasurements included within interest expense	**(3)**	10
Interest expense and other finance costs	**(281)**	(221)
Net finance costs	**(176)**	(143)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 6.0% (2010: 3.6%).

(ii) Includes a net foreign exchange loss on financing activities of £4m (2010: £26m gain). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

(iii) Includes a net gain on instruments designated as fair value hedges of £21m (2010: £4m), offset by a net loss of £10m (2010: £23m gain) arising from the fair value adjustments to the carrying value of debt.

6. Taxation

Taxation on items charged to the income statement

	Before exceptional items and remeasurements		Exceptional items and remeasurements		Total	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Current tax						
Corporation tax at 28% (2010: 28%)	**131**	100	**(4)**	(1)	**127**	99
Corporation tax adjustment in respect of prior years	**12**	4	**-**	-	**12**	4
Total current tax	**143**	104	**(4)**	(1)	**139**	103
Deferred tax	**74**	84	**(1)**	-	**73**	84
Deferred tax impact from change in UK tax rate	**-**	-	**(62)**	-	**(62)**	-
Deferred tax adjustment in respect of prior years	**(11)**	(4)	**-**	-	**(11)**	(4)
Total deferred tax	**63**	80	**(63)**	-	**-**	80
Income tax expense	**206**	184	**(67)**	(1)	**139**	183

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

	2011 £m	2010 £m
Deferred tax charge on revaluation of cash flow hedges	**4**	4
Deferred tax charge/(credit) on actuarial gains/losses	**1**	(43)
Tax charge/(credit) recognised in statement of comprehensive income	**5**	(39)
Corporation tax credit on share-based payments recognised directly in equity	**(1)**	(1)
	4	(40)

The tax charge for the year after exceptional items and remeasurements is lower (2010: higher) than the standard rate of corporation tax in the UK of 28% (2010: 28%). The differences are explained below:

	Before exceptional items and remeasure-ments 2011 £m	**After exceptional items and remeasure-ments 2011 £m**	Before exceptional items and remeasure-ments 2010 £m	After exceptional items and remeasure-ments 2010 £m
Profit before taxation				
Before exceptional items and remeasurements	**731**	**731**	652	652
Exceptional items and remeasurements	**-**	**(87)**	-	(4)
Profit before taxation from continuing operations	**731**	**644**	652	648
Profit on continuing operations multiplied by the rate of corporation tax in the UK of 28% (2010: 28%)	**204**	**180**	183	182
Effects of:				
Adjustments in respect of previous years	**1**	**1**	-	-
Expenses not deductible for tax purposes	**1**	**20**	2	2
Impact of change in UK tax rate	**-**	**(62)**	-	-
Non-taxable income	**-**	**-**	(1)	(1)
Tax charge	**206**	**139**	184	183
	%	**%**	%	%
At the effective income tax rate	**28.2**	**21.6**	28.2	28.2

6. Taxation (continued)

Factors that may affect future tax charges

A number of changes to the UK Corporation Tax system were announced in the 2011 Budget Report and are expected to be enacted in the Finance Act 2011. However, the reduction in the 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 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 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.

7. Dividends

The following table shows the dividends paid to equity shareholders:

	2011 pence (per ordinary share)	**2011 £m**	2010 pence (per ordinary share)	2010 £m
Ordinary dividends				
Interim dividend for the year ended 31 March 2011	**34.30**	**150**	-	-
Interim dividend for the year ended 31 March 2010	**-**	**-**	34.30	150

8. Intangible assets

	Software £m
Non-current	
Cost at 1 April 2009	169
Additions	8
Reclassifications (i)	(3)
Cost at 31 March 2010	174
Additions	17
Cost at 31 March 2011	191
Amortisation at 1 April 2009	(120)
Amortisation charge for the year	(15)
Reclassifications (i)	4
Amortisation at 31 March 2010	(131)
Amortisation charge for the year	(10)
Amortisation at 31 March 2011	(141)
Net book value at 31 March 2011	**50**
Net book value at 31 March 2010	43

(i) Represents reclassification with property, plant and equipment.

9. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2009	185	7,176	1,468	92	8,921
Additions	14	58	941	1	1,014
Disposals	-	(19)	(1)	(3)	(23)
Reclassifications (i)	19	747	(772)	9	3
Cost at 31 March 2010	218	7,962	1,636	99	9,915
Additions	53	83	969	4	1,109
Disposals	(1)	(48)	-	(3)	(52)
Reclassifications (i)	57	808	(868)	3	-
Cost at 31 March 2011	327	8,805	1,737	103	10,972
Depreciation at 1 April 2009	(32)	(2,845)	-	(59)	(2,936)
Depreciation charge for the year	(4)	(212)	-	(9)	(225)
Disposals	-	16	-	3	19
Reclassifications (i)	(1)	9	-	(12)	(4)
Depreciation at 31 March 2010	(37)	(3,032)	-	(77)	(3,146)
Depreciation charge for the year	(6)	(240)	-	(8)	(254)
Disposals	1	40	-	3	44
Reclassifications (i)	(1)	1	-	-	-
Depreciation at 31 March 2011	(43)	(3,231)	-	(82)	(3,356)
Net book value at 31 March 2011	**284**	**5,574**	**1,737**	**21**	**7,616**
Net book value at 31 March 2010	181	4,930	1,636	22	6,769

(i) Represents reclassification between categories and with intangible assets.

The net book value of land and buildings comprised:

	2011 £m	2010 £m
Freehold	**227**	140
Long leasehold (over 50 years)	**3**	3
Short leasehold (under 50 years)	**54**	38
	284	181

The cost of property, plant and equipment at 31 March 2011 included £738m (2010: £644m) relating to interest capitalised.

Included within trade and other payables and other non-current liabilities at 31 March 2011 are contributions to the cost of property, plant and equipment amounting to £7m (2010: £7m) and £224m (2010: £220m) respectively.

10. Derivative financial instruments

For further information and a detailed description of our derivative financial instruments and hedge type designations, refer to note 26. 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	**32**	**(4)**	**28**	47	(4)	43
Cross-currency interest rate swaps	**64**	**-**	**64**	59	-	59
	96	**(4)**	**92**	106	(4)	102
Cash flow hedges						
Interest rate swaps	**6**	**(29)**	**(23)**	2	(57)	(55)
Cross-currency interest rate swaps	**21**	**-**	**21**	17	-	17
Foreign exchange forward contracts	**2**	**(1)**	**1**			
	29	**(30)**	**(1)**	19	(57)	(38)
Derivatives not in a formal hedge relationship						
Interest rate swaps	**51**	**(51)**	**-**	14	(24)	(10)
Cross-currency interest rate swaps	**2**	**-**	**2**	4	-	4
Forward rate agreements	**-**	**(1)**	**(1)**	-	(7)	(7)
	53	**(52)**	**1**	18	(31)	(13)
	178	**(86)**	**92**	143	(92)	51
Hedge positions offset within derivative instruments	**-**	**-**	**-**	8	(8)	-
Total	**178**	**(86)**	**92**	151	(100)	51

The maturity of derivative financial instruments is as follows:

	2011			2010		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Current	**20**	**(10)**	**10**	17	(11)	6
In 1 - 2 years	**-**	**(11)**	**(11)**	-	-	-
In 2 - 3 years	**34**	**(6)**	**28**	-	(16)	(16)
In 3 - 4 years	**-**	**-**	**-**	47	(7)	40
In 4 - 5 years	**53**	**-**	**53**	-	-	-
More than 5 years	**71**	**(59)**	**12**	87	(66)	21
Non-current	**158**	**(76)**	**82**	134	(89)	45
Total	**178**	**(86)**	**92**	151	(100)	51

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

	2011 £m	2010 £m
Interest rate swaps	**(4,041)**	(2,143)
Cross-currency interest rate swaps	**(702)**	(700)
Foreign exchange forward contracts	**(157)**	(3)
Forward rate agreements	**(1,250)**	(940)
Total	**(6,150)**	(3,786)

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

11. Inventories

	2011 £m	2010 £m
Raw materials and consumables	**28**	33

The above table includes a £15m provision for obsolescence against raw materials and consumables at 31 March 2011 (2010: £12m).

12. Trade and other receivables

	2011 £m	2010 £m
Trade receivables	**16**	13
Amounts owed by fellow subsidiaries	**29**	17
Prepayments and accrued income	**156**	128
Other receivables	**3**	3
	204	161

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

Provision for impairment of receivables

	£m
At 31 March 2010 and 31 March 2011	**1**

As at 31 March 2011, trade receivables of £2m (2010: £nil) were past due but not impaired.

For further information about our wholesale credit risk, refer to note 27c).

13. Financial investments

	2011 £m	2010 £m
Current		
Loans and receivables - amounts due from fellow subsidiaries	**4**	3
Available-for-sale investments	**-**	64
Total financial and other investments	**4**	67

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

14. Cash and cash equivalents

	2011 £m	2010 £m
Short-term deposits	**-**	326
Cash and cash equivalents excluding bank overdrafts	**-**	326
Bank overdrafts	**(8)**	(13)
Net cash and cash equivalents	**(8)**	313

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

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

15. Borrowings

	2011 £m	2010 £m
Current		
Bank overdrafts	**8**	13
Bank loans	**8**	5
Bonds	**42**	300
Borrowings from fellow subsidiaries	**205**	16
	263	334
Non-current		
Bank loans	**400**	400
Bonds	**4,003**	3,932
	4,403	4,332
Total borrowings	**4,666**	4,666

Total borrowings are repayable as follows:	2011 £m	2010 £m
Less than 1 year	**263**	334
In 1 - 2 years	**200**	-
In 2 - 3 years	**538**	200
In 3 - 4 years	**-**	552
In 4 - 5 years	**164**	-
More than 5 years	**3,501**	3,580
	4,666	4,666

The fair value of borrowings at 31 March 2011 was £4,998m (2010: £5,068m). Market values, where available, have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

The notional amount outstanding of the debt portfolio as at 31 March 2011 was £4,564m (2010: £4,577m).

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 £8m (2010: £5m) in respect of cash received under collateral agreements.

As at 31 March 2011, the Company had committed credit facilities of £715m (2010: £425m) of which £715m was undrawn (2010: £425m undrawn). These undrawn facilities expire within three to four years.
All of the unused facilities at 31 March 2011 and at 31 March 2010 were held as back- to commercial paper and similar borrowings.
None of the Company's borrowings are secured by charges over assets of the Company.

16. Trade and other payables

	2011 £m	2010 £m
Trade payables	**468**	362
Amounts owed to fellow subsidiaries	**101**	99
Deferred income	**85**	77
Social security and other taxes	**43**	39
Other payables	**32**	27
	729	604

Due to their short maturities, the fair value of trade and other payables (excluding deferred income) approximates to their book value. All trade and other payables are recorded at amortised cost.

17. Other non-current liabilities

	2011 £m	2010 £m
Deferred income	**241**	234
Other payables	**10**	12
	251	246

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

18. Deferred tax assets and liabilities

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

	Accelerated tax depreciation £m	Share-based payments £m	Pensions £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2009	-	(5)	(113)	(17)	(8)	(143)
Deferred tax liabilities at 31 March 2009	858	-	-	-	-	858
At 1 April 2009	858	(5)	(113)	(17)	(8)	715
Charged to income statement	57	1	19	-	3	80
(Credited)/charged to equity	-	-	(44)	4	1	(39)
At 31 March 2010	915	(4)	(138)	(13)	(4)	756
Deferred tax assets at 31 March 2010	-	(4)	(138)	(13)	(4)	(159)
Deferred tax liabilities at 31 March 2010	915	-	-	-	-	915
At 1 April 2010	915	(4)	(138)	(13)	(4)	756
(Credited)/charged to income statement	(12)	(2)	16	-	(2)	-
Charged to equity	-	-	1	4	-	5
At 31 March 2011	**903**	**(6)**	**(121)**	**(9)**	**(6)**	**761**
Deferred tax assets at 31 March 2011	-	(6)	(121)	(9)	(6)	(142)
Deferred tax liabilities at 31 March 2011	903	-	-	-	-	903
	903	**(6)**	**(121)**	**(9)**	**(6)**	**761**

Deferred tax assets are all offset against deferred tax liabilities.

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

19. Pensions

Substantially all of National Grid Electricity Transmission employees are members of the National Grid section of the Electricity Supply Pension (ESP) Scheme which is a defined benefit pension scheme or of the defined contribution section of the National Grid UK pension scheme. The fair value of plan assets and present value of defined benefit obligations in respect of the ESP scheme are updated annually. For further details of the nature and terms of this scheme and the actuarial assumptions used to value the associated assets and pension obligations, refer to note 25.

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

	2011 £m	2010 £m
Included within payroll costs		
Defined contribution scheme costs	**3**	2
Defined benefit scheme costs:		
Current service cost	**27**	13
Contributions from other employers	**(3)**	(2)
Curtailment gains on redundancies	**(1)**	(1)
Cost of contractual termination on redundancies	**3**	3
Other augmentation	**2**	1
	31	16
Included within finance income and costs		
Interest cost	**112**	103
Expected return on plan assets	**(103)**	(74)
	9	29
Included within other comprehensive income		
Actuarial loss during the year	**(8)**	(153)
Cumulative actuarial loss	**(192)**	(185)

Amounts recognised in the balance sheet

	2011 £m	2010 £m
Present value of funded obligations	**(2,041)**	(2,004)
Fair value of plan assets	**1,598**	1,531
	(443)	(473)
Present value of unfunded obligations	**(24)**	(20)
Net liability	**(467)**	(493)
Changes in the present value of the defined benefit obligations (including unfunded obligations)		
Opening defined benefit obligations	**(2,024)**	(1,553)
Current service cost	**(27)**	(13)
Interest cost	**(112)**	(103)
Actuarial gains/(losses)	**9**	(432)
Net increase in liabilities from redundancies	**(2)**	(3)
Employee contributions	**(2)**	(4)
Benefits paid	**90**	88
Net transfers	**1**	(3)
Other augmentations	**2**	(1)
Closing defined benefit obligation	**(2,065)**	(2,024)
Changes in the fair value of plan assets		
Opening fair value of plan assets	**1,531**	1,145
Expected return on plan assets	**103**	74
Actuarial (losses)/gains	**(17)**	279
Employer contributions	**70**	114
Employee contributions	**2**	4
Benefits paid	**(90)**	(88)
Net transfers	**(1)**	3
Closing fair value of plan assets	**1,598**	1,531
Actual return on plan assets	**86**	353
Expected contributions to defined benefit plans in the following year	**25**	22

20. Provisions

	Environmental £m	Other £m	Total provisions £m
At 1 April 2009	2	16	18
Additions	-	7	7
Utilised	(1)	(4)	(5)
At 31 March 2010	1	19	20
Additions	73	10	83
Utilised	(1)	(5)	(6)
Unused amounts reversed	-	(1)	(1)
At 31 March 2011	**73**	**23**	**96**

	2011 £m	2010 £m
Current	**13**	10
Non-current	**83**	10
	96	20

Environmental provision

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

Other provisions

Other provisions include employer liability claims of £7m (2010: £7m). In accordance with insurance industry practice, these estimates are based on experience from previous years and there is therefore no identifiable payment date.

21. Share capital

	millions	£m
At 31 March 2010 and 2011 - ordinary shares of 10p each		
Allotted, called up and fully paid	437	44
Authorised	2,751	275

22. Consolidated cash flow statement

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

	2011 £m	2010 £m
Decrease in cash and cash equivalents	**(321)**	(70)
Decrease in financial investments	**(63)**	(293)
Decrease/(increase) in borrowings and derivatives	**104**	(14)
Net interest paid on the components of net debt	**179**	184
Change in net debt resulting from cash flows	**(101)**	(193)
Changes in fair value of financial assets and liabilities	**22**	24
Net interest charge on the components of net debt	**(269)**	(177)
Movement in net debt (net of related derivative financial instruments) in the year	**(348)**	(346)
Net debt (net of related derivative financial instruments) at start of year	**(4,222)**	(3,876)
Net debt (net of related derivative financial instruments) at end of year	**(4,570)**	(4,222)

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	**Net cash and cash equivalents £m**	Financial investments £m	Borrowings £m	Derivatives £m	**Total £m**
At 1 April 2009	387	(4)	**383**	360	(4,708)	89	**(3,876)**
Cash flow	(61)	(9)	**(70)**	(297)	196	(22)	**(193)**
Fair value gains and losses	-	-	**-**	-	41	(17)	**24**
Interest charges	-	-	**-**	4	(182)	1	**(177)**
At 31 March 2010	326	(13)	**313**	67	(4,653)	51	**(4,222)**
Cash flow	(326)	5	**(321)**	(65)	303	(18)	**(101)**
Fair value gains and losses	-	-	**-**	-	(15)	37	**22**
Interest charges	-	-	**-**	2	(293)	22	**(269)**
At 31 March 2011	-	(8)	**(8)**	4	(4,658)	92	**(4,570)**
Balances at 31 March 2011:							
Non-current assets	-	-	**-**	-	-	158	**158**
Current assets	-	-	**-**	4	-	20	**24**
Current liabilities	-	(8)	**(8)**	-	(255)	(10)	**(273)**
Non-current liabilities	-	-	**-**	-	(4,403)	(76)	**(4,479)**
At 31 March 2011	-	(8)	**(8)**	4	(4,658)	92	**(4,570)**

Notes to the consolidated financial statements - supplementary information

23. Commitments and contingencies

(a) Future capital expenditure

	2011 £m	2010 £m
Contracted for but not provided	**968**	921

(b) Operating lease commitments

	2011 £m	2010 £m
Amounts due:		
Less than 1 year	**11**	10
In 1 - 2 years	**7**	7
In 2 - 3 years	**5**	5
In 3 - 4 years	**5**	5
In 4 - 5 years	**5**	5
More than 5 years	**25**	31
	58	63

(c) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £4m (2010: £5m).

(d) Other commitments, contingencies and guarantees

Guarantees in respect of a former associate amounting to £14m (2010: £14m). These are open ended.

Guarantees in the normal course of business and entered into on normal commercial terms amounted to £11m (2010: £12m). These guarantees have various expiry dates.

24. Related party transactions

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

	Parent		Other related parties		Total	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Income:						
Goods and services supplied	**-**	-	**28**	21	**28**	21
Interest received on advances to fellow subsidiaries	**2**	-	**2**	3	**4**	3
	2	-	**30**	24	**32**	24
Expenditure:						
Services received	**-**	-	**(1)**	(33)	**(1)**	(33)
Corporate services received	**-**	-	**(9)**	(9)	**(9)**	(9)
Interest paid on borrowings from fellow subsidiaries	**-**	-	**(1)**	(1)	**(1)**	(1)
	-	-	**(11)**	(43)	**(11)**	(43)
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:						
Amounts receivable	**-**	-	**29**	17	**29**	17
Amounts payable	**-**	-	**(101)**	(99)	**(101)**	(99)
Advances to fellow subsidiaries (amounts due within one year):						
At 1 April	**1**	-	**2**	21	**3**	21
Advances	**1**	1	**-**	-	**1**	1
Repayments	**-**	-	**-**	(19)	**-**	(19)
At 31 March	**2**	1	**2**	2	**4**	3
Borrowings payable to fellow subsidiaries (amounts due within one year):						
At 1 April	**(5)**	-	**(11)**	(11)	**(16)**	(11)
Advances	**(5)**	(6)	**(194)**	-	**(199)**	(6)
Repayments	**-**	1	**10**	-	**10**	1
At 31 March	**(10)**	(5)	**(195)**	(11)	**(205)**	(16)

Amounts receivable from or payable to related parties in respect of income and expenditure are ordinarily settled one month in arrears. Advances to and borrowings from fellow subsidiaries are repayable on demand and bear interest at commercial rates.

No amounts have been provided at 31 March 2011 (2010: £nil) and no expense recognised during the year (2010: £nil) in respect of bad or doubtful debts for related party transactions.

Details of key management compensation are provided in note 3c and information relating to pension fund arrangements is disclosed in notes 19 and 25.

25. Actuarial information on pensions

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

The scheme is funded with assets held in a separate trustee administered fund. It is subject to independent actuarial valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers contribution, which together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme. The latest full actuarial valuation carried out as at 31 March 2010 and the results are shown below:

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

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

Following the 2010 actuarial valuation, National Grid and the Trustees agreed a recovery plan which will see the deficit paid off by March 2027. Under the Schedule of Contributions a payment of £45m was made in 2010/11, a further payment of £45m will be made in 2011/12 and another of £38m in 2012/13. Thereafter, an annual payment of £38m will be made, rising in line with Retail Price Index.

Following this agreement, the Company has established a secured bank account with a charge in favour of the Trustees of National Grid's Electricity section of the Scheme. The forecast balance of the bank account at the end of 2011/12 is £3.5m. The funds in the bank account will be paid to National Grid's Electricity section of the Scheme in the event that: NGET is subject to an insolvency event, or if NGET ceases to hold a licence granted under the Electricity Act 1989.

National Grid has also agreed to bring forward a payment of £220m should certain triggers are breached. The principal triggers under which payment would be made are: namely if NGET ceases to hold a 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.

Asset allocations

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

	2011	2010
	%	%
Equities	**41.9**	54.8
Gilts	**28.6**	26.1
Corporate bonds	**11.7**	13.5
Hedge Funds	**7.3**	-
Property	**4.0**	3.9
Cash (awaiting investment)	**2.8**	-
Other	**3.7**	1.7
Total	**100.0**	100.0

The current target asset allocation is 49% equities and 51% for bonds, property and other.

Actuarial assumptions

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

The principal actuarial assumptions used were:

	2011	2010
	%	%
Discount rate (i)	**5.5**	5.6
Expected return on plan assets	**6.7**	6.9
Rate of increase in salaries (ii)	**4.5**	4.8
Rate of increase in pensions in payment and deferment	**3.3**	3.5
Rate of increase in Retail Prices Index (iii)	**3.5**	3.8

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

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

(iii) In September 2010 the UK Government changed the basis for statutory pension increases from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). The Scheme rules of the pension scheme specifically reference RPI. As a consequence the impact of the Government's move to CPI was limited to National Grid Electricity Transmission plc's Guaranteed Minimum Pensions. The financial consequence of the change as at 31 March 2011 was an approximate £5m reduction in present value of the defined benefit obligation.

25. Actuarial information on pensions continued

Actuarial assumptions continued

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

	2011 years	2010 years
Today:		
Males	**24.4**	22.4
Females	**24.8**	23.8
In 20 years:		
Males	**27.3**	24.8
Females	**28.1**	26.6

Sensitivities to actuarial assumptions

	Change in pension obligation		Change in annual pension cost	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Sensitivities (all other assumptions held constant):				
0.1% change in discount rate	**31**	31	**1**	1
0.5% change in long-term rate of increase in salaries	**30**	38	**1**	2
Increase of one year in life expectations at age 60	**55**	57	**1**	1

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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of funded and unfunded obligations	**(2,065)**	(2,024)	(1,553)	(1,730)	(1,824)
Fair value of plan assets	**1,598**	1,531	1,145	1,321	1,336
	(467)	(493)	(408)	(409)	(488)
Difference between expected and actual return on plan assets	**(17)**	279	(301)	(77)	(25)
Experience (losses)/gains on plan liabilities	**(1)**	45	(19)	(30)	(4)
Actuarial gains/(losses) on plan liabilities	**9**	(432)	224	128	(67)

26. Supplementary information on derivative financial instruments

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

Treasury financial instruments

Derivatives are used for hedging purposes in the management of exposure to market risks. This enables the optimisation of the overall cost of accessing debt capital markets, and 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 27. Derivatives held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges. These are described as follows:

Fair value hedges

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

Cash flow hedges

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

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

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

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

Derivatives not in a formal hedge relationship

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

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

27. Financial risk

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

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Boards of Directors of National Grid plc and the Company. This department identifies, evaluates and hedges financial risks in close co-operation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity as discussed further in our treasury policy, described on pages 15 to 18 of the Operating and Financial Review.

27. Financial risk continued

(a) Market risk

(i) Foreign exchange risk

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

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

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

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

	2010			
	Sterling £m	Euro £m	Other £m	Total £m
Cash and cash equivalents	326	-	-	326
Financial investments	67	-	-	67
Borrowings (i)	(3,866)	(650)	(150)	(4,666)
Pre-derivative position	(3,473)	(650)	(150)	(4,273)
Derivative effect	(742)	643	150	51
Net debt position	(4,215)	(7)	-	(4,222)

(i) Includes bank overdrafts

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

27. Financial risk continued

(a) Market risk continued

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from our borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk. Borrowings issued at fixed rates expose us to fair value interest rate risk. The interest rate risk management policy as further explained on page 17 is to minimise the finance costs (being interest costs and changes in the market value of debt), subject to certain constraints. Some of the borrowings issued are index-linked, that is their cost is linked to changes in the UK Retail Prices Index (RPI). We believe that these borrowings provide a hedge for revenues and regulatory asset values that are also RPI-linked.

Interest rate risk arising from financial investments is primarily variable.

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	**29**	287
In 1 - 2 years	**-**	-
In 2 - 3 years	**538**	-
In 3 - 4 years	**-**	552
In 4 - 5 years	**164**	-
More than 5 years	**1,176**	1,350
	1,907	2,189
Floating interest rate borrowings (including RPI linked)	**2,754**	2,476
Non-interest bearing borrowings	**5**	1
Total borrowings	**4,666**	4,666

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

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

	2010				
	Fixed rate £m	Floating rate £m	RPI(i) £m	Other(ii) £m	Total £m
Cash and cash equivalents	326	-	-	-	326
Financial investments	-	67	-	-	67
Borrowings (iv)	(2,189)	(435)	(2,041)	(1)	(4,666)
Pre-derivative position	(1,863)	(368)	(2,041)	(1)	(4,273)
Derivative effect	(115)	79	87	-	51
Net debt position	(1,978)	(289)	(1,954)	(1)	(4,222)

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

(ii) Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.

(iii) The post derivative impact includes short dated derivative contracts maturing within 12 months of the balance sheet date.

(iv) Includes bank overdrafts.

27. Financial risk continued

(b) Fair value disclosures

The following is an analysis of our financial instruments measured at fair value. They are reported in a tiered hierarchy based on the valuation methodology described on page 18, and reflecting the significance of market observable inputs. The best evidence of fair value is a quoted price in an actively traded market. In the event the market for a financial instrument is not active, a valuation technique is used.

	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	**-**	**-**	**-**	**-**	64	-	-	64
Derivative financial instruments	**-**	**125**	**53**	**178**	-	117	34	151
	-	**125**	**53**	**178**	64	117	34	215
Liabilities								
Derivative financial instruments	**-**	**(86)**	**-**	**(86)**	-	(100)	-	(100)
Total	**-**	**39**	**53**	**92**	64	17	34	115

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

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

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

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

The financial instruments classified as level 3 are cross-currency swaps with an embedded call option. 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	34	11
Net gains for the year (i)	21	26
Settlements	(2)	(3)
At 31 March	53	34

(i) Gains of £21m (2010:£26m) 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.

27. Financial risk continued

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

Treasury related credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. The Company's limits are managed by the central treasury department of National Grid, as explained in our treasury policies on page 16 to 18.

As at 31 March 2011 and 2010, we had a number of exposures to individual counterparties. In accordance with our treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. The Company does not expect any significant losses from non-performance by these counterparties.

The counterparty exposure under derivative financial contracts as shown in note 10 was £178m (2010: £151m); after netting agreements it was £163m (2010: £144m).

Wholesale and retail credit risk

Our principal commercial exposure is governed by the credit rules within the regulated Connection and Use of System Code. This lays down the level of credit relative to the regulatory asset value for each credit rating. We have no retail credit risk. Management does not expect any significant losses of receivables that have not been provided for as shown in note 12.

(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	**Due within 1 year**	**Due between 1 and 2 years**	**Due between 2 and 3 years**	**Due 3 years and beyond**	**Total**
Non-derivative financial liabilities					
Borrowings	**(218)**	**(200)**	**(530)**	**(3,616)**	**(4,564)**
Interest payments on borrowings (i)	**(172)**	**(176)**	**(173)**	**(2,812)**	**(3,333)**
Other non-interest bearing liabilities	**(500)**	**(10)**	**-**	**-**	**(510)**
Derivative financial liabilities					
Derivative contracts - receipts	**54**	**51**	**23**	**214**	**342**
Derivative contracts - payments	**(27)**	**(19)**	**(27)**	**(180)**	**(253)**
Total at 31 March 2011	**(863)**	**(354)**	**(707)**	**(6,394)**	**(8,318)**

At 31 March 2010	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due 3 years and beyond	Total
Non-derivative financial liabilities					
Borrowings	(282)	-	(200)	(4,095)	(4,577)
Interest payments on borrowings (i)	(178)	(176)	(182)	(3,049)	(3,585)
Other non-interest bearing liabilities	(389)	(12)	-	-	(401)
Derivative financial liabilities					
Derivative contracts - receipts	76	27	27	159	289
Derivative contracts - payments	(35)	(29)	(17)	(185)	(266)
Total at 31 March 2010	(808)	(190)	(372)	(7,170)	(8,540)

(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.

27. Financial risk continued

(e) Sensitivity analysis

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

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

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant, and on the basis of the hedge designations in place at 31 March 2011 and 31 March 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, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- changes in the carrying value of derivatives from movements in interest rates designated as cash flow hedges are assumed to be recorded fully within equity;
- changes in the carrying value of derivative financial instruments not in hedging relationships only affect the income statement;
- all other changes in the carrying value of derivative financial instruments designated as hedges are fully effective with no impact on the income statement;
- debt with a maturity below one year is floating rate for the accrued interest part of the calculation;
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 period for the accrued interest portion of the sensitivity calculations; and
- sensitivity to the Retail Prices Index does not take into account any changes to revenue or operating costs that are affected by the Retail Prices Index or inflation generally.

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

	2011		2010	
	Income statement -/+ £m	**Other Equity Reserves -/+ £m**	Income statement -/+ £m	Other Equity Reserves -/+ £m
UK Retail Prices Index +/- 0.50%	**7**	**-**	7	-
UK interest rates +/- 0.50%	**5**	**14**	3	19

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

(f) Capital and risk management

Our objective when managing capital is to safeguard our ability to continue as a going concern and to remain within regulatory constraints. The principal measure of balance sheet efficiency is gearing calculated as net debt expressed as a percentage of regulatory asset value. The gearing ratio at 31 March 2011 was 54% compared to 56% at 31 March 2010. We regularly review and maintain or adjust the capital structure as appropriate in order to manage the level of gearing.

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

28. Share options and reward plans

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

On 14 June 2010, National Grid completed a rights issue. The number of shares allocated to employees under share plans has been adjusted to reflect the bonus element of the rights issue. The terms of National Grid'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 exerciseable on completion of a three and/or five year Save As You Earn contract.

PSP - awards delivered in National Grid shares are made to Executive Directors of National Grid and senior employees. The criteria are based on National Grid's total shareholder return (50%) when compared to FTSE 100 and annualised growth of the National Grid's EPS (50%) when compared to growth in RPI.

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

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

	2011 millions	2010 millions
Awards of ordinary shares at 1 April	0.7	0.9
Impacts of rights issue	0.1	-
Awards made	0.4	0.3
Lapses/forfeits	(0.1)	(0.1)
Transfers (i)	0.1	-
Awards vested	-	(0.4)
Awards of ordinary shares at 31 March	1.2	0.7
Conditional awards available for release at 31 March	0.1	-

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

Non-active share plans

We also have historical plans where awards are still outstanding, but no further awards will be granted. These include the Executive Share Option Plan for which details of movement are provided below.

Share options - Sharesave scheme and Executive Share Option Plan

	Sharesave scheme options		Executive Plan options		Total options
	Weighted average price £	millions	Weighted average price £	millions	millions
At 1 April 2009	4.51	6.9	5.00	0.3	7.2
Granted	5.20	1.1	-	-	1.1
Lapsed - expired	5.33	(0.2)	4.68	-	(0.2)
Exercised	3.50	(1.9)	4.98	(0.1)	(2.0)
Transfers (i)	-	-	-	-	-
At 31 March 2010	4.94	5.9	5.03	0.2	6.1
Impacts of rights issue	-	0.8	-	-	0.8
Granted	4.45	1.0	-	-	1.0
Lapsed - expired	4.58	(0.3)	5.26	(0.1)	(0.4)
Exercised	4.33	(1.1)	-	-	(1.1)
At 31 March 2011	**4.42**	**6.3**	**4.07**	**0.1**	**6.4**
Excercisable					
At 31 March 2011	**4.71**	**0.2**	**4.07**	**0.1**	**0.3**
At 31 March 2010	4.58	0.3	4.65	0.1	0.4
Weighted average share price at exercise date					
Year ended 31 March 2011	**5.53**	**1.1**	**-**	**-**	**1.1**
Year ended 31 March 2010	5.74	1.9	6.03	0.1	2.0

28. Share options and reward plans continued

Share options continued

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2011 was 2 years and 6 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 £31m and £1m respectively.

Awards under share option plans and reward plans

	2011	2010
Share options		
Average share price at date of grant	**564.5p**	676.0p
Average exercise price	**445.0p**	520.0p
Average fair value	**116.6p**	161.1p
Other share plans		
Average share price at date of grant	**493.3p**	598.2p
Average fair value	**327.8p**	355.6p

Fair value calculation assumptions

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

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

Volatility was derived based on the following, and is assumed to revert from its current implied level to its long-run mean based on historical volatility under (ii) below:
(i) implied volatility in traded options over National Grid plc's shares;
(ii) historical volatility of National Grid plc's shares over a term commensurate with the expected life of each option; and
(iii) implied volatility of comparator companies where options in their shares are traded.

Additional information in respect of share option

	2011	2010
Share options exercised		
Cash received on exercise of all share options during the year	**5**	7
Tax benefits realised from share options exercised during the year	**1**	3

29. Ultimate parent company

National Grid Electricity Transmission plc's immediate parent company is National Grid Holdings Limited. The ultimate parent company, and controlling party, is National Grid plc. Both companies are incorporated in Great Britain and are registered in England and Wales. National Grid plc consolidates the accounts of National Grid Electricity Transmission plc. Copies of the consolidated accounts of National Grid plc may be obtained from the Company Secretary, 1-3 Strand, London WC2N 5EH.

30. Subsidiary undertakings

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

Company accounting policies

for the year ended 31 March 2011

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. The Company has taken the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash Flow Statements'.

In accordance with exemptions under FRS 8 'Related party disclosures', the Company has not disclosed transactions with related parties, as the Company is a wholly owned subsidiary of National Grid plc whose consolidated financial statements are publicly available and all related party transactions are with companies which are wholly owned by National Grid plc.

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

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

B. Foreign currencies

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

C. Tangible fixed assets

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

Tangible fixed assets include assets in which the Company's interest comprises legally protected statutory or contractual rights of use.

Additions represent the purchase or construction of new assets, extensions to, or significant increases in, the capacity of tangible fixed assets.

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

Depreciation is not provided on freehold land or assets in the course of construction. Other tangible fixed assets are depreciated on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives.

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

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

D. Fixed asset investments

Investments held as fixed assets are stated at cost less any provisions for impairment.

E. Impairment of fixed assets

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

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

F. Taxation

Current tax for the current and prior periods is provided at the amount expected to be paid (or recovered) using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Current tax assets and liabilities arising from transfer pricing adjustments, which are expected to be fully recovered through group relief, are initially estimated and recognised in the current year where material. Further adjustments are recognised when tax returns are submitted to the tax authorities.

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.

G. Stocks

Stocks are stated at cost less provision for deterioration and obsolescence.

H. Environmental costs

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

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

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

I. Revenue

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

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

Income arising from the sale of properties as a result of our property management activities is reported as other operating income.

J. Pensions

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

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

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

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

K. Leases

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

L. Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs.

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

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 new 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, UK Retail Price Index (RPI) linked debt and overdrafts, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the

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

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

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

The fair values on financial instruments measured at fair value that are quoted in active markets are based on bid 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.

M. Hedge accounting

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

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

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

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

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

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

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

N. Share-based payments

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

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

O. Restructuring costs

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

P. Dividends

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

Company balance sheet

At 31 March 2011

	Notes	2011 £m	2010 £m
Fixed assets			
Tangible assets	4	**7,666**	6,812
Investments		**1**	1
		7,667	6,813
Current assets			
Stocks	5	**28**	33
Debtors (amounts falling due within one year)	6	**204**	161
Derivative financial instruments (amounts falling due within one year)	7	**20**	17
Derivative financial instruments (amounts falling due after more than one year)	7	**158**	134
Current asset investments	8	**4**	66
Cash at bank and in hand		**-**	326
		414	737
Creditors (amounts falling due within one year)			
Borrowings	11	**(263)**	(335)
Derivative financial instruments	7	**(10)**	(11)
Other creditors		**(734)**	(608)
	9	**(1,007)**	(954)
Net current liabilities		**(593)**	(217)
Total assets less current liabilities		**7,074**	6,596
Creditors (amounts falling due after more than one year)			
Borrowings	11	**(4,403)**	(4,331)
Derivative financial instruments	7	**(76)**	(89)
Other creditors		**(251)**	(246)
	10	**(4,730)**	(4,666)
Provisions for liabilities and charges	12	**(957)**	(890)
Net assets before pension liability		**1,387**	1,040
Net pension liability	13	**(334)**	(336)
Net assets		**1,053**	704
Capital and reserves			
Called up share capital	14	**44**	44
Cash flow hedge reserve	15	**(26)**	(35)
Profit and loss account	15	**1,035**	695
Total shareholders' funds		**1,053**	704

Commitments and contingencies are shown in note 16 to the Company financial statements.

The notes on pages 68 to 73 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 20 July 2011 and were signed on its behalf by:

Paul Whittaker **Director**

Stuart Humphreys **Director**

Notes to the Company financial statements

1. Auditors' remuneration

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

	2011 £m	2010 £m
Audit services		
Audit fee of parent company and consolidated financial statements	**0.2**	0.2
Other services		
Other services supplied pursuant to legislation	**0.1**	0.2

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

2. Number of employees, including Directors

	2011 Average number	2010 Average number
United Kingdom	**2,709**	2,515

3. Directors' emoluments

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

4. Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2010	218	7,962	1,636	273	10,089
Additions	53	83	969	21	1,126
Disposals	(1)	(48)	-	(3)	(52)
Reclassifications	57	808	(868)	3	-
Cost at 31 March 2011	327	8,805	1,737	294	11,163
Depreciation at 1 April 2010	(37)	(3,032)	-	(208)	(3,277)
Depreciation charge for the year	(6)	(240)	-	(18)	(264)
Disposals	1	40	-	3	44
Reclassifications	(1)	1	-	-	-
Depreciation at 31 March 2011	(43)	(3,231)	-	(223)	(3,497)
Net book value at 31 March 2011	**284**	**5,574**	**1,737**	**71**	**7,666**
Net book value at 31 March 2010	181	4,930	1,636	65	6,812

The net book value of land and buildings comprised:

	2011 £m	2010 £m
Freehold	**227**	140
Long leasehold (over 50 years)	**3**	3
Short leasehold (under 50 years)	**54**	38
	284	181

The cost of tangible fixed assets at 31 March 2011 included £738m (2010: £644m) relating to interest capitalised.

Included within creditors (amounts falling due within one year) and creditors (amounts falling due after more than one year) are contributions to the cost of tangible fixed assets amounting to £7m (2010: £7m) and £224m (2010: £220m) respectively.

5. Stocks

	2011 £m	2010 £m
Raw materials and consumables	**28**	33

6. Debtors

	2011 £m	2010 £m
Amounts falling due within one year:		
Trade debtors	**16**	13
Amounts owed by fellow subsidiary undertakings	**29**	17
Prepayments and accrued income	**156**	128
Other debtors	**3**	3
	204	161

7. Derivative financial instruments

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

	2011			2010		
	Assets	Liabilities	Total	Assets	Liabilities	Total
Amounts falling due in one year	**20**	**(10)**	**10**	17	(11)	6
Amounts falling due after more than one year	**158**	**(76)**	**82**	134	(89)	45
	178	**(86)**	**92**	151	(100)	51

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

	2011 £m	2010 £m
Interest rate swaps	**(4,041)**	(2,143)
Cross-currency interest rate swaps	**(702)**	(700)
Foreign exchange forward currency	**(157)**	(3)
Forward rate agreements	**(1,250)**	(940)
	(6,150)	(3,786)

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

8. Current asset investments

	2011 £m	2010 £m
Advances to fellow subsidiary undertakings	**4**	3
Available-for-sale investments	**-**	63
	4	66

9. Creditors (amounts falling due within one year)

	2011 £m	2010 * £m
Borrowings (note 11)	**263**	335
Derivative financial instruments (note 7)	**10**	11
Trade creditors	**358**	233
Accruals and deferred income	**200**	215
Amounts owed to fellow subsidiary undertakings	**106**	103
Social security and other taxes	**43**	39
Other creditors	**27**	18
	1,007	954

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

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

	2011 £m	2010 £m
Borrowings (note 11)	**4,403**	4,331
Deferred income	**241**	234
Derivative financial instruments (note 7)	**76**	89
Other creditors	**10**	12
	4,730	4,666

Deferred income mainly comprises contributions to capital projects.

11. Borrowings

The following table analyses the company's total borrowings:

	2011 £m	2010 £m
Amounts falling due within one year		
Bank overdrafts	**8**	13
Bank loans	**8**	5
Bonds	**42**	300
Borrowings from fellow subsidiary undertakings	**205**	17
	263	335
Amounts falling due after more than one year		
Bank loans	**400**	400
Bonds	**4,003**	3,931
	4,403	4,331
Total borrowings	**4,666**	4,666

	2011 £m	2010 £m
Total borrowings are repayable as follows:		
Less than 1 year	**263**	335
In 1 - 2 years	**200**	-
In 2 - 3 years	**538**	200
In 3 - 4 years	**-**	552
In 4 - 5 years	**164**	-
More than 5 years	**3,501**	3,579
	4,666	4,666

The notional amount outstanding of the Company's debt portfolio at 31 March 2011 was £4,564m (2010: £4,577m).

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

12. Provisions for liabilities and charges

	Deferred taxation £m	Environ-mental £m	Other £m	Total £m
At 1 April 2010	869	1	20	890
Charged to profit and loss account	(13)	73	8	68
Transferred to reserves	5	-	-	5
Utilised	-	(1)	(5)	(6)
At 31 March 2011	**861**	**73**	**23**	**957**

Details of the environmental provision and other provisions are shown in note 20 to the consolidated financial statements.

Deferred taxation

Deferred taxation provided in the financial statements comprises:

	2011 £m	2010 £m
Accelerated capital allowances	**876**	886
Other timing differences, excluding pensions liability	**(15)**	(17)
Included within provisions for liabilities and charges	**861**	869
Pensions liability	**(117)**	(130)
	744	739

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

13. Pensions

Substantially all of the Company's employees are members of the National Grid section of the Electricity Supply Pension Scheme. Further details of the scheme and the actuarial assumptions used to value the associated assets and pension obligations are provided in notes 19 and 25 to the consolidated financial statements.

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

	2011 £m	2010 £m
Present value of funded obligations	**(2,025)**	(1,977)
Fair value of plan assets	**1,598**	1,531
	(427)	(446)
Present value of unfunded obligations	**(24)**	(20)
Net liability in the balance sheet	**(451)**	(466)
Related deferred tax asset	**117**	130
Net pension liability	**(334)**	(336)

Changes in the present value of the defined benefit obligations (including unfunded obligations)		
Opening defined benefit obligation	**1,997**	1,534
Current service cost	**27**	14
Interest cost	**111**	103
Actuarial losses	**1**	424
Net increase in liabilities from redundancies	**2**	3
Employee contributions	**2**	4
Benefits paid	**(90)**	(88)
Net transfers	**(1)**	2
Other augmentations	**-**	1
Closing defined benefit obligation	**2,049**	1,997

Changes in the fair value of plan assets		
Opening fair value of plan assets	**1,531**	1,145
Expected return on plan assets	**103**	75
Actuarial (gains)/losses	**(17)**	279
Employer contributions	**70**	114
Employee contributions	**2**	4
Benefits paid	**(90)**	(88)
Net transfers	**(1)**	2
Closing fair value of plan assets	**1,598**	1,531

14. Called up share capital

	Number of shares 2011 millions	Number of shares 2010 millions	2011 £m	2010 £m
At 31 March 2010 and 2011 - ordinary shares of 10p each				
Allotted, called up and fully paid	**437**	437	**44**	44

15. Reserves

	Cash flow hedge reserve £m	Profit and loss account £m
At 1 April 2010	(35)	695
Actuarial losses (net of tax)	-	(18)
Net expense transferred to equity in respect of cash flow hedges (net of tax)	9	-
Share-based payments	-	3
Tax on share-based payments	-	1
Profit for the year	-	504
Dividends	-	(150)
At 31 March 2011	**(26)**	**1,035**

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The Company's profit after tax for the year was £504m (2010: £469m).

16. Commitments and contingencies

(a) Future capital expenditure

	2011 £m	2010 £m
Contracted for but not provided	**968**	921

(b) Lease commitments

At 31 March 2011, the Company's total operating lease commitments for the financial year ending 31 March 2012 amounted to £11m (2010 commitments for 2011: £10m) and are analysed by lease expiry date as follows:

	Land and buildings		Other		Total	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Expiring:						
In one year or less	**-**	-	**1**	1	**1**	1
In more than one year, but not more than five years	**3**	3	**3**	2	**6**	5
In more than five years	**4**	4	**-**	-	**4**	4
	7	7	**4**	3	**11**	10

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

	2011 £m	2010 £m
Amounts:		
In one year or less	**11**	10
In more than one year, but not more than two years	**7**	7
In more than two years, but not more than three years	**5**	5
In more than three years, but not more than four years	**5**	5
In more than four years, but not more than five years	**5**	5
In more than five years	**25**	31
	58	63

(c) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £4m (2010: £5m).

(d) Other commitments, contingencies and guarantees

Guarantees in respect of a former associate amounting to £14m (2010: £14m). These are open ended.

Guarantees in the normal course of business and entered into on normal commercial terms amounted to £11m (2010: £12m). These guarantees have various expiry dates.

Glossary and definitions

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

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

FRS
UK Financial Reporting Standard.

GAAP
Generally accepted accounting principles.

GW
Gigawatt, 10^9 watts.

GWh
Gigawatt hours.

HSE
Health and Safety Executive.

IAS
International Accounting Standard.

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

IFRS
International Financial Reporting Standard.

KPI
Key Performance Indicator.

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

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

Ofgem
The Office of Gas and Electricity Markets.

RAV
Regulatory asset value

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

TW
Terawatt, 10^{12} watts.

TWh
Terawatt hours.

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