NGG FINANCE plc

DIRECTORS' REPORT

AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

NGG FINANCE plc

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2010

The Directors present their report and the audited financial statements of the Company and its subsidiary ('the Group') for the year ended 31 March 2010.

PRINCIPAL ACTIVITY

The Company's principal activity during the year was acting as an investment holding and financing company.

DEVELOPMENT AND PERFORMANCE DURING THE YEAR

The Company holds an investment in another National Grid plc subsidiary company, NGG Finance (No 1) Limited, and obtains and provides finance to its parent company and fellow subsidiary companies via inter company balances. In addition, the Company has in issue one outstanding external bond and enters into both derivative financial instruments and non derivative financial instruments in order to manage interest rate and foreign currency exposures.

Results, as detailed below, largely depend on investment income received, offset by interest costs incurred. The Directors believe that following the partial repurchase of bonds in the year ended 31 March 2011, that there will be a reduced level of activity in the foreseeable future.

As the Company is part of a larger group, the management of the Company does not involve the use of key performance indicators, other than the profit or loss for the year, in measuring the development, performance or the position of the Company and the principal risks and uncertainties are integrated with the principal risks of National Grid plc. For information on the development, performance, risks, uncertainties and position of National Grid plc and its subsidiaries ('National Grid'), and of the key performance indicators used refer to the Operating and Financial Review included in National Grid's Annual Report and Accounts 2009/10, which does not form part of this report.

RESULTS AND DIVIDENDS

The consolidated profit for the year after taxation was £25,031,000 (2009: £17,222,000). The Directors do not recommend the payment of a dividend (2009: £nil).

FINANCIAL POSITION

The consolidated financial position is presented in the consolidated balance sheet. Total equity at 31 March 2010 was £558,748,000 (2009: £534,977,000) comprising total assets of £1,490,798,000 (2009: £1,487,218,000) less total liabilities of £932,050,000 (2009: £952,241,000).

FINANCIAL RISK MANAGEMENT

The management of the Company and the execution of the Company's strategy are subject to a number of risks. The Directors have identified the need to manage the Company's material financial risks, including liquidity, credit, interest rate and foreign exchange risks. The financial risk management of the Company is carried out by a central Treasury department operating under policies and guidelines approved by the Directors of National Grid plc. The Finance Committee, a committee of the National Grid plc Board, is responsible for regular review and monitoring of treasury activity and for approval of specific transactions.

FINANCIAL RISK MANAGEMENT (continued)

TREASURY POLICY

All funding is approved by the Finance Committee and the use of derivative financial instruments is controlled by policy guidelines set by the National Grid plc Board. The Treasury function raises all the funding for the Company and its subsidiary, and manages interest rate and foreign exchange risk.

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 of National Grid. As part of its business operations, National Grid is exposed to risks arising from fluctuations in interest rates and exchange rates. National Grid uses derivative financial instruments ('derivatives') to manage exposures of this type and as such they are a useful tool in reducing risk. The policy is not to use derivatives for trading purposes.

LIQUIDITY RISK

The Company and its subsidiary finance their operations through a combination of retained profits new share issues, external loans and bonds and inter company loans. The Company and its subsidiary seek to ensure that all of their forecast cash needs for a period of at least twelve months are covered.

CREDIT RISK

The Treasury function seeks to limit counter-party risk by conducting all of its banking and dealing activities with a limited number of major international banks, whose status is kept under review. No material exposure is considered to exist in respect of inter company loans.

INTEREST RATE RISK

To the extent that the inter company loan agreements are entered into, the exposure to interest rate risk arises on such loans on which interest is based upon Euro, US dollar and sterling LIBOR. The Company and its subsidiary do participate in interest rate hedging.

FOREIGN EXCHANGE RISK

To the extent that external bonds and inter company loan agreements are entered into in currencies different to that of the functional currency, there is an exposure to movements in exchange rates.

DIRECTORS

The Directors of the Company during the year and up to the date of signing of the financial statements were:

AJ Agg	(Appointed 10 July 2009)
MC Cooper	
MAD Flawn	
AGH Kluth	
SF Noonan	(Resigned 10 July 2009)
MJ Sellars	(Appointed 10 July 2009)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the Company financial statements and the Directors' report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). In preparing the consolidated financial statements, the Directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company on a consolidated and individual basis and of the profit or loss of the Company on a consolidated and individual basis for that period.

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

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

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development and position are set out within the Directors' Report. In addition there are details of the Company's financial position and the risks that the Directors have highlighted as significant to the business.

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Company is expected to continue to generate positive cash flows or be in a position to obtain finance via inter company loans to continue to operate for the foreseeable future.

The Directors are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

POST BALANCE SHEET EVENT

Subsequent to the year end, in August 2010 the Company repurchased €257,238,000 of its €750,000,000 6.125% guaranteed bonds.

DIRECTORS' INDEMNITIES AND INSURANCE

National Grid plc indemnifies Directors and officers of subsidiary companies against liabilities arising from the conduct of National Grid's business, to the extent permitted by law, by the placing of Directors' and Officers' insurance. The insurance indemnifies individual Directors' and Officers' personal legal liability and cost for claims arising out of actions taken in connection with the business of National Grid plc and it subsidiaries.

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.

ON BEHALF OF THE BOARD

MAD Flawn
Director
17 September 2010

REGISTERED OFFICE
1-3 STRAND
LONDON
WC2N 5EH

Registered in England and Wales
No: 4220381

NGG FINANCE plc

INDEPENDENT AUDITORS' REPORT TO

THE MEMBERS OF NGG FINANCE plc

We have audited the consolidated and Company financial statements (the 'financial statements') of NGG Finance plc for the year ended 31 March 2010, which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated statement of changes in equity, the consolidated cash flow statement, the accounting policies and Company accounting policies, the adoption of new accounting standards, the notes to the consolidated financial statements and the notes to the Company financial statements. The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, 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 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 opinion, 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.

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 2010 and of the Group's profit and cash flows for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

INDEPENDENT AUDITORS' REPORT TO

THE MEMBERS OF NGG FINANCE plc (continued)

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 on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements 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.

Murray Legg

Murray Legg (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 September 2010

NGG FINANCE plc

CONSOLIDATED INCOME STATEMENT

FOR THE YEARS ENDED 31 MARCH

	Notes	2010 £'000	2009 £'000
Operating costs	4	(26)	(35)
Operating loss		(26)	(35)
Finance income	5	49,056	62,976
Finance costs	5	(20,022)	(38,381)
Profit before taxation		29,008	24,560
Taxation	6	(3,977)	(7,338)
Profit for the year		**25,031**	17,222

NGG FINANCE plc

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED 31 MARCH

	Notes	2010 £'000	2009 £'000
Profit for the year		25,031	17,222
Other comprehensive (loss)/income:			
Net (losses)/gains taken to equity in respect of cash flow hedges		(1,750)	268
Tax on items taken directly to or transferred from equity	6	490	(75)
Other comprehensive (loss)/income for the year		(1,260)	193
Total comprehensive income for the year		**23,771**	17,415

NGG FINANCE plc

CONSOLIDATED BALANCE SHEET

AT 31 MARCH

	Notes	2010 £'000	2009 £'000
Non-current assets			
Financial investments	7	536,711	561,723
Derivative financial assets	8	138,680	148,421
		675,391	710,144
Current assets			
Amounts owed by fellow subsidiary undertakings		1,804	1,804
Financial investments	7	801,409	762,493
Derivative financial assets	8	12,003	12,155
Cash at bank		191	622
Total current assets		815,407	777,074
Total assets		1,490,798	1,487,218
Current liabilities			
Borrowings	11	(257,119)	(233,667)
Trade and other payables	10	(80)	(82)
Amounts owed to fellow subsidiary undertakings		(1,791)	(7,541)
Total current liabilities		(258,990)	(241,290)
Non-current liabilities			
Borrowings	11	(671,205)	(708,403)
Deferred tax liabilities	12	(1,855)	(2,548)
Total non-current liabilities		(673,060)	(710,951)
Total liabilities		(932,050)	(952,241)
Net assets		**558,748**	534,977
Equity			
Called up share capital	13	1,925	1,925
Share premium account		431,325	431,325
Cash flow hedge reserve		1,748	3,008
Retained earnings		123,750	98,719
Total equity		**558,748**	534,977

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 and notes to the consolidated financial statements 1 to 14, were approved by the Board of Directors on 17 September 2010 and were signed on its behalf by:

AJ Agg

AJ Agg
Director

NGG FINANCE plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 MARCH

	Called up share capital £'000	Share premium account £'000	Cash flow hedge reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2008	1,925	431,325	2,815	81,497	517,562
Total comprehensive income for the year	-	-	193	17,222	17,415
At 31 March 2009	1,925	431,325	3,008	98,719	534,977
Total comprehensive (loss)/income for the year	-	-	(1,260)	25,031	23,771
At 31 March 2010	**1,925**	**431,325**	**1,748**	**123,750**	**558,748**

NGG FINANCE plc

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEARS ENDED 31 MARCH

	2010 £'000	2009 £'000
Cash flows from operating activities		
Total operating loss	(26)	(35)
Adjustments for:		
Changes in working capital	(2)	8
Increase in amounts owed to fellow subsidiary undertakings	28	27
Cash flows generated from continuing operations	-	-
Net cash used in operating activities	-	-
Cash flows from investing activities		
(Increase)/decrease in amounts owed by the parent company	(18,967)	53,711
Interest received from fellow subsidiary undertakings	24,706	29,315
Net cash generated by investing activities	5,739	83,026
Cash flows from financing activities		
Proceeds from loans received	18,361	-
Redemption of borrowings	-	(53,711)
Interest paid	(59,074)	(73,623)*
Interest received	34,533	44,505*
Net cash paid from financing activities	(6,160)	(82,829)
Net (decrease)/increase in cash and cash equivalents	(421)	197
Exchange movements	(10)	64
Net cash and cash equivalents at start of year	622	361
Net cash and cash equivalents at end of year	**191**	622

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

1 Accounting policies

a) Basis of preparation of consolidated financial statements under IFRS

NGG Finance plc acts as an investment holding and financing company. The Company is a public limited liability company incorporated and domiciled in England, with its registered office at 1-3 Strand, London WC2N 5EH.

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

The consolidated financial statements have been prepared on an historical cost basis, except for the revaluation of derivative financial instruments.

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.

The Board of Directors of NGG Finance plc is the Company's chief operating decision making body (as defined by IFRS 8). The Directors consider that the Company has one operating segment and therefore no further detailed segmental analysis is deemed appropriate. This is based on the information the Board of Directors uses internally for the purpose of evaluating performance of operations. The performance of operations is assessed principally on the basis of operating profit.

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary NGG Finance (No 1) Limited.

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 applied under UK generally accepted accounting principles (UK GAAP) in the individual financial statements of the Company and subsidiaries into line with those used by the Company in its consolidated financial statements under IFRS. Inter-company transactions are eliminated.

1 Accounting policies (continued)

c) Foreign currencies

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

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

d) Taxation

Current tax

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

Deferred tax

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

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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

1 Accounting policies (continued)

d) Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable 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 the Company and its subsidiary intend to settle their current tax asset and liabilities on a net basis.

e) 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.

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.

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

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

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

1 Accounting policies (continued)

e) Financial instruments (continued)

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

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

f) 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. The principal derivatives used include interest rate swaps and currency swaps.

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

Secondly, fair value hedge accounting offsets the changes in the fair value of the hedging instrument against the change in the fair value of the hedged item with respect to the risk being hedged. These changes are recognised in the income statement to the extent the fair value hedge is effective. Adjustments made to the carrying value 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.

1 Accounting policies (continued)

f) Hedge accounting (continued)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement in the same periods in which the previously hedged item affects net profit or loss. 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.

g) 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.

h) Other equity reserve

The other equity reserve comprises the cash flow hedge reserve only (see accounting policy f – Hedge accounting). As the amount included in the cash flow hedge reserve is not attributable to any of the other classes of equity presented, the balance has been disclosed as a separate classification of equity.

i) 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 and/or the notes to the consolidated financial statements.

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

- Hedge accounting and derivative financial instruments – see accounting policy (f) Hedge accounting

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 are:

- Valuation of financial instruments and derivatives – see note 8

2 Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2009/10

During the year ended 31 March 2010, the Company adopted the following amendments to International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) or amendments, and interpretations by the International Financial Reporting Interpretations Committee (IFRIC). None of these had a material impact on the Company's consolidated results or assets and liabilities.

IAS 1 revised on the presentation of financial statements	Requires changes to the presentation of financial statements and adopts revised titles for the primary statements, although companies may continue to use the existing titles.
Amendment to IFRS 7 on improving disclosures about financial instruments	Introduces a three-level hierarchy for fair value measurement disclosures and requires entities to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk. The additional information required by this amendment can be found in note 9.
IFRS 8 on operating segments	Sets out the requirements for the disclosure of information about an entity's operating segments and about the entity's products and services, the geographical areas in which it operates and its major customers.
IAS 23 revised borrowing costs	Removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale
IFRIC 13 on customer loyalty programmes	Clarifies that the sale of goods or services together with customer award credits (for example, loyalty points or the right to free products) is accounted for as a multiple-element transaction. The consideration received from the customer is allocated between the components of the arrangement based on their fair values, which will defer the recognition of some revenue.
Amendment to IFRS 2 on share-based payments	Clarifies the definition of vesting conditions and the accounting treatment of cancellations. Vesting conditions are defined as either service conditions or performance conditions. Cancellations by employees are accounted for in the same way as cancellations by the Company.
Amendments to IAS 32 and IAS 1 on puttable financial instruments and obligations arising on liquidation	Addresses the classification as a liability or as equity of certain puttable financial instruments and instruments, or components thereof, which impose upon an entity an obligation to deliver a pro rata share of net assets on liquidation.
Improvements to IFRS 2008	Contains amendments to various existing standards.

2 Adoption of new accounting standards (continued)

New IFRS accounting standards and interpretations adopted in 2009/10 (continued)

Amendment to IFRS 1 First time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements on the cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	Permits investments to be recognised on first time adoption of IFRS at cost or deemed cost (fair value or previous GAAP carrying amount) and removes the requirement to recognise dividends out of pre-acquisition profits as a reduction in the cost of the investment.
IFRIC 15 on agreements for the construction of real estate	Addresses the timing of revenue recognition for entities engaged in the construction of real estate for their customers.
IFRIC 16 on hedges of a net investment in a foreign operation	Clarifies that a hedged risk may be designated at any level in a group and hedging instruments may be held by any company in a group (except the foreign entity being hedged), that net investment hedge accounting may not be adopted in respect of a presentation currency and, on disposal the amounts to be reclassified from equity to profit or loss are any cumulative gain or loss on the hedging instrument and the cumulative translation difference on the foreign operation disposed of.
IFRIC 18 on transfers of assets from customers	Addresses arrangements whereby an entity receives items of property, plant and equipment or cash which the entity must use to connect customers to a network or provide access to a supply of goods or services, or both.
Amendment to IAS 39 Financial Instruments: Recognition and measurement: Reclassification of Financial Assets: Effective Date and Transition	Clarifies the effective date of the reclassification of financial assets.
Amendments to IAS 39 and IFRIC 9 on embedded derivatives	Requires reassessment of whether an embedded derivative should be separated out if a financial asset is reclassified out of the fair value through profit or loss category.

2 Adoption of new accounting standards (continued)

New IFRS accounting standards and interpretations not yet adopted

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

IFRS 3R on business combinations	Makes a number of changes to the accounting for business combinations, including requirements that all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income; an option to calculate goodwill based on the parent's share of net assets only or to include goodwill related to the minority interest; and a requirement that all transaction costs be expensed. IFRS 3R has been adopted by the Company with effect from 1 April 2010.
IAS 27R on consolidated and individual financial statements	Requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. The revised standard also specifies the accounting when control is lost. IAS 27R has been adopted by the Company with effect from 1 April 2010.
Amendment to IAS 39 Financial Instruments: Recognition and measurement on eligible hedged items	Prohibits designating inflation as a hedgeable component of an instrument, unless cash flows relating to the separate inflation component are contractual and also prohibits the designation of a purchased option in its entirety as the hedge of a one-sided risk in a forecast transaction. The amendment to IAS 39 has been adopted by the Company with effect from 1 April 2010.
Revised IFRS 1 on first time adoption of IFRS	Changes the structure, whilst retaining the substance, of the previously issued version of IFRS 1. The revised version of IFRS 1 has been adopted by the Company with effect from 1 April 2010.
IFRIC 17 on distribution of non-cash assets to owners	Requires such a distribution to be measured at the fair value of the asset and any difference between the carrying amount of the asset and its fair value to be recognised in profit or loss. IFRIC 17 has been adopted by the Company with effect from 1 April 2010.
Improvements to IFRS 2009	Contains amendments to various existing standards. The amendments have been adopted by the Company with effect from 1 April 2010.
Amendment to IFRS 2 on group cash-settled share-based payments	Clarifies the scope and accounting for group cash-settled share-based payment transactions in separate or individual financial statements when there is no obligation to settle the share-based payment transaction. The amendment to IFRS 2 has been adopted by the Company with effect from 1 April 2010.
Amendment to IFRS 1 on first time adoption of IFRS	Provides additional exemptions for first time adopters. The amendment to IFRS 1 will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.
Revised IAS 24 on related party disclosures	Simplifies the definition of a related party and provides a partial exemption for government relates entities. The revised version of IAS 24 will be adopted by the Company with effect from 1 April 2011, subject to endorsement by the European Union.

2 Adoption of new accounting standards (continued)

New IFRS accounting standards and interpretations not yet adopted (continued)

Amendment to IAS 32 on classification of rights issues	Defines as an equity instruments a financial instrument that gives the holder the right to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency, if the financial instrument is offered pro rata to all existing owners of the same class of non-derivative equity instruments. The amendment to IAS 32 has been adopted by the Company with effect from 1 April 2010.
IFRS 9 on financial instruments	Requires that financial assets should be classified as at either amortised cost or fair value on the basis of the entity's business model and contractual cash flows. IFRS 9 will be adopted by the Company with effect from 1 April 2013, subject to endorsement by the European Union.
IFRIC 19 on extinguishing financial liabilities with equity instruments	Clarifies that equity instruments issued to extinguish a financial liability should be measured at fair value, unless fair value cannot reasonably be determined in which case the fair value of the liabilities extinguished should be used. IFRIC 19 will be adopted by the Company with effect from 1 April 2011, subject to endorsement by the European Union.
Amendment to IFRIC 14 on prepayments of a minimum funding requirement	Permits an entity to treat early payments of contributions to cover a minimum funding requirement as an asset. The amendment of IFRIC 14 will be adopted by the Company with effect from 1 April 2011, subject to endorsement by the European Union.
Amendment to IFRS 1 on comparative IFRS 7 disclosures	Provides limited disclosure exemptions in respect of financial instruments for first time adopters of IFRS. The amendment to IFRS 1 will be adopted by the Company with effect from 1 April 2011, subject to endorsement by the European Union.

3 Directors and employees

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid plc subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements. During the year there were five Directors (2009: none) who exercised share options in the ordinary shares of the ultimate parent company, National Grid plc.

There were no employees of the Company during the year (2009: none).

4 Operating costs

	2010 £'000	2009 £'000
Operating costs comprise:		
Audit fees	**17**	17
Fees payable to the Company's auditor and its associates for other services:		
Tax services	**9**	18

5 Finance income and costs

	2010 £'000	2009 £'000
Interest income on financial instruments held at amortised cost	49,056	62,912
Exchange gains on revaluation of foreign currency denominated bank accounts	-	64
Interest income and similar income	49,056	62,976
Interest expense and other financial costs	(20,022)	(38,381)
Net finance income	**29,034**	24,595
Interest expense and other finance costs comprise the following:		
Interest expense on financial liabilities held at amortised cost	(37,973)	(42,873)
Exchange losses on revaluation of foreign currency denominated bank accounts	(10)	-
Interest on derivatives	14,929	11,561
	(23,054)	(31,312)
Net gains/(losses) on derivative financial instruments		
On derivatives designated as fair value hedges (i)	3,032	(8,447)
On derivatives designated as cash flow hedges	-	1,378
Net gains/(losses)on derivative financial instruments (ii)	3,032	(7,069)
Interest expense and other finance costs	**(20,022)**	(38,381)

(i) Includes a net loss on instruments designated as fair value hedges of £9,472,000 (2009: £2,158,000 gain) less a net gain of £12,504,000 (2009: £10,605,000 loss) arising from fair value adjustments to the carrying value of debt.

(ii) Includes a net foreign exchange gain on financing activities of £694,000 (2009: £16,616,000 gain). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

6 Taxation

	2010 £'000	2009 £'000
Current tax:		
UK corporation tax	4,034	7,074
Adjustments in respect of prior periods	146	467
Total current tax	4,180	7,541
Deferred tax:		
Origination and reversal of timing differences	(203)	(203)
Total deferred tax	(203)	(203)
Tax on profit on ordinary activities	**3,977**	7,338

The tax charge for the year is higher than the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are explained below:

	2010 £'000	2009 £'000
Profit on ordinary activities before taxation	29,008	24,560
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	8,123	6,877
Effect of:		
Other	(6)	(6)
Taxation on transfer pricing adjustments	(4,286)	-
Adjustments in respect of prior periods	146	467
Total tax charge for the year	**3,977**	7,338
	%	%
Effective income tax rate	**13.7**	29.9

	2010 £'000	2009 £'000
Taxation on items charged to equity		
Deferred tax (credit)/charge on revaluation of cash flow hedges	**(490)**	75

6 Taxation (continued)

Factors that may affect future tax charges

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

Further changes were announced in the Emergency Coalition Budget on 22 June 2010. These included a reduction in the main corporation tax rate from the current 28% to 24% comprising a 1% per annum reduction over the course of a four year period commencing from 1 April 2011. We are in the process of evaluating the impact these changes will have on our future tax charges. On 27 July 2010 Finance (No 2) Act 2010 was enacted following Royal Assent and as such, the initial 1% main corporate tax rate reduction will first affect our deferred tax balances as at 31 March 2011.

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

Furthermore a number of additional issues will also be the subject of future consultation such as a possible general anti-avoidance rule. We will monitor the impact of these proposals on our future tax charge.

7 Financial investments

	2010 £'000	2009 £'000
Non-current		
Loans and receivables owed by the parent company	536,711	561,723
	536,711	561,723
Current		
Loans and receivables owed by the parent company	801,409	762,493
	801,409	762,493

The fair value of loans and receivables owed by the parent company approximates to their book value.

8 Derivative financial instruments

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

We use derivatives to manage our market risk. Derivatives are carried at fair value and are shown in the balance sheet as separate totals of assets and liabilities. Asset values represent the cost of replacing all transactions with a fair value in our favour assuming that all relevant counterparties default at the same time, and that the transactions can be replaced immediately in the market. Liability values represent the cost to counterparties of replacing all their transactions with a fair value in their favour in the case of default. Derivative 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.

8 Derivative financial instruments (continued)

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

Derivatives that are held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges. These are described as follows:

Fair value hedges

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

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. 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.

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

8 Derivative financial instruments (continued)

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 the income statement within interest expense and other finance costs.

Our use of derivatives may entail a derivative transaction qualifying for one or more hedge type designations under IAS 39. The fair value amounts by designated hedge type can be analysed as follows:

	2010		2009	
	Assets £'000	**Liabilities £'000**	**Assets £'000**	**Liabilities £'000**
Fair value hedges				
Cross currency interest rate swaps	150,683	-	160,576	-
Total	**150,683**	-	160,576	-

The maturity of derivative financial instruments is as follows:

	2010		2009	
	Assets £'000	**Liabilities £'000**	**Assets £'000**	**Liabilities £'000**
In one year or less	12,003	-	12,155	-
Current	12,003	-	12,155	-
In more than one year, but not more than two years	138,680	-	-	-
In more than two years, but not more than three years	-	-	148,421	-
In more than three years, but not more than four years	-	-	-	-
Non-current	138,680	-	148,421	-
Total	**150,683**	-	160,576	-

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

	2010 £'000	2009 £'000
Interest rate swaps	(333,720)	(346,969)
Cross currency interest rate swaps	(452,589)	(464,883)
Total	(786,309)	(811,852)

9 Financial risk factors

Our activities expose us to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, 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.

Capital risk management

Capital risk management is carried out by a National Grid central treasury department under policies approved by the National Grid Board of Directors. This department identifies, evaluates and hedges financial risks in close cooperation with the operating units. The National Grid 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.

(a) Market risk

(i) Foreign exchange risk

The Company can obtain financing in various currencies and is exposed to foreign exchange risk arising from these, primarily with respect to the Euro.

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

	2010				2009			
	Sterling	Euro	US dollar	Total	Sterling	Euro	US dollar	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	72	4	115	191	346	4	272	622
Financial investments	671,672	332,199	334,249	1,338,120	659,152	333,090	331,974	1,324,216
Borrowings	(114,599)	(695,353)	(118,372)	(928,324)	(104,019)	(733,510)	(104,541)	(942,070)
Pre-derivative position	557,145	(363,150)	215,993	409,987	555,479	(400,416)	227,705	382,768
Derivative effect	16,180	350,835	(216,332)	150,683	(4,749)	384,032	(218,707)	160,576
Net asset position	**573,325**	**(12,315)**	**(340)**	**560,670**	550,730	(16,384)	8,998	543,344

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest rate risk. Borrowings issued at fixed rates expose the company to fair value interest rate risk. Our interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt).

9 Financial risk factors (continued)

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

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

	2010 £'000	2009 £'000
Fixed interest rate borrowings		
In one year or less	24,148	25,196
In more than one years, but not more than two years	671,205	-
In more than two years, but not more than three years	-	708,403
	695,353	733,599
Floating interest rate borrowings	154,427	139,233
Non interest bearing	78,544	69,238
	928,324	942,070

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

	2010				2009			
	Fixed-rate £'000	Floating-rate £'000	Other £'000	Total £'000	Fixed-rate £'000	Floating-rate £'000	Other £'000	Total £'000
Cash and cash equivalents	-	191	-	191	-	622	-	622
Financial investments	705,445	562,778	69,897	1,338,120	696,170	558,149	69,897	1,324,216
Borrowings	(695,353)	(154,427)	(78,544)	(928,324)	(733,599)	(139,233)	(69,238)	(942,070)
Pre-derivative position	10,092	408,542	(8,647)	409,987	(37,429)	419,538	659	382,768
Derivative effect	467,706	(317,023)	-	150,683	223,492	(62,916)	-	160,576
Net asset position	**477,798**	**91,519**	**(8,647)**	**560,670**	186,063	356,622	659	543,344

(b) Fair value analysis

The following is an analysis of our financial instruments that are measured at fair value. They are reported in a tiered hierarchy based on the valuation methodology described on page 14 and reflecting the significance of market observable inputs.

The classification is as follows:

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

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

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

9 Financial risk factors (continued)

(b) Fair value analysis (continued)

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The fair value classification of our financial assets and financial liabilities is as follows:

Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	2010 Total £'000
Derivative financial instruments	-	150,683	-	150,683

(c) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to inter company receivables.

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

The counterparty exposure under derivative financial contracts as shown above was £150,683,000 (2009: £160,576,000). There are netting agreements in place with some counterparties: these had no effect on the credit exposure.

The Company does not believe there is any credit risk in relation to the amounts owed by the parent company.

(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 position which is used to demonstrate funding adequacy for at least a 12 month period. The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the balance sheet date:

At 31 March 2010	Due within 1 year £'000	Due between 1 and 2 years £'000	Total £'000
Non-derivative financial liabilities			
Borrowings	(232,910)	(654,092)	(887,002)
Interest payments on borrowings (i)	(39,971)	(15,806)	(55,777)
Other non-interest bearing liabilities	(28)	-	(28)
Derivative financial liabilities			
Derivative contract – receipts	25,051	593,361	618,412
Derivative contract – payments	(8,221)	(458,241)	(466,462)
Total as at 31 March 2010	(256,079)	(534,778)	(790,857)

9 Financial risk factors (continued)

(d) Liquidity analysis (continued)

At 31 March 2009	Due within 1 year £'000	Due between 1 and 2 years £'000	Due between 2 and 3 years £'000	Total £'000
Non-derivative financial liabilities				
Borrowings	(208,562)	-	(680,059)	(888,621)
Interest payments on borrowings [(i)]	(9,470)	(14,617)	(5,451)	(29,538)
Other non-interest bearing liabilities	(31)	-	-	(31)
Derivative financial liabilities				
Derivative contract – receipts	28,113	28,627	609,237	665,977
Derivative contract – payments	(13,213)	(13,815)	(473,337)	(500,365)
Total as at 31 March 2009	(203,163)	195	(549,610)	(752,578)

[(i)] The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating-rate interest is estimated using a future interest rate curve as at 31 March.

(e) Sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments and their sensitivity to changes in market variables can result from GBP/Euro and GBP/US dollar foreign exchange rates and UK, Euro and US dollar interest rates. Sensitivity relates to changes in market variables, being UK and US interest rates on our financial instruments.

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

The following assumptions were made:

- the balance sheet sensitivity to interest rates relates only to derivative financial instruments, as debt and 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 derivative financial instruments designated as fair value hedges from movements in interest rates have an immaterial effect on the income statement and equity due to compensating adjustments in the carrying value of debt;

9 Financial risk factors (continued)

(e) Sensitivity analysis (continued)

- changes in the carrying value of derivative financial instruments not in hedging relationships only affect the income statement;
- all other changes in the carrying value of derivative financial instruments designated as hedges are fully effective with no impact on the income statement;
- debt with a maturity below one year is floating rate for the accrued interest part of the calculation;
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full twelve month period for the accrued interest portion of the sensitivity calculations.

Using the above assumptions, there is no significant sensitivity to GBP or Euro or US dollar interest rates as at 31 March 2010 or GBP/US dollar and GBP/Euro foreign exchange rates (2009: £nil).

(f) Capital and risk management

The Company's objective when managing capital is to safeguard our ability to continue as a going concern and to maintain an efficient mix of debt and equity funding, thus achieving an optimal capital structure and cost of capital. We regularly review and maintain or adjust the capital structure as appropriate in order to achieve these objectives.

10 Trade and other payables

	2010 £'000	2009 £'000
Social security and other taxes	52	52
Other payables	28	30
	80	82

11 Borrowings

The following table analyses the total borrowings:

	2010 £'000	2009 £'000
Current:		
Bank loans	117,910	103,341
Bonds	24,148	25,106
Amounts owed to fellow subsidiary undertakings	115,061	105,220
	257,119	233,667
Non-current:		
Bonds	671,205	708,403
	928,324	942,070
Total borrowings are repayable as follows:		
Within one year	257,119	233,667
In more than one year, but not more than two years	671,205	-
In more than two years, but not more than three years	-	708,403
	928,324	942,070

11 Borrowings (continued)

The fair value of borrowings at 31 March 2010 was £965m (2009: £932m). Market values, where available, have been used to determine fair value. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

The notional amount at maturity of the debt portfolio is £887m (2009: £888m).

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 marked-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £118m (2009: £103m) in respect of cash received under collateral agreements.

The Company had one bond outstanding at both 31 March 2010 and 31 March 2009 as detailed below:

Issuer	Description of instrument (notional amount)
NGG Finance plc	EUR 750 million 6.125% Fixed Rate Instruments due 23 August 2011

Subsequent to the year end, in August 2010 the Company repurchased €257,238,000 of its €750,000,000 6.125% guaranteed bonds.

12 Deferred tax liabilities

	2010 £'000	2009 £'000
Other net temporary differences – financial instruments	1,855	2,548
Deferred tax liability	**1,855**	2,548
At 1 April	2,548	2,676
Credited to income statement	(203)	(203)
(Credited)/charged to equity	(490)	75
At 31 March	**1,855**	2,548

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

13 Called up share capital

	2010 £'000	2009 £'000
Allotted, called up and fully paid		
1,925,000 ordinary shares of £1 each	**1,925**	1,925

14 Related party transactions and ultimate parent company

The Company and its subsidiary are exempt from disclosing transactions with National Grid plc and its subsidiary undertakings where all of the voting rights are held within that group. There were no related party transactions with companies where not all of the voting rights are held by National Grid plc and its subsidiary undertakings.

The ultimate parent and controlling company for the year was National Grid plc. The largest and smallest group which includes the Company and for which consolidated financial statements are prepared is headed by National Grid plc. National Grid plc is registered in England and Wales.

Copies of the financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.

NGG FINANCE plc

COMPANY BALANCE SHEET

AT 31 MARCH

	Notes	2010 £'000	2009 £'000
Fixed assets			
Fixed asset investment	3	-	-
Current assets			
Debtors (amounts falling due within one year)	4	803,213	764,297
Debtors (amounts falling due after more than one year)			
Amounts owed by the parent company		536,711	561,723
Derivative financial assets (amounts falling due within one year)	5	12,003	12,155
Derivative financial assets (amounts falling due after more than one year)	5	138,680	148,421
Cash at bank		191	463
		1,490,798	1,487,059
Creditors (amounts falling due within one year)			
Borrowings	7	(257,119)	(233,577)
Other creditors		(80)	(81)
Amounts owed to fellow subsidiary undertakings		(1,791)	(7,541)
	6	(258,990)	(241,199)
Net current assets		1,231,808	1,245,860
Total assets less current liabilities		1,231,808	1,245,860
Creditors (amounts falling due after more than one year)			
Borrowings	7	(671,205)	(708,403)
Provisions for liabilities and charges			
Deferred taxation	8	(1,855)	(2,548)
Net assets		**558,748**	534,909
Capital and reserves			
Called up share capital	9	1,925	1,925
Share premium account	10	431,325	431,325
Cash flow hedge reserve	10	1,748	3,008
Profit and loss account	10	123,750	98,651
Total shareholders' funds	11	**558,748**	534,909

The notes on pages 34 to 41 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 17 September 2010 and were signed on its behalf by:

AJ Agg
Director

1 Company accounting policies

a) Basis of preparation of individual financial statements under UK GAAP

These individual financial statements of the Company have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006.

These individual financial statements of the Company have been prepared on a historical cost basis, except for the revaluation of financial instruments. There have been no changes to accounting policies during the year.

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

The Company has not presented its own profit and loss account as permitted by section 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's accounts are presented together with its consolidated financial statements. Further, in accordance with exemptions under FRS 29 'Financial Instruments: Disclosures', the Company has not presented the financial instruments disclosures required by the standard, as disclosures which comply with the standard are included in the consolidated financial statements.

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

b) Fixed asset investment

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

1 Company accounting policies (continued)

c) Taxation

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

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

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

d) Foreign currencies

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

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

e) Financial instruments

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

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

1 Company accounting policies (continued)

e) Financial instruments (continued)

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

Derivative financial instruments ('derivatives') are recorded at fair value, and where the fair value of a derivative is positive, it is carried as a derivative asset and where negative as a liability. Assets and liabilities on different transactions are only netted if the transactions are with the same counter party, 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.

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

f) Hedge accounting and derivative financial instruments

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

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

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

1 Company accounting policies (continued)

f) Hedge accounting and derivative financial instruments (continued)

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.

2 Directors and employees

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements.

During the year there were five Directors (2009: none) who exercised share options in the ordinary shares of the ultimate parent company, National Grid plc.

There were no employees of the Company during the year (2009: none).

3 Fixed asset investment

	Shares in a subsidiary undertaking £'000
Cost:	
At 1 April 2009 and 31 March 2010	1
Provision:	
At 1 April 2009 and 31 March 2010	1
Net book value:	
At 1 April 2009 and 31 March 2010	-

The fixed asset investment as at 31 March 2010 represents 100% of the ordinary share capital of NGG Finance (No 1) Limited, a company registered in England and Wales which is a finance company.

4 Debtors: (amounts falling due within one year)

	2010 £'000	2009 £'000
Amounts owed by the parent company	801,409	762,493
Amounts owed by fellow subsidiary undertakings	1,804	1,804
	803,213	764,297

5 Derivative financial instruments

The maturity of derivative financial instruments is as follows:

	2010		2009	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
In one year or less	12,003	-	12,155	-
Current	12,003	-	12,155	-
In more than one year, but not more than two years	138,680	-	-	-
In more than two years, but not more than three years	-	-	148,421	-
Non-current	138,680	-	148,421	-
Total	**150,683**	-	160,576	-

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

	2010 £'000	2009 £'000
Interest rate swaps	(333,720)	(346,969)
Cross currency interest rate swaps	(452,589)	(464,883)
	(786,309)	(811,852)

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

6 Creditors (amounts falling due within one year)

	2010 £'000	2009 £'000
Borrowings (see note 7)	257,119	233,577
Social security and other taxes	52	52
Other creditors	28	29
Amounts owed to fellow subsidiary undertakings	1,791	7,541
	258,990	241,199

7 Borrowings

The following table analyses the total borrowings, excluding bank overdrafts:

	2010 £'000	2009 £'000
Current:		
Bank loans	117,910	103,341
Bonds	24,148	25,106
Amounts owed to fellow subsidiary undertakings	115,061	105,130
	257,119	233,577
Non-current:		
Bonds	671,205	708,403
Total borrowings	**928,324**	941,980
Total borrowings are repayable as follows:		
Within one year	257,119	233,577
In more than one year, but not more than two years	671,205	-
In more than two years, but not more than three years	-	708,403
	928,324	941,980

The notional amount of borrowings outstanding as at 31 March 2010 was £887,000,000 (2009: £888,000,000).

8 Provisions for liabilities and charges

	2010 £'000	2009 £'000
Deferred taxation		
Other short term timing differences	1,855	2,548
Deferred tax liability	**1,855**	2,548
At 1 April	2,548	2,676
Credited to profit and loss account	(203)	(203)
(Credited)/charged to equity	(490)	75
At 31 March	**1,855**	2,548

9 Called up share capital

	2010 £'000	2009 £'000
Allotted, called up and fully paid		
1,925,000 ordinary shares of £1 each	**1,925**	1,925

10 Reserves

	Called up share capital £'000	Share premium account £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total £'000
At 1 April 2008	1,925	431,325	2,815	81,428	517,493
Transferred from equity in respect of cash flow hedges (net of tax)	-	-	193	-	193
Profit for the year	-	-	-	17,223	17,223
At 31 March 2009	1,925	431,325	3,008	98,651	534,909
Transferred from equity in respect of cash flow hedges (net of tax)	-	-	(1,260)	-	(1,260)
Profit for the year	-	-	-	25,099	25,099
At 31 March 2010	**1,925**	**431,325**	**1,748**	**123,750**	**558,748**

As the Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006, no separate statement of recognised gains and losses has been presented.

11 Reconciliation of movements in shareholders' funds

	2010 £'000	2009 £'000
Profit for the financial year	25,099	17,223
Net increase in shareholder's funds	25,099	17,223
Movement on cash flow hedge reserve (net of tax)	(1,260)	193
Net increase in shareholders' funds	23,839	17,416
Opening shareholders' funds	534,909	517,493
Closing shareholders' funds	**558,748**	534,909

12 Related party transactions and ultimate parent company

The Company is exempt from disclosing transactions with National Grid plc and its subsidiary undertakings where all of the voting rights are held within the group. There were no related party transactions with companies where not all of the voting rights are held within the National Grid plc group of companies.

The ultimate and immediate parent and controlling company is National Grid plc. The largest and smallest group which includes the Company and for which consolidated financial statements are prepared is headed by National Grid plc. This company is registered in England and Wales.

Copies of the consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.